Keeping things simple

Annual review 2010

MORRISONS

Contents and introduction

CONTENTS

Our business

We are the UK's fourth largest food retailer by sales with an annual turnover in excess of £15bn.

We have 425 stores across Britain, ranging in size from 10,000 to 40,000 square feet.

Over 10 million customers visit our stores each week served by over 134,000 employees.

Our strategy and vision

Our vision is to be the **'Food Specialist for Everyone'.**

As a food specialist we differentiate ourselves from our major competitors by having:

- our own manufacturing and packing facilities;
- more people in-store preparing food than any other retailer; and
- more specialist butchers, fishmongers and bakers in-store than our competitors.

View our report online...
You can easily navigate around the 2010 Annual report and financial statements on-screen, viewing only the parts you want to. Information can be quickly and easily downloaded or viewed on-screen as PDFs.

Visit **www.morrisons.co.uk/annualreport10**

Highlights

The Morrisons approach is simple

Our unique offer of high quality, fresh food at great prices continues to attract customers.

We have made considerable progress in our strategy to be the 'food specialist for everyone' as we focus on the provenance, quality and freshness of food served by experts who know their trade.

Financial highlights

£15.4bn
Group turnover

2010	£15.4bn
2009	£14.5bn

+6.0%
Like-for-like sales (ex-fuel, ex-VAT)

2010	+6.0%
2009	+8.2%

£767m
Underlying profit before tax

2010	£767m
2009	£636m

20.5pence
Underlying earnings per share

2010	20.5p
2009	16.7p

£924m
Net debt

2010	£924m
2009	£642m

8.2pence
Total dividend per share

2010	8.2p
2009	5.8p

Chairman's statement

HIGHLIGHTS 2009/10

Strong financial performance
- Profit before tax £858m
- Underlying profit increased 21%
- Underlying basic earnings per share 20.5p

See page 16 for more on Operating results

Dividend growth once again
- Total dividend for the year 8.2p
- Increase of 41% from 2009
- Dividend cover 2.5 times

Board changes
- New CEO Dalton Philips, March 2010
- Two new Non-Executive Directors

See page 18 for the Board of Directors biographies

Sir Ian Gibson, Chairman

Morrisons had another good year. Once again our focus on fresh food and great value appealed to shoppers everywhere, and we have successfully grown sales and profits to record levels. We completed delivery of the Optimisation Plan first launched four years ago, and we are well on the way to cementing our position as the 'food specialist for everyone'. The opening of 43 stores in the year accelerated our journey from National to Nationwide.

£858m
Profit before tax increased £203m compared to last year £655m.

23% increase
Underlying earnings per share increased to 20.5p from 16.7p in 2009.

41% increase
Total dividend for the year has increased 41%, making dividend cover 2.5 times.

7.12pence
The Board has recommended a final dividend of 7.12p per share, bringing the total dividend for the year to 8.20p per share.

£42m
The profit share pool for our colleagues is £42m, an increase of 24% on the previous year.

£1.8m
raised for our Charity of the Year – Cancer Research UK.

In a difficult period for the UK economy and for the consumer, Morrisons has again demonstrated its strength. I am pleased to report another year of significant progress, during which we successfully concluded the Optimisation Plan launched in 2006, delivered market beating sales growth, record profits and a strong dividend. We made great strides towards our goal of being the 'food specialist for everyone' and welcomed more customers through our doors than ever before on our journey to take the business from National to Nationwide.

Results

Profit before tax was £858m compared with £655m last year. This included an exceptional credit of £91m arising from steps taken to strengthen our pension schemes. Underlying profit before tax was £767m, up 21% on last year. Underlying basic earnings per share (EPS) increased by 23% to 20.5p, whilst statutory basic EPS increased by 31%.

Cash generation was strong, with cash from operations of £1.0bn, up £40m on the previous year. Capital expenditure increased, as anticipated, to £906m (2008/09: £678m), following the development of a new regional distribution centre and 45 store openings in the year, two of which were replacements. These investments in future growth resulted in an increase in net debt to £924m (2008/09: £642m). Gearing was 19%, a level well below average for the sector, and at the year end the Group had undrawn committed bank facilities of £650m.

Board changes

We are pleased to welcome Dalton Philips as our new Chief Executive, following Marc Bolland's resignation in November 2009. Dalton joins from Loblaw, where he was Chief Operating Officer, having spent much of his career in grocery retail worldwide. We thank Marc for his contribution to the development of the business over the past three years.

As part of the Board's progressive succession strategy, Susan Murray retired as a Non-Executive Director on 31 December 2009. We are extremely appreciative of Susan's efforts and valued contribution throughout her four years on the Board and grateful to her for the support she gave to the Group through its business recovery and development.

We are pleased to welcome two new Non-Executive Directors, Penny Hughes and Johanna Waterous. They both bring many years of experience and their biographies can be found on page 18.

Industry recognition for colleagues

We are delighted that our commitment to providing our customers with the best value, quality and service has again been recognised in numerous industry awards.

These awards are a testament to the hard work and passion of all our 134,000 colleagues who day-to-day strive to make Morrisons the 'food specialist for everyone'. During the year we launched the Morrisons Academy, the next step in the training and development of our people, and already we have 20,000 colleagues working towards nationally recognised qualifications. I am delighted that our growth will provide a profit share pool of £42m, a 24% increase on the previous year, in recognition of their commitment to living our values. On behalf of the Board I want to express our continuing thanks for the commitment, dedication and professionalism shown by our colleagues every day.

Charitable donations

Throughout the business, our colleagues and customers have once again enthusiastically supported a variety of charitable activities, community initiatives and national events. These have included raising £220,000 for Children in Need and £600,000 for the Haiti Disaster Emergency Committee earthquake appeal. Our Charity of the Year for 2009/10 was Cancer Research UK and to date we have raised in excess of £1.8m.

Outlook

We expect the economic environment to remain challenging, disposable incomes to be under pressure and value to be a high priority for consumers. The Board believes that Morrisons unique offer of high quality fresh food at great value prices will continue to attract customers from our competitors and drive market share growth in the year ahead. For the longer term, we will utilise our balance sheet strength to invest for growth, with new space, new manufacturing capability and new systems a priority in the year ahead.

Sir Ian Gibson
Chairman

Introducing our new Chief Executive **Dalton Philips**

"I have worked in retail organisations worldwide and have often looked at Morrisons, particularly how it combined its fresh food offer and great value.

I am therefore delighted to be joining what I would regard as a retailers' retailer at a time when they have delivered outstanding results.

I am looking forward to working with the team to build on those strong foundations for the future."

Morrisons Academy, launched in 2009, will provide training for professional and vocational qualifications.

Business review

BUSINESS HIGHLIGHTS 2009/10

Continuing strategic success
- 'Food specialist for everyone' gains further recognition
- Retail Week 'Retailer of the Year' for second consecutive year.

Store estate development
- 13% increase in selling space since 2007 – exceeding our target
- Net 43 new stores opened in the year
- Smaller store format expected to help us in our target to add a further 1.5m square feet of new selling space over the next three years

Shareholder returns
- In the past four years total shareholder return has averaged 16% p.a. compared to FTSE 100 at 3% and European grocery retail sector at 9%

STRATEGY

Morrisons has made considerable progress in its strategy to position the business as the UK's 'food specialist for everyone'.

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; and
- 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 continued to broaden our customer appeal over the year by maintaining our focus on fresh food and value and providing great customer service through a wide range of stores from 10,000 to 40,000 square feet. With the building blocks now in place we have a strong platform to take Morrisons to a nationwide company.

Strategy

Morrisons has made considerable progress in its strategy to position the business as the UK's 'food specialist for everyone'.

Our strategy will enable the business to continue sustainable, long term growth. It builds on our strengths, and is in tune with our customers' needs for excellent value and their increasing focus on the provenance, quality and freshness of the food they buy. In order to deliver our strategy, we have previously outlined the building blocks that need to be put in place, and our plans to do this were incorporated in the Optimisation Plan that has now completed. These include freshening our stores and the first phases of improving and developing the infrastructure of the business in relation to IT operating systems, manufacturing and distribution. Our progress towards these goals is set out in the Operating review on page 16.

We will continue to invest in our strategy of being the 'food specialist for everyone'. Colleagues in the business now have access to the Morrisons Academy, enabling them to be trained further in food-related skills. We will invest in additional manufacturing capabilities in order to strengthen this point of difference with our competitors and we will continue to offer our customers new and innovative fresh food items of great quality produced in Market Street, fresh on the day.

Store estate development

In 2007, we set out an objective to add an additional 1m square feet of new selling space to our estate over the three years to January 2010. We are pleased to have exceeded that target by 0.4m square feet, through a combination of store extensions and store openings (including 34 stores we acquired from the Co-operative Group in 2009).

As the fourth largest grocery retailer in the UK, we see significant opportunities to expand our store estate further. We offer a real difference in grocery retailing that is highly attractive to a wide range of consumers as evidenced by the increasing number of customers who are shopping in our stores and enjoying the Morrisons experience. However, there are still many parts of the country where we are under-represented. We estimate that there are some seven million households in the UK not located within a convenient 15 minute drive time from a Morrisons store – a higher target customer base than any of our three larger competitors. A key part of our strategy, therefore, is to grow the number of Morrisons stores.

21% increase

Underlying profit has increased to £767m from £636m last year.

New jobs created

Our continued growth resulted in 10,000 new jobs created over the period. We welcomed 2,300 colleagues formerly employed by the Co-operative Group or Somerfield. As part of the conversion of these stores to the Morrisons format, all of these colleagues have undergone training to introduce our great customer service and fresh food offer.

Our farmers mean a great deal

We launched a Farm Programme focused on research to help improve the efficiency and sustainability of British Farming. Our research farm is a ground-breaking joint venture to establish a 700-acre farm on the Dumfries House Estate in East Ayrshire. Morrisons Farm at Dumfries House will work in a new partnership with the Scottish Agricultural College, to become one of the leading centres of excellence for applied farming research.

The early performance of the stores acquired from the Co-operative Group last year has confirmed that our offer works well in a wide range of store sizes giving us increased flexibility when finding sites. We expect to add a further 1.5m square feet of selling space in the three years to January 2013.

We believe that the delivery of our strategy of space expansion and the optimisation of our business model has delivered strongly improved profit margins whilst also positioning the Group for long term growth.

Shareholder investment and returns
Delivery of our Optimisation Plan has ensured strong growth in sales, profits and dividends, whilst we have also invested to generate future growth.

In the four years since the launch of the Optimisation Plan, annual dividend growth has averaged 30% p.a. and total shareholder return 16% p.a. This return compares with equivalent figures for the FTSE 100 and European Retail sector of 3% and 9% respectively.

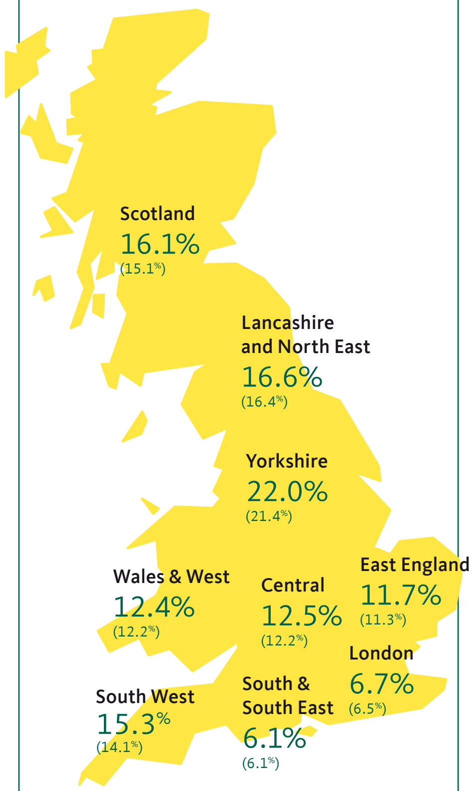
The Group has a strong balance sheet and is securely financed, with competitive revolving credit facilities available until 2012 and a number of bonds which mature between 2010 and 2018.

Underlying basic earnings per share
(Pence p)

2010	20.5
2009	16.7
2008	14.4
2007	8.3

Underlying basic earnings per share has increased 23%.

Morrisons market share by region 2009/10



Figures in brackets are from 2008/09
Source: Kantar Worldpanel

+53% share price

From January 2006 to January 2010, Morrisons share price increased 53%, compared to a fall in the FTSE 100 of 10%.

Strong investment grade rating

The Group's credit rating was upgraded by Moody's for the second consecutive year to A3, making us one of only three European retailers to hold this grade.

Strategy

Keeping things simple: Our vision to be the **'Food Specialist for Everyone'** is now well advanced. Our constant focus on freshness, great value and outstanding service is appealing to more and more people. And we're now closer to customers having opened 43 new stores last year.

A simple strategy

BRAND VALUES

Morrisons has three distinct brand values that strengthen our vision. The brand values give us the flexibility to react to market changes and consumer trends.

Fresh

Value

Service

Freshness, great value and outstanding service mean our brand and our products are appealing to more people for more reasons.

Our research supports this as we are attracting more customers from higher income groups as well as younger customers. We are consistently ranked higher than our competitors for having 'the freshest food possible'.

POSITIONING

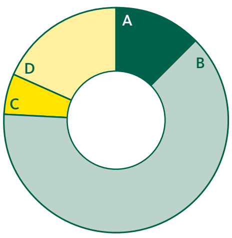
As a food specialist we differentiate ourselves from our major competitors, all of whom have significant non-food offers. We are unique in having our own manufacturing and packing facilities, and being farmers ourselves. We also prepare more food and employ more specialist butchers, fishmongers and bakers in-store than our competitors. We can clearly demonstrate our deep understanding of food and ensure that everyone who shops with us receives outstanding value, freshness and service.

NATIONAL TO NATIONWIDE

We identified an opportunity for space growth so that more households in the UK are within a 15 minute drive of one of our stores. This space growth started with the acquisition of 38 stores from Co-operative/Somerfield in 2009, 34 of which were converted and fully trading as Morrisons during 2009. This added 480,000 square feet of space during the year.

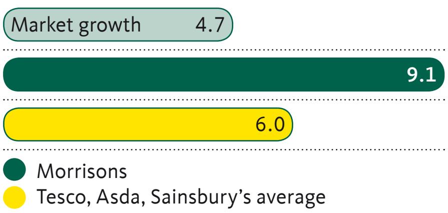
We will also be increasing our number of smaller stores. These are stores with less than 20,000 square feet sales area but that still have a complete Market Street. These smaller stores are not convenience shops but do provide convenient shopping.

Morrisons share of grocers UK 2010
(Percentage %)



A. Morrisons	12.6%
B. Tesco, Asda, Sainsbury's (combined)	63.5%
C. Premium (combined)	5.8%
D. Discounter and others (combined)	18.1%

Market share growth in 2009/10
(Percentage %)



Source: Kantar Worldpanel

MARKET SHARE

Our market share continues to increase as we move from **National to Nationwide**. Morrisons market share growth was greater than the total market growth year-on-year and as a result we grew market share.

2.4% increase

Basket size (total average) has increased 2.4% in the year.

STRATEGY DELIVERY

Success at Morrisons relies on our 134,000 people delivering great service to our customers each and every day.

See page 15 for more on our people

24 hours

British peas and beans can arrive in a Morrisons store just 24 hours after being picked.

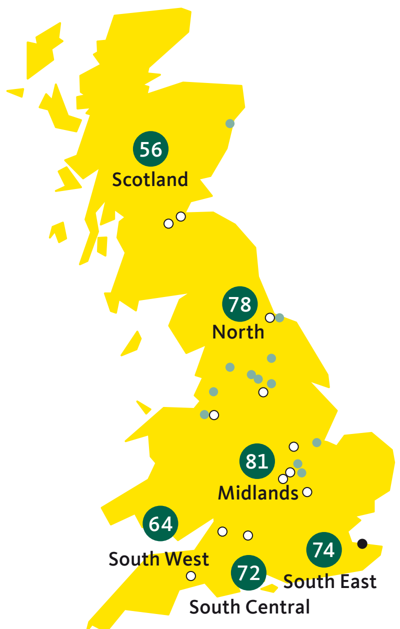
Strategy – continued

A broad appeal: In the past year we attracted more customers than ever before. Our fresh approach has a wider appeal across the whole country.

From Folkestone to Falkirk...

FROM NATIONAL TO NATIONWIDE

We identified an opportunity for space growth so that more households in the UK are within a 15 minute drive of one of our stores.



A BROAD APPEAL

- A wider range of store sizes – we now have 96 smaller stores
- 30,000 price cuts through the year
- Our 'Big Price Crunch' weeks and 'Essentials For Less' were popular with customers
- 3,000 new fresh and core grocery products
- 20,000 colleagues working towards a national recognised retail qualification through our Fresh Food Academy

+6.7% footfall

This year we attracted an additional 500,000 customers to our stores each week.

22,000

Over 22,000 own label lines, including Fresh Ideas, which uses raw, easy to cook ingredients so that the products are fresher than ready meals.

Anna Hall
Customer, Leicester

"I'm a regular at your Winsford store and think it's excellent. The shelves are always well-stocked, and at Christmas I found everything I needed. Your staff are cheerful and helpful too. Morrisons own brand products and produce are really good, and if we need anything while holidaying in the UK, we always head for your nearest store."

45 stores opened

during the year, two of which were replacements.

SUSTAINABLE FOOD FOR...
Today

Fresh fish: 100% of our own brand fresh fish complies with our sustainable sourcing policy. Our counters have been certified under the Marine Stewardship Council (MSC) Chain of Custody programme.

Visit www.morrisons.co.uk/today

A simple model: Where possible, we source locally and manufacture in our own sites. We distribute to our stores through our own network. The benefits? We're able to deliver consistent freshness at a reduced cost whilst being in control of our supply chain.

From Manor Farm to milk moustache...

HOW OUR MODEL WORKS

From selection...

Being closer to source means we can better control the provenance and quality of our food. Sustainable and responsible sourcing is important to us.

To packhouse...

We own manufacturing facilities, which means we reduce our supply chain lead times, allowing us to maximise freshness in-store and reduce waste and costs.

Distributed and delivered to...

We own 13 distribution centres and operate a very modern transport fleet, ensuring freshness and cost control.

All our stores.

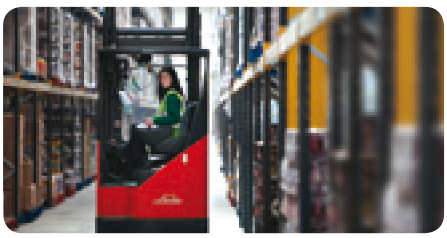
Because we prepare food in-store, we can react to customer trends throughout the day, only producing what the customer wants.

HOW OUR MODEL BENEFITS OUR BUSINESS

- We are closer to source
- Costs are reduced by cutting out the middle man
- Our food is fresher and in-store quicker
- We react to the weather quicker than other supermarkets
- Savings are passed on to our customers

18m cases

of products pass through our distribution network and are delivered to stores each week.



100% British

All Morrisons own brand eggs are free range from the UK and approved by the RSPCA's Freedom Food scheme.

Locally sourced fresh milk

We source all our standard milk from seven regions in England, Wales and Scotland. This means that our customers are not only getting the freshest milk possible, but they're also supporting local British farmers.

OUR PACKAGING...
Today

Milk: Changes to the recycled content of our milk containers have helped divert around 800 tonnes of material from landfill.

Visit www.morrisons.co.uk/today

A real difference: In Market Street we have more people preparing food than any other retailer and we employ more specialist butchers, fishmongers and bakers than any of our competitors.

MARKET STREET

From freshly baked to Family Butcher…

IN THE MARKET STREET YOU'LL FIND

- The Bakery
- The Delicatessen
- The Cake Shop
- Your Fishmonger
- Family Butcher
- Oven Baked
- Fresh to go…

INVESTMENT IN SERVICE AND SKILLS

Through our Fresh Food Academy, our Market Street colleagues will receive training for professional and vocational qualifications. By April 2010, they will all be accredited and qualified to Royal Society for Public Health standards of food safety making us the only retailer to operate to this standard.

MEET THE FRESH FOOD PEOPLE

- Over 1,200 fully trained fishmongers serving 50 kinds of fresh fish
- 2,200 bakers trained in baking craft skills
- 2,000 trained butchers in-store who prepare over 120 different cuts of British beef, pork, lamb and poultry each day
- Our cake experts can produce, at customer request, one of our cakes within minutes

Made fresh in-store

33,000 sandwiches are made fresh in-store every day.

10,000

jobs were created during the year, 9,000 of which will service our unique fresh food Market Street counters.

OUR PACKAGING...
Today

Packaging: Since 2006, we have saved over 1,000 tonnes of packaging used in Market Street.

Visit www.morrisons.co.uk/today

Strategy – continued

A simple commitment: We are a practical, down to earth business and that's how we approach corporate social responsibility. Our programme is consistent with our Vision and Values and reflects sound commercial thinking as part of everyday business.

What we do **Today** makes for a better tomorrow...

CARBON MANAGEMENT

Since our 2005 baseline year we've made an absolute saving of over 240,000 tonnes of CO_2e through an active programme of energy management, refrigeration efficiency, 'good housekeeping', renewables, resource efficiency, technology and raised awareness. Despite significant business growth over that time, our emissions remain on a downward trend.

Tonnes of carbon emissions (CO_2e)
(Tonnes t)

2009	1,235,760
2008*	1,270,608
2007*	1,235,410
2006*	1,334,842
2005*	1,477,141

Our carbon footprint includes energy waste, refrigeration and transport for our stores, offices, manufacturing and packing facilities.

NB: All years are calendar years

* Morrisons carbon emissions from 2005 to 2008 (inclusive) have been updated based on increased accuracy in the measurement and recording of electricity consumption. SKM Enviros (Environmental Consultancy)

RESPONSIBLE & SUSTAINABLE SOURCING

We are 'closer to source' through our business operation and owning and operating our supply chain. The principles of responsible and sustainable sourcing underlines our approach, recognising the value of the resources on which we depend to carry out our business.

Examples of what we are doing:

- The 2009 Marine Conservation Society Survey highlighted that we have a 'strong seafood sourcing policy' and the 'largest choice of sustainable seafood' (from their 'Fish to Eat' list).
- Our Farm Programme began in 2009 when we took the decision to invest in a series of different activities with the core aim of working with farmers to develop a sustainable British farming industry. This includes Farming/Producer Groups, Research and establishing a farm at Dumfries House.

- We have committed to ensure that palm oil used in our own label products is sourced through Roundtable on Sustainable Palm Oil recognised supply chain systems by 2015.
- We have extended our ethical audit programme to extend to over 600 suppliers in the next three years.

ENVIRONMENTALLY FRIENDLY STORES… Today

Our Halifax store followed Kidderminster's success to receive one of the greenest awards for a supermarket, achieving an Excellent rating from the Building Research Establishment Environmental Assessment Method (BREEAM).

Our ongoing design and build programme incorporates lessons learnt from stores like Kidderminster and Halifax. It enables us to make practical applications across our estate to reduce environmental impact.

FRESH FOOD ACADEMY

Our Fresh Food Academy was launched this year to enhance the craft, food knowledge, food safety and customer service skills of our people. By Spring 2010, we will have trained 20,000 colleagues to QCF Level 2 and are on track to train 100,000 colleagues by 2011. This is the biggest programme of its kind in the UK and provides employees with tailored training leading to a nationally recognised qualification in retail skills.

80%

of our employees are promoted from within. We believe in giving everyone the opportunity to progress from shop floor to top floor.

We are committed to ensuring that all employees, new and existing, are engaged in the future of our business:

- 236 people celebrated 25 years' service in 2009;
- over 57% of our Senior Management Group have over 10 years' experience at Morrisons; and
- more than 30% of our Senior Management Group started at the shop floor.

Retail Industry Award

2009 Retail Industry Awards

Store Manager of the Year
3 years running – 2007, 2008 and 2009.

Employee stability*
(Percentage %)

2010	84
2009	78
2008	76

Our employee stability rate has improved. Moreover, some 33% of our employees have been with us for over five years.

* Employee stability is measured as the percentage of employees who have been with us for over one year.

Our building blocks

1 Values
Values are incorporated in everything we do and are at the core of what we expect our leaders and colleagues to be about.

2 Leadership
We will develop effective leaders working to our Values because they create the right workplace conditions in which customers receive a great service.

3 Talent
At Morrisons we believe that everyone has talent and we are committed to selecting, developing and growing the best people for our business.

4 Performance
Sustainable performance relies on having people in place to: grow the business; strengthen our unique Morrisons culture and deliver our vision of being the 'food specialist for everyone'.

Operating review

OPERATING HIGHLIGHTS 2009/10

Strong turnover growth
- Total turnover increased 6%
- Store sales grew ahead of the market
- Like-for-like sales increased 6%

See section on Turnover growth

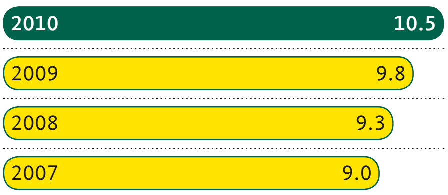
Optimisation Plan
- Completed, with all key targets exceeded
- Total Plan EBITDA[1] improvements £526m per annum
- New regional distribution centre opened in the South East, ahead of schedule

Corporate Social Responsibility progress
- Great progress in meeting our CSR targets
- 'Great Taste Less Waste' launched
- 'Let's Grow' scheme had 22,500 participating schools and won an award
- Carrier bag consumption reduced by 126m

See www.morrisons.co.uk/today

[1] EBITDA is earnings before interest, tax, depreciation and amortisation.

Weekly average customer numbers
(Millions m)



Weekly average customer numbers have continued to grow, rising by 7% in the current year.

2009/10 was another strong year for Morrisons. With the economic environment continuing to weigh heavily on consumers, our focus on value allowed our customers to stretch their household budgets further.

Turnover growth

Total turnover was £15.4bn, an increase of £0.9bn (6.0%) and we were pleased that our store sales (excluding fuel) again grew ahead of the market. Like-for-like sales (excluding fuel), which reflect performance in existing stores, increased by 6.0% with good growth in all regions. Total average basket size increased by 2.4% and customer numbers were up 6.7%. On average, 10.5m customers are now visiting our stores each week.

There is now much greater awareness of our brand throughout the country and as a result we grew sales well in all regions. Our market research showed that we continued to attract new customers from competitors, including both the premium grocery segment and the discounters.

New retail space

The Group has made good progress in its plans to become a truly nationwide retailer. During the year we opened 43 new stores and now have a total of 425 trading. Of these, 34 were acquired from the Co-operative Group and we also opened 11 other stores. Of these, two were replacements of existing stores. We now operate 11.9m square feet of selling space, an increase of 7%.

In November 2008, we announced the acquisition of 38 stores from the Co-operative Group and we opened 34 of these during the year. In the original package were four stores which do not naturally fit the Morrisons operating model. As planned, they will remain closed until we are in a position to evaluate the results of other stores. Excluding these, the acquisition has enabled us to add 480,000 square feet of net new store space with final acquisition and development costs of £325m as projected.

Although early days, we are pleased with the customer response to the new stores, many of which were community stores operating with a limited range and high prices under the Somerfield fascia. As Morrisons, these stores offer a full weekly shop, with a strong fresh offer, at the normal nationwide prices charged throughout our estate. Whilst these stores are smaller than our average, being below 20,000 square feet, we are confident that we can operate this size of store very successfully. There are now 96 such stores in our estate, and we expect that smaller store formats will form an important element of our ongoing new space acquisition strategy.

The combination of our organic store opening programme and the Co-operative/Somerfield acquisition has given us a great next step in our move from National to Nationwide.

Trading

Whilst we have continued to maintain focus on the quality and provenance of our food, we have responded to the challenges our customers face through the provision of consistently innovative value. In all, we initiated over 30,000 price cuts through the year and delivered a promotional programme that enabled our customers to save money whilst eating good fresh food. Treats too were in evidence, and after months of belt-tightening we saw customers trading up to enjoy Christmas. Building on its success last year, we relaunched and expanded our 'Collector Card' scheme over the Christmas period, rewarding our loyal customers with a £25 shopping voucher.

Market Street performed particularly well, not only because of our very sharp everyday pricing but because we are able to offer deeper, more attractive promotions on fresh products, supported by our own preparation facilities, than our competitors who do not have this capability.

Sales of our own label 'Value' range grew by 34% as consumers tightened their belts in a challenging economic environment. Many of these products were relaunched in the year, and they are routinely blind-tasted to ensure their quality is as good as the best in the market, whilst being significantly better value. Sales of organic and fair-trade products continued to decline, with consumers unable or unwilling to bear the premium prices that these products command. We did however see a resurgence in sales of the healthy eating 'Eat Smart' range following a relaunch, up 7%, reflecting consumers' continuing demand for a healthier diet and their concern over the nutritional value of the food they eat.

Our broadening appeal and involvement in the community is reflected in the expansion of our award winning 'Lets Grow' initiative in which we provide free gardening equipment and materials to schools to teach children how to grow food. The scheme has been a huge success with over 22,500 schools, throughout the country, including 60% of UK primary schools registering to take part. During the year we dispatched thousands of pieces of free gardening equipment to participating schools and the initiative was a grand prix winner at the Institute of Practitioners in Advertising Effectiveness Awards 2009.

The UK grocery retail market

The consumer continued to face a difficult economic environment last year. Unemployment and the fear of unemployment, limited credit availability, the impact of tax increases and, with an election due in 2010, uncertainty about future government tax and fiscal policy, all affected consumer confidence and behaviour. Although commodity prices continued to ease, the cost of an average shopping basket rose year-on-year, partly due to the weakness of Sterling. Kantar reported that in the year to January 2010 grocery market growth was 4.7%.

The grocery sector continues to be under a close focus from the Office of Fair Trading (OFT), despite the findings of the Competition Commission that the sector is highly competitive. We always cooperate fully with such inquiries. In the case of the OFT investigation into milk, which began in 2004, we continue to believe strongly that Morrisons has no case to answer and have made representations in detail to this effect. Our view is unchanged by the Supplementary Statement of Objections issued by the OFT in July 2009. In the case of the tobacco inquiry which started in early 2003, there is a complex legal question as to whether well-established industry practices represented a breach of competition law. It is likely that this can only be settled clearly through a formal judicial process, although the OFT have indicated an intention to reach their own conclusion in the first quarter of 2010.

Operating results
Total turnover grew by 6% in the year with in-store sales increasing by 9%, reflecting strong like-for-like growth and the benefit of our investment in new space. Oil prices were lower than in the previous year and we maintained our competitive position. As oil prices began to fall so too did prices at the pump and this was reflected in a fall of 6% in fuel sales.

Our gross profit grew ahead of turnover growth, in part reflecting a reduction of low margin fuel sales in the mix. We have continued to make good progress in delivering further supply chain benefits as our business expands as well as driving further outperformance from our gross margin Optimisation Plan initiatives.

After cost of goods sold, the Group's two biggest costs are store wages and distribution costs. The significant increase in new store space opened during the year and the higher proportion of smaller stores in that mix impacted our store labour costs performance. However, we continued to deliver further in-store labour efficiencies through Optimisation Plan initiatives, such as self-scan checkouts and queue management and these helped to deliver an overall year-on-year improvement in store labour costs relative to sales. Our distribution costs, measured on a cost per case basis, fell by 2% as we benefited from our investment in improved systems such as voice-picking in our warehouses and from a network rebalance following the opening of our new South East Regional Distribution Centre.

Our administration expenses[2] were up 12%, well below the level of profit growth. Increased investment in marketing in support of our significant sales momentum was largely offset by the negotiation of lower advertising rates. We incurred additional costs as the Group's Long Term Incentive Plan programme was extended for a third year.

[2] Before pensions credit.

Optimisation Plan
Our Optimisation Plan, first launched in 2006, concluded in January 2010, with all major milestones achieved or exceeded. In total, sustainable annual EBITDA[1] improvements of £526m have been delivered through the various initiatives contained in the Plan.

During the year, our continuing work on store ranging and segmentation delivered good benefits, with all our major categories showing solid growth. We believe our management of the economics of promotions to be industry leading. As part of our commitment to continuous quality improvement and innovation we introduced some 3,000 new fresh and core grocery products. Additionally, our in-store efficiency benefited from the industry leading queue management self-scan checkout systems which we began rolling out in 2008.

The Optimisation Plan included significant investment in infrastructure, and a key milestone was the opening, three months early, of our new Regional Distribution Centre (RDC) at Sittingbourne in Kent. The 900,000 square foot site services 65 stores in the South East, eases capacity issues created by our rapid growth in recent years and reduces the distance travelled in servicing these stores by around 22 million kilometres annually. We have now submitted a planning application for a new RDC in the South West, at Bridgwater, which will provide further capacity when needed in 2011/12 to support our National to Nationwide expansion.

The roll-out of voice-picking technology across all our grocery warehouses has been completed and has proved particularly successful in increasing depot productivity and pick accuracy, and hence improving in-store availability.

Replacement of our systems
The Optimisation Plan included the first phase (£110m) of a major programme of systems renewal, which will continue for a number of years. The programme will see the replacement of all the Group's core systems, including store based point of sale, warehousing, manufacturing, supply chain, product management, HR, payroll and financial systems.

Much of the work in 2009 related to systems design and development activity, but we also began implementation in a number of areas. We successfully delivered the first phase of our new financial systems, continued the roll-out of new HR and payroll processes (now covering 82% of our employees) and implemented voice-picking into our distribution centres as mentioned above. This is already having a positive impact on the efficiency of our order fulfilment process. We have also installed self-scan checkout units in around 75% of our estate, implemented sophisticated queue management software into the majority of our stores and begun a pilot of our new Electronic Point of Sale (EPOS) system in store, which will provide a common platform replacing the five separate systems we currently operate.

In the year ahead, we plan to roll-out the new EPOS system to all stores, to implement new manufacturing systems into our packing houses and to begin the roll-out of the warehouse management system. Additionally, we will begin to populate the new product master file which will, in due course, replace our legacy system.

The next phase of the programme is expected to involve further investment of £200m over the three years to 2013. The Board recognises the strategic importance of this activity, and has established a separate committee to provide appropriate oversight. Independent project assurance is provided by KPMG.

Corporate Social Responsibility (CSR)
We continued to work hard on our CSR programme which is a key focus of our management agenda. We have made great progress in meeting the challenging targets we set out when the programme was launched three years ago.

Our commitment to helping cut food waste saw the launch during the year of a major new initiative called 'Great Taste Less Waste', which gives practical tips on how to store food more effectively. Key elements of the programme include 'Best Kept' stickers on packs giving storage advice and recipe ideas on how to make the most of leftovers.

We completed the conversion of our filling station pumps to highly efficient vapour recovery pumps which emit much reduced levels of fuel vapour into the atmosphere, a £16m investment in improved environmental performance.

Board of Directors

1. **Sir Ian Gibson**
Chairman
Sir Ian Gibson (aged 63) joined the Group as Non-Executive Deputy Chairman in September 2007. He was appointed Chairman, following the retirement of Sir Ken Morrison, in March 2008. 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 and Northern Rock Plc. He is also a former 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.

Executive Directors

Dalton Philips
Chief Executive
We welcome Dalton Philips (aged 41) who joins us as Chief Executive from 29 March 2010.

2. **Mark Gunter**
Group Retail Director
Mark Gunter (aged 51) 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 Group 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.

3. **Martyn Jones**
Group Trading Director
Martyn Jones (aged 51) joined the Group in 1990 after gaining wide buying, marketing and product development experience in fresh and frozen foods. After eight years with J Sainsbury, he moved into manufacturing with RHM and Campbells before joining Morrisons. Starting as Trading Manager for frozen foods, he was 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 as Group Trading Director in March 2007. He is also a member of the Corporate Compliance and Responsibility Committee.

4. **Richard Pennycook**
Group Finance Director
Richard Pennycook (aged 46) joined the Board as Group Finance Director in October 2005. Prior to that, he was the Group Finance Director of RAC Plc, the quoted specialist motoring and vehicle management company. Previous senior roles include Group Finance Director of HP Bulmer Holdings PLC, Laura Ashley Plc and JD Wetherspoon plc and Chief Executive of Welcome Break Holdings plc. He is also a Non-Executive Director of Persimmon Plc.

Non-Executive Directors

5. **Philip Cox**
Philip Cox (aged 58) joined the Group as a Non-Executive Director in April 2009. He is a member of the Audit Committee and became its Chair in September 2009. He is also Chief Executive Officer of International Power plc, a position that he has held since 2003, when he was promoted from his previous role of Chief Financial Officer (2000–2003). He is a member of the President's Committee of the CBI. He was a Non-Executive Director at Wincanton Plc from 2001 to 2009, having chaired their Audit Committee from 2001 to 2008 and was Chair of their Remuneration Committee from 2008. His previous board position was as Chief Financial Officer at Siebe Plc.

6. **Brian Flanagan**
Brian Flanagan (aged 57) 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 is an adviser to Jet Environmental Systems. Previously, he worked for the Mars Corporation for 26 years and possesses 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.

7. **Penny Hughes**
Penny Hughes (aged 50) joined the Group as a Non-Executive Director in January 2010. She is currently a Non-Executive Director of Cable & Wireless Plc and Home Retail Group plc, the president of the Advertising Association and a trustee of the British Museum and she has recently accepted a Non-Executive Directorship of Royal Bank of Scotland. Her previous experience includes 10 years with Coca-Cola ultimately as president of Coca-Cola GB & Ireland and various non-executive roles including Body Shop International plc, GAP Inc, Reuters plc, Skandinaviska Enskilda Banken, Trinity Mirror plc and Vodafone plc.

8. **Paul Manduca**
Senior Independent Director
Paul Manduca (aged 58) was appointed as a Non-Executive Director in September 2005. He is a member of the Nomination and Remuneration Committees and became the Chair of the Remuneration Committee from September 2009. He is also Chairman of Aon (UK) Limited and Henderson Diversified Income plc, and a Non-Executive Director of Development Securities PLC, JPMF European Fledgling Investment Trust Plc, JSC KazMunaiGas Exploration Production Plc, as well as other companies. He was the Chairman of Bridgewell Group plc until August 2007, when it was sold to Landsbanki Securities (UK) Ltd. Prior to that, he was the Global CEO of Rothschild Asset Management Limited and CEO of Deutsche Asset Management Europe.

9. **Nigel Robertson**
Nigel Robertson (aged 50) joined the Group as a Non-Executive Director in July 2005. He is a member of the Audit, Nomination and Remuneration Committees, and became Chair of the Corporate Compliance and Responsibility Committee in September 2009. Working in the private equity sector, he is the Group Chief Executive of Covenant Healthcare Ltd. Until the business was sold in 2007 he was the Chief Executive Officer of Chelsea Stores Holdings Ltd and 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.

10. **Johanna Waterous**
Johanna Waterous (aged 52) joined the Group as a Non-Executive Director in February 2010. She is currently a Non-Executive Director of RSA Group Plc and Sandpiper CI, as well as being an Operating Partner of Global Leisure Partners. Her previous experience includes 22 years with McKinsey & Co, London, ultimately as Co-Leader of the firm's Global Marketing and Sales Practice. She is a Non-Executive Director of the Kew Foundation, the Chair of Royal Horticultural Society Enterprises and a Trustee of English National Opera. Between 1998 and 2006, she was Chairman of Tate Enterprises.


1
2
3
4
5
6
7
8
9
10

Summary Directors' report

Summary financial statement

The Summary financial statement on pages 26 to 27, the Summary Directors' remuneration report on pages 21 to 24 and the Summary corporate governance report below, are summaries of the information contained in the Annual report and financial statements 2010.

The aim of the Annual review is to provide shareholders with the key financial information in a clear and concise manner. Therefore the Annual review and Summary financial statement do not contain sufficient information to allow as full an understanding on the results of the Group, its state of affairs or the policies and arrangements concerning Directors' remuneration, as is provided in the Annual report and financial statements. The Annual report and financial statements can be viewed and downloaded from our website and may also be obtained free of charge from the Company as noted in the Investor relations and financial calendar section at the back of this report.

Auditors

The auditors have reported on the full Annual report and financial statements. Their report was unqualified and did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and did not contain a statement under sections 498(2) or 498(3) of the Companies Act 2006.

The Directors confirm that, so far as they are aware, there is no relevant audit information of which the auditors are unaware and that each Director has taken all reasonable steps to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

A resolution to re-appoint KPMG Audit Plc as auditors and to authorise the Directors to set their remuneration is to be proposed at the forthcoming Annual General Meeting (AGM).

Annual General Meeting

Notice of the 2010 AGM of the Company (to be held at the Company's Head Office at Gain Lane in Bradford on 3 June 2010) is sent to shareholders. Shareholders will also receive notification of the availability of the Annual report and financial statements 2010 to view on the Group's website, unless they have elected to receive printed shareholder communications. 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.

Summary corporate governance report

This Summary corporate governance report is an extract from the Corporate governance report within the Annual report and financial statements for the 52 weeks ended 31 January 2010.

Throughout the financial year 2009/10 the Group has complied with the provisions set out in Section 1 of the Combined Code and applied its principles, as reported below in this Corporate Governance report with the exception that at the beginning of the year, the Audit Committee did not have a member with recent relevant financial experience. With the appointment of Philip Cox as chair of the Audit Committee on 4 June 2009 there is a member of the Audit Committee with recent and relevant financial experience.

During the year the Group has developed, and the Board has approved, a Corporate Governance Compliance Statement which sets out how the Group complies with each of the provisions of the Combined Code. That document also sets out the statement of the division of responsibilities between the Chairman and the Chief Executive Officer, the list of matters reserved to the Board, the membership of the Board and of the various Board Committees together with the terms of reference of the various standing Board Committees. This document is available in the Investor relations section of the Group's website, www.morrisons.co.uk

In light of recent Board changes, the process for the external review of the performance of the Board, which had been scheduled for the early part of 2010, has been postponed and will now take place in the second half of the current financial year. In the meantime, however, a review process has been commissioned as to the effectiveness of the individual board committees, and of their members, which will take place during the first half of the current financial year. That committee review will be conducted by an external agency and the results and any major findings of that process will be considered and, as appropriate, acted upon in the second half of the financial year.

The Board is satisfied that, in the light of changed circumstances that exist at the time of the publication of this report, the arrangements for review and appraisal of the performance of the Board, its Committees and individual Directors are appropriate. The Board is also confident that the initiatives it has commenced will enable the Group to satisfy any recommendations of the revised Combined Code (the UK Corporate Governance Code) in relation to Board evaluation which it is understood will come into force during the current financial year.

A report explaining our governance policies and practices is given in the Annual report. The full terms of reference of the Audit, Remuneration and Nomination Committees, the schedule of matters reserved for the Board along with the full Corporate governance report can be found in the Annual report and on the corporate website, www.morrisons.co.uk/corporate/investors/corporate-governance

Summary Directors' remuneration report

This Summary Directors' remuneration report is an extract from the Directors' remuneration report contained within the Annual report and financial statements for the 52 weeks ended 31 January 2010. The full remuneration report can be viewed on the corporate website, **www.morrisons.co.uk/annualreport10**

The members of the Remuneration Committee are shown in the Corporate governance report within the Annual report and financial statements 2010. Advisers to the Remuneration Committee are Hewitt New Bridge Street on remuneration matters, Pension Capital Strategies Limited (a member of the Jardine Lloyd Thompson Group) in respect of pensions, and Ashursts in respect of Executive Directors' contracts.

Dear Shareholder

The Remuneration Committee reviews, on a regular basis, the operation and overall competitiveness of the total remuneration packages for Executive Directors and senior executives.

Following a review at the end of 2008/09 of the Company's remuneration arrangements against the stated remuneration policy, and in light of the Company's performance, the Committee concluded that incentive pay needed to increase to enable the Company to pay its executives competitively. However, taking into account the views of certain shareholders and representative bodies, and with support from the Company's Executive Directors, the Committee concluded that the proposals were not appropriate to the wider external climate at that time and were withdrawn. The Committee, however, remained clear that incentive pay needed to increase to enable the Company to pay its executives competitively where success was demonstrated. Accordingly, in 2009/10, the Committee re-considered the position and decided that it is vital that the Company's remuneration arrangements are positioned competitively (the recruitment of a new Chief Executive has re-emphasised how important this is to the business).

Therefore, the Committee has decided to:

- maintain Executive Director base salary levels;
- increase the maximum annual bonus potential for Executive Directors from 100% of base salary to 200% of base salary for 2010/11. Bonus potential will also be increased for other less senior executives. Reflecting the increased bonus potential, the bonus vesting schedule has been made more stretching;
- introduce bonus deferral, so that 50% of any bonus payable to Executive Directors is deferred in shares for three years; and
- increase the level of Long Term Incentive Plan (LTIP) awards for Executive Directors (with the exception of the incoming Chief Executive) for 2010/11 from 200% of salary to 240% of salary. The incoming Chief Executive will receive an LTIP award equal to 275% of salary. These award levels are within the individual limit of 300% of salary contained in the LTIP rules.

As a result of these changes, the Executive Directors' ongoing total remuneration, with base salary at current levels and a greater focus on performance-related elements, will be consistent with the stated remuneration policy in the Summary Directors' remuneration report which follows and will be broadly comparable to the packages provided by the Company's key competitors. The Committee considers that this is critical to the Group's future success and the recruitment and retention of key individuals.

During the year, the Committee has also had to deal with the change of Chief Executive. Details of the termination arrangements for Marc Bolland, and Dalton Philips' ongoing remuneration package from appointment on 1 March 2010 (which is consistent with the revised Executive Director remuneration policy) and share awards required to facilitate his recruitment, are set out in the Summary Directors' remuneration report which follows. Following Marc Bolland's resignation the Remuneration Committee considered that it was responsible and commercially appropriate to secure the services of Richard Pennycook and Mark Gunter. The Committee, therefore, very quickly took certain steps to this end and agreed to an additional LTIP award of 100% of salary to these two individuals, in addition to the 200% of salary award already received in 2009/10 and within the 300% of salary annual limit contained in the LTIP rules.

More details of all of these changes are set out in the Summary Directors' remuneration report which follows.

Paul Manduca
Chair of the Remuneration Committee

Summary Directors' remuneration report – continued

Remuneration policy

The Remuneration Committee remains of the view that the Company's remuneration policies:

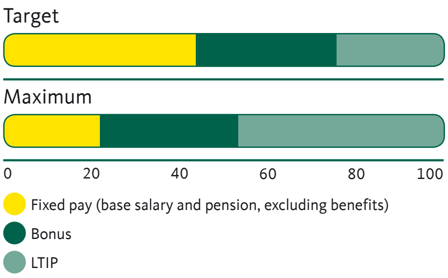
- should encourage a strong performance culture and emphasise long term shareholder value creation, with clear links between executive performance goals and business strategy; and
- need to be positioned competitively in relation to its major competitors to enable it to attract, retain and motivate the best talent which has been key to the Company's success over the last few years and will be critical to its future performance.

To achieve this, the Committee aims to:

- position base salaries around the mid-market;
- operate a competitive suite of annual and long term incentives, so that a substantial proportion of total remuneration is subject to performance and so that executives are aligned with shareholders through share awards and share ownership; and
- ensure that total remuneration packages are competitive against the market, particularly the Company's major competitors.

Performance-related versus fixed remuneration

(Percentage %)



The chart above demonstrates the balance between fixed and performance-related pay for the 2010/11 financial year for the incoming Chief Executive.

Base salary and benefits

Base salaries are normally reviewed annually in the light of personal performance, benchmark data and internal relativities. The factors used for this review are detailed in the full Directors' remuneration report. No increases have been awarded following the annual base salary review. Current base salaries together with the previous salaries are set out below:

	2010/11	2009/10
D Philips*	£800,000	–
M Gunter	£540,750	£540,750
R Pennycook	£540,750	£540,750
M Jones	£450,000	£450,000

*Appointed March 2010

Benefits in kind include transport costs, private health provision, telephone expenses and a staff discount entitlement.

Annual bonus

An annual bonus plan was operated for Executive Directors and other senior managers during 2009/10. The maximum bonus was 100% of base salary, with performance measures and weightings as set out below.

Measures	% of bonus potential
Profit before tax, excluding exceptionals	65%
Strategic corporate scorecard measures	20%
Personal objectives	15%

The scorecard measures focussed on financial objectives, operational excellence, customers and employees. No bonus would have been payable for the achievement of the scorecard measures or personal objectives unless the minimum profit target had been achieved.

Details of the actual amounts paid for 2009/10 are set out in the Directors' emoluments table on page 24. Profit outperformed the Company's initial expectations and the maximum target set for this element of the bonus plan, resulting in an award of 100% of the potential bonus payable for this measure. A high level of overall performance has resulted in an award of 90% of the potential bonus payable for the scorecard measures and payments of between 95% and 100% for personal objectives.

Following the review of remuneration referred to above, the 2010/11 maximum bonus potential for Executive Directors has been increased to 200% of base salary, with 50% of any bonus payable deferred in shares for three years. These deferred shares are normally forfeited if the individual leaves the Company prior to vesting.

The performance measures and weightings for the 2010/11 bonus are set out in the table below.

Measures	% of bonus potential
Profit before tax, excluding exceptionals	60%
Strategic corporate scorecard measures	30%
Personal objectives	10%

For the profit measure 42% of the bonus potential will be payable for target performance, which is a reduction on the 50% opportunity available in 2009/10. In addition, reflecting the increase in potential bonus, there will be a significantly greater level of outperformance of plan profit to receive full payment. The threshold profit target, at which point bonuses begin to accrue, is higher than the 2009/10 out-turn.

Scorecard measures for 2010/11 will focus on delivery of major strategic projects; employee related objectives; continued sales growth and actions to increase operating margin. No bonus will be payable for the achievement of strategic corporate scorecard measures or personal objectives unless the minimum profit target has been achieved.

Long Term Incentive Plan

The Long Term Incentive Plan (LTIP) is 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). In 2009, an award was made at the 250% level to Marc Bolland as the then Chief Executive (which has now lapsed on his termination of employment) and at the 200% level for the other Executive Directors.

As noted above, following the resignation of Marc Bolland, a further LTIP award was made to Richard Pennycook and Mark Gunter at the 100% of salary level. The same LTIP rules and performance conditions apply to these awards as apply to the other 2009 awards.

Following the Remuneration Committee's review of remuneration, Executive Directors, with the exception of the incoming Chief Executive, will receive an LTIP award in 2010/11 equal to 240% of base salary, instead of the 200% granted in previous years. The incoming Chief Executive will receive an award in 2010/11 of 275% of salary.

Performance measures will be 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; and
- they are relatively easy to understand and communicate.

No awards can vest under the sales targets unless the threshold EPS target has been met.

For the awards intended to be granted in April 2010, the following targets will apply.

25% of the EPS related component of the award will vest if the Group's Underlying EPS grows in line with the growth in the Retail Prices Index plus an average of 4% per annum, rising on a pro rata basis until 100% vests for outperforming the index by at least 10% per annum.

25% of the sales growth related component of the award will vest if the Group's like-for-like sales match the IGD (Institute of Grocery Distribution) Index, rising on a pro rata basis until 100% vests for outperforming the Index by at least 2% over the three years ending with the 2012/13 financial year. Like-for-like sales is defined as the reported sales from existing space (excluding VAT), less total fuel sales. As has been the previous practice, no part of the award relating to sales growth can vest unless the minimum EPS target is achieved.

The Remuneration Committee considers that the targets set out above are more demanding compared to those set in 2009, reflecting the increased award levels for senior executives.

Share ownership guidelines

The Group operates share ownership guidelines for Executive Directors. Under the guidelines, Executive Directors are expected to retain 50% of vested share 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 who received a salary supplement equal to 30% of salary during the year) participate in the Morrisons Defined Benefit Pension Scheme. From 5 October 2009, the basis of future pension accrual changed from final salary to career average revalued earnings (CARE). Benefits earned under the previous final salary arrangement are preserved at that date and will increase in line with the Retail Prices Index (RPI) to the date of leaving the Group. Under these new defined benefit arrangements, pension entitlements for participating Executive Directors accrue at the rate of a maximum of 3% for each year, which is a reduction from the previous maximum final salary accrual of three and one third percent.

The maximum pension of two-thirds pensionable salary at age 62 has been retained for CARE accrual. Pensionable pay for the Executive Directors is annual salary as at 6 April each year. Mark Gunter, Richard Pennycook and Martyn Jones are all subject to a Company maximum earnings limit which is currently £123,600 and is reviewed annually from 1 April in line with RPI.

Mr Pennycook, Mr Gunter and Mr Jones, who were all subject to the pensions earnings cap in place before April 2006 which has been retained for benefits accruing thereafter, received a cash supplement of 15% of basic salary in excess of the Company maximum earnings limit in 2009/10.

Dalton Philips receives a pension supplement equal to 25% of base salary.

Appointment of new Chief Executive

Dalton Philips was appointed Chief Executive from 1 March 2010. A summary of his ongoing remuneration package, which is consistent with the existing Executive Director remuneration policy as outlined above, is as follows:

- base salary: £800,000 per annum;
- annual bonus: 200% of base salary maximum potential, to be reduced pro rata for 2010/11 service, with 50% of any bonus deferred into shares for a period of three years;
- LTIP: 275% of base salary (with the first award to be granted in April 2010); and
- pension: supplement equal to 25% of annual base salary.

Additionally, in order to facilitate his recruitment, Mr Philips will shortly be granted the following share awards to compensate him for share awards forfeited upon leaving his previous employer and where vesting was dependent upon continued employment with no performance conditions:

- an unrestricted share award over the Company's shares to a value of £940,000 at the grant date. The award will be granted on an unrestricted basis as it is designed to replace an award which was due to vest in March 2010; and
- a restricted share award over the Company's shares to a value of £356,000 at the grant date and which will vest on 25 March 2012 subject to continued employment.

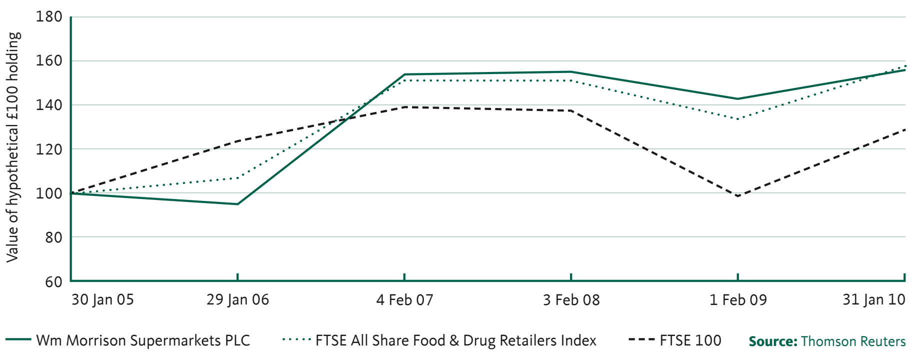
The above awards, which are non pensionable, will be granted pursuant to the authority contained in Listing Rule 9.4.2R2.

The Remuneration Committee confirms that it is of the view that the package agreed with Mr Philips is appropriate and that the Company is not paying any more than was necessary to facilitate his recruitment.

Performance graph

The graph below shows the Company's total shareholder return (TSR) compared with the TSR of the FTSE 100 and FTSE Food & Drug Retailers indices over the five year period to 31 January 2010. These indices have been selected as being appropriate in giving a broad equity view and the Company is a constituent of both indices.

Total shareholder return



Executive Directors' contracts

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

The Remuneration Committee has in place a 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). Going forward all new Director contracts will 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 to Mark Gunter and Martyn Jones from 2007 and was applied to Dalton Philips on his recent recruitment. Richard Pennycook's contract provides that he has an obligation to mitigate his loss in the event of termination in breach of contract.

All Executive Directors have rolling contracts with a 12 month notice period.

Marc Bolland tendered his resignation on 18 November 2009, following his decision to join Marks and Spencer Group plc. Under the terms of Mr Bolland's termination arrangements the Company and Mr Bolland agreed that:

- his employment terminated on 1 February 2010;
- he would not take up any other employment until after 30 April 2010;
- he would receive payment in lieu of notice of £282,331 for the period from 1 February 2010 to 30 April 2010, comprising salary, pension and other benefits in kind;
- he relinquished all rights to an annual bonus payment in respect of the financial year ended 31 January 2010; and
- all outstanding awards under the Company's Long Term Incentive Plan lapsed, including the 2007 award that would otherwise have vested and been paid had he remained employed for his full 12 month notice period.

The Remuneration Committee is satisfied that it has exercised its discretions appropriately and that Mr Bolland is being paid no more than is contractually necessary.

Summary Directors' remuneration report – continued

Non-Executive Directors' contracts

Brian Flanagan, Paul Manduca, Susan Murray and Nigel Robertson were appointed for a three year period from their original dates of appointment in 2005. Following the expiry of this initial period, each was re-appointed in 2008 for a further three year term, unless otherwise terminated earlier by, and at the discretion of, either party upon one month's written notice. Susan Murray ceased to be a Director on 31 December 2009. Sir Ian Gibson was appointed to the Board for a three year period from 1 September 2007 unless otherwise terminated earlier by, and at the discretion of, either party upon 12 months' written notice. Sir Ian was appointed as Non-Executive Chairman on 13 March 2008. Philip Cox and Penny Hughes were appointed to the Board for a three year term on 1 April 2009 and 1 January 2010 respectively. Johanna Waterous was appointed to the Board for a three year term on 1 February 2010.

Non-Executive Directors receive no benefits from their office other than fees and staff discount entitlement, and are not eligible to participate in the Group's pension arrangements. The Chairman's fee has not been increased since it was set in September 2007 when he joined the Company as Non-Executive Deputy Chairman. Fee levels for Non-Executive Directors have remained unchanged since they were last increased in May 2008. Current fee levels are shown in the table below:

Name	Base £000	Committee Chairmanship £000	Senior Independent Director £000	Total £000
P Cox	60	10	–	70
B Flanagan	60	–	–	60
I Gibson	300	–	–	300
P Hughes	60	–	–	60
P Manduca	60	10	20	90
N Robertson	60	10	–	70
J Waterous	60	–	–	60

Directors' emoluments and pension entitlements

The emoluments of the Directors were as follows:

Name	Directors salaries/fees £000	Benefits in kind £000	Pension Supplement £000	Annual Bonus £000	Total year to 31 Jan 2010 £000	Total year to 1 Feb 2009 £000
Non-Executive Chairman						
I Gibson	300	–	–	–	**300**	279
Executive Directors						
M Bolland[1]	850	54	255	–	**1,159**	1,700
M Gunter[1, 2]	541	38	63	530	**1,172**	1,054
M Jones[1, 2]	450	32	49	438	**969**	819
R Pennycook[1, 2]	541	31	63	530	**1,165**	1,011
Non-Executive Directors						
P Cox[3]	54	–	–	–	**54**	–
B Flanagan	60	–	–	–	**60**	56
P Hughes[3]	5	–	–	–	**5**	–
P Manduca	90	–	–	–	**90**	84
S Murray[4]	61	–	–	–	**61**	66
N Robertson	63	–	–	–	**63**	56
Former Directors						
K Morrison[4]	–	–	–	–	**–**	84
R Owen[4]	–	–	–	–	**–**	949
Total	3,015	155	430	1,498	**5,098**	6,158

1 An LTIP award granted to Marc Bolland on 24 May 2007 vested in full on 15 September 2009. Mr Bolland received 294,256 shares when the share price was 285.8p and a cash sum of £42,961 as payment for the equivalent of dividends that would have been paid on the vested shares during the period between 1 September 2006 and the vesting date. A deferred share award granted to Richard Pennycook in 2007 vested in full on 1 April 2009. Mr Pennycook received 309,073 shares when the share price was 254.25p and a cash sum of £27,739 as payment for the equivalent of dividends that would have been paid on the vested shares during the period between the deemed date of award and the vesting date. Mark Gunter and Martyn Jones exercised share options over the Company's shares granted to them under the Company's all employee Sharesave scheme, each realising a gain of £14,000.

2 Mark Gunter, Martyn Jones and Richard Pennycook also participate in the Morrisons Defined Benefit Pension Scheme as set out on page 23.

3 Philip Cox was appointed as a Non-Executive Director on 1 April 2009 and Penny Hughes was appointed as a Non-Executive Director on 1 January 2010.

4 Sir Kenneth Morrison resigned from the Board with effect from 13 March 2008; Roger Owen resigned from the Board with effect from 1 February 2009; and Susan Murray resigned from the Board with effect from 31 December 2009.

Independent auditors' statement to the members of Wm Morrison Supermarkets PLC

We have examined the Summary financial statement for the 52 week period ended 31 January 2010 which comprises the Summary consolidated statement of comprehensive income, Summary consolidated balance sheet, Summary consolidated cash flow statement on pages 26 to 27 and Summary Directors' remuneration report set out on pages 21 to 24.

This statement is made solely to the Company's members, as a body, in accordance with section 428 of the Companies Act 2006. Our work has been undertaken so that we might state to the Company's members those matters we are required to state to them in such a statement 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 work, for this statement, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

The Directors are responsible for preparing the Annual review in accordance with applicable United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the Summary financial statement within the Annual review with the full Annual financial statements, the Directors' report and the Directors' remuneration report, and its compliance with the relevant requirements of section 428 of the Companies Act 2006 and the regulations made thereunder.

We also read the other information contained in the Annual review and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Summary financial statement.

Basis of opinion

We conducted our work in accordance with Bulletin 2008/3 The auditor's statement on the Summary financial statement in the United Kingdom issued by the Auditing Practices Board. Our report on the Group's full annual financial statements describes the basis of our audit opinion on those financial statements, the Directors' report and the Directors' remuneration report.

Opinion

In our opinion the Summary financial statement is consistent with the full Annual financial statements, the Directors' report and the Directors' remuneration report of Wm Morrison Supermarkets PLC for the 52 week period ended 31 January 2010, and complies with the applicable requirements of section 428 of the Companies Act 2006 and the regulations made thereunder.

We have not considered the effects of any events between the date on which we signed our report on the full annual financial statements (10 March 2010) and the date of this statement.

Chris Hearld
for and on behalf of KPMG Audit Plc,
Statutory Auditor
Chartered Accountants

1 The Embankment
Neville Street
Leeds
LS1 4DW

15 April 2010

Summary financial statement

52 weeks ended 31 January 2010

SUMMARY CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	2010 £m	2009 £m
Turnover		**15,410**	14,528
Gross profit		**1,062**	913
Other operating income		**65**	37
Administrative expenses		**(224)**	(281)
Profits arising on property transactions		**4**	2
Operating profit		**907**	671
Analysed as:			
Operating profit before pensions credit		**816**	671
Pensions credit within administrative expenses		**91**	–
Operating profit		**907**	671
Net finance costs		**(49)**	(16)
Profit before taxation		**858**	655
Taxation		**(260)**	(195)
Profit for the period attributable to the owners of the Company		**598**	460
Other comprehensive expense for the period, net of tax		**(61)**	(58)
Total comprehensive income for the period		**537**	402
Earnings per share (pence)			
– basic	2	**22.80**	17.39
– diluted	2	**22.37**	17.16

SUMMARY CONSOLIDATED BALANCE SHEET

	2010 £m	2009 £m
Property assets	**7,666**	7,079
Current assets and liabilities (excluding debt)	**(1,161)**	(1,284)
Deferred tax	**(515)**	(472)
Net pension	**(17)**	(49)
Provisions	**(100)**	(112)
Net debt	**(924)**	(642)
Net assets	**4,949**	4,520
Called-up share capital	**265**	263
Share premium	**92**	60
Merger reserve	**2,578**	2,578
Retained earnings and other reserves	**2,014**	1,619
Total equity	**4,949**	4,520

SUMMARY CONSOLIDATED CASH FLOW STATEMENT

	2010 £m	2009 £m
Cash generated from operations	**1,004**	964
Proceeds from disposals	**7**	22
Capital expenditure	**(906)**	(678)
Shares repurchased for cancellation	**–**	(146)
Sale and issue of shares	**34**	3
Tax, interest and servicing of finance	**(260)**	(145)
Dividends paid to equity shareholders	**(159)**	(131)
Cash flow	**(280)**	(111)
Other non-cash movement	**(2)**	12
Opening net debt	**(642)**	(543)
Closing net debt	**(924)**	(642)

1 Ordinary dividends

Pence per share	2010	2009	2008	2007	2006
Interim dividend	**1.080**	0.800	0.675	0.625	0.625
Final dividend	**7.120**	5.000	4.125	3.375	3.075
Total dividend	**8.200**	5.800	4.800	4.000	3.700

A final dividend of 7.12p has been proposed, taking the total for the year to 8.20p. This represents total dividend growth of 41% (2009: 21%). Subject to approval at the AGM, the final dividend will be paid on 9 June 2010 to shareholders who are on the register of members on 7 May 2010.

2 Earnings per share

	2010 £m	2009 £m
Basic and diluted earnings per share, unadjusted (pence)		
– basic	**22.80**	17.39
– diluted	**22.37**	17.16
Underlying earnings per share (pence)		
– basic	**20.47**	16.67
– diluted	**20.08**	16.45

3 Underlying earnings

The adjustments made to reported profits are:
(a) remove the impact of pension interest income volatility on the comprehensive income statement;
(b) remove the one-off pensions credit as a result of the move from final salary to career average revalued earnings (CARE);
(c) remove profits arising on property transactions since these profits do not form part of the Group's principal activities; and
(d) apply an effective tax rate of 30%, being an estimated normalised tax rate.

In the prior period, we have used the actual tax charge as the difference between the actual tax charge and normalised charge is not significant.

	2010 £m	2009 £m
Profit before tax	**858**	655
Adjustments for:		
Net pension interest cost/(income)	**4**	(17)
Pensions credit	**(91)**	–
Profits arising on property transactions	**(4)**	(2)
Underlying earnings before tax	**767**	636
Taxation	**(230)**	(195)
Underlying earnings after tax charge	**537**	441

Further information

Further information on our financial performance can be found in the Annual report and financial statements 2010. Details of how to obtain a copy of the Annual report are explained in the Investor information section at the back of this review.

The Annual review and Summary financial statement 2010 were approved by the Board on 15 April 2010. R Pennycook signed the Summary financial statement on behalf of the Board.

Investor relations and financial calendar

FINANCIAL CALENDAR 2010/11

Financial events and dividends

Quarterly management statement	6 May 2010
Final dividend record date	7 May 2010
Annual General Meeting	3 Jun 2010
Final dividend payment date	9 Jun 2010
Half year end	1 Aug 2010
Interim results announcement	9 Sep 2010
Interim dividend record date	1 Oct 2010
Quarterly management statement	4 Nov 2010
Interim dividend payment date	8 Nov 2010
Financial year end	30 Jan 2011
Preliminary results announcement	10 Mar 2011

Company Secretary
Greg McMahon

Registered office
Wm Morrison Supermarkets PLC
Hilmore House
Gain Lane
Bradford
BD3 7DL
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

Annual General Meeting
The AGM will be held at 11.00 a.m. on Thursday 3 June 2010 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 financial statements are available to download from the website along with Corporate Social Responsibility reports and other financial announcements. The 2010 Annual report is also available to view in html format at www.morrisons.co.uk/annualreport10

The information in the Annual report and financial statements, Annual review and Summary financial statement and the Interim reports is 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 2010 Annual reports, we have contributed to the reduction in environmental damage in the following ways:

a) Website
Shareholders receive notification of the availability of the results to view on the Group's website, www.morrisons.co.uk, unless they have elected to receive a printed version of the results. 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) Recycled paper
This document has been printed on recycled paper that is manufactured in mills with ISO 14001 accreditation from 100% recycled fibre. It is totally chlorine free and is an NAPM certified recycled product.

Photography and design
Permission to publish photographs was received from each individual. Where minors appear, parental approval was granted.

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 salterbaxter. Telephone: 020 7229 5720.

Investor relations and financial calendar – continued

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 0GA

Telephone: 0871 664 0300 Overseas: +44 208 639 3399
Calls cost 10p per minute plus network extras.

www.capitaregistrars.com

Solicitors
Gordons LLP
Riverside West, Whitehall Road
Leeds LS1 4AW

Ashurst LLP
Broadwalk House, 5 Appold Street
London EC2A 2HA

Wragge & Co LLP
55 Colmore Row
Birmingham B3 2AS

Auditors
KPMG Audit Plc
1 The Embankment, Neville Street
Leeds LS1 4DW

Stockbrokers
RBS Hoare Govett Limited
250 Bishopsgate
London EC2M 4AA

Merrill Lynch
Merrill Lynch Financial Centre
2 King Edward Street
London EC1A 1HQ

Investment bankers
NM Rothschild & Sons Limited
1 King William Street, London EC4N 7AR

Designed by salterbaxter
Printed by Pureprint Group

Shareholder information
The number of shareholders at 31 January 2010 were 46,959 (1 February 2009 were 43,949) and the number of shares in issue was 2,651,100,378 (1 February 2009: 2,629,813,268)

Analysis by shareholder	Number of holders	% holders	Balance at 31 January 2010	% capital
Private shareholder	40,627	87.09	432,006,887	16.30
Nominee companies	5,532	11.86	2,156,765,323	81.35
Deceased accounts	336	0.72	659,413	0.02
Limited companies	248	0.53	4,891,206	0.18
Other institutions	79	0.17	17,244,002	0.65
Bank & bank nominees	59	0.13	34,077,574	1.29
Investment trusts	34	0.07	340,782	0.01
Pension funds	29	0.06	5,038,065	0.19
Family interests	9	0.02	10,401	0.00
Insurance companies	6	0.01	66,725	0.00

Analysis by shareholder	Number of holders	% holders	Balance at 31 January 2010	% capital
1–1,000	24,503	52.18	11,007,279	0.42
1,001–10,000	19,611	41.76	57,192,577	2.16
10,001–1,000,000	2,537	5.40	251,183,410	9.47
over 1,000,000	308	0.66	2,331,717,112	87.95

Wm Morrison Supermarkets PLC
Hilmore House
Gain Lane
Bradford
BD3 7DL
Telephone: 0845 611 5000

www.morrisons.co.uk

Information at your fingertips

CONSUMER
This area of our website allows you to learn more about Morrisons and our offering.

Offers
- Latest promotions
- Specific product offerings
- Competitions
- Press releases/marketing

Market Street
More about our unique in-store offering, along with video presentations of where our food comes from and how to buy, cook and present it.

Food
Information about our ranges, healthy eating and more mouth-watering recipes.

Drink
Information on how and what to buy, where our wines come from and, yes, more recipes.

Family life
From entertainments to bringing up baby and looking after your pets. Including gardening tips and even how to track where your eggs come from.

Fresh food
Giving details of seasonal food and how and what to buy.

Let's Grow
Information about our Let's Grow scheme, including how to register, facts, how it works and teaching resources.

Great Taste, Less Waste
All about getting more meals for your money by reducing waste and making the most of fresh food. Includes how to store food and keep leftovers fresher for longer and more recipes.

Seasonal
Guide on what to buy for, say, Easter, Christmas and those other special times of year.

TODAY
Here you can find out about our Corporate and Social Responsibility ethos, including how we take good care of our environment, society and how we go about business.
www.morrisons.co.uk/today

CORPORATE
Work with Morrisons
Career opportunities and information about working for Morrisons. For our dedicated recruitment website go to
www.iwantafreshstart.com

Press Office
Latest releases about the growing estate of Morrisons, along with promotions and product news.

Investors
User-friendly
Presentations, announcements and financial reports can be quickly and easily downloaded or viewed on-screen as PDFs. You can easily navigate around the Annual report and financial statements 2010 on-screen, viewing only the parts you want to
www.morrisons.co.uk/annualreport10

Webcasts
Webcasts of the Directors delivering the preliminary results 2010 on 11 March 2010 are available.

Shareholder information
Other relevant shareholder information is available, like share price history, financial calendar and AGM minutes.

Electronic communications
Electronic communications (eComms) is the fastest and most environmentally friendly way to communicate with our shareholders.

Instead of receiving paper copies of the annual and interim financial results, notices of shareholder meetings and other shareholder documents, you will receive an email to let you know this information is available on our website.

Visiting our website to obtain our results reduces our environmental impact by saving on paper and also reduces our print and distribution costs.

Sign up to eComms on our website at
www.morrisons.co.uk/corporate/investors
and follow the investor eComms link.

About Morrisons
You will find information about the Group, its operations, its strategy and structure, and past financial information.

MORRISONS