# Different

*...and better than ever.*

**Annual report and financial statements** 2011

MORRISONS

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## Morrisons at a glance

We are the **UK's fourth largest** food retailer by sales with an annual **turnover in excess of £16bn**. We have **439 stores** across Britain, ranging in size from 8,000 to over 40,000 square feet. Over **11 million customers** visit our stores each week, served by more than **132,000 employees.**

## Our strategy and vision

We are focused on delivering our next stage of growth, with a vision to be 'Different and Better than Ever'.

See page 12 for more information on our strategy and vision

# Introduction


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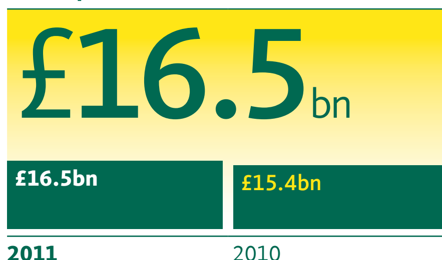
What makes us different is our **unique offer** of **high quality, fresh food** at **great prices,** much of which we have made ourselves.

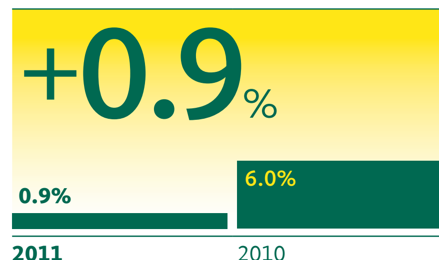
We have had another strong year as we focus on the provenance, quality and freshness of food served by experts who know their trade.

## Financial highlights

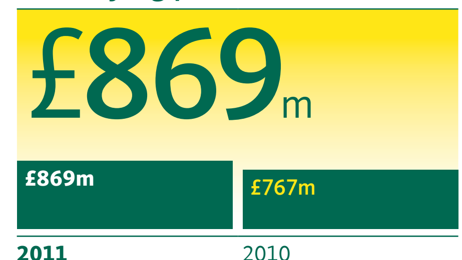
### Group turnover



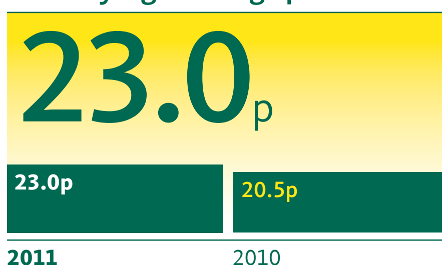

### Like-for-like sales (ex-fuel, ex-VAT)



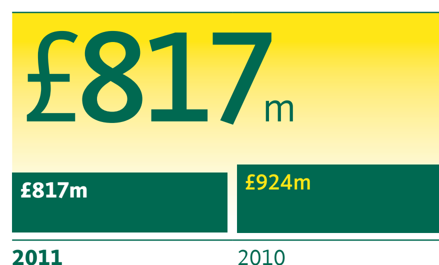

### Underlying profit before tax




### Underlying earnings per share




### Net debt




### Total dividend per share

# Chairman's statement

## Highlights 2010/11

**Strong performance in tough times**
- Profit up year-on-year
- Earnings per share increased
- Cash generation improved

See page 22 for the Operational review

**Colleague recognition**
- Awarded Retail Employer of the Year 2010 by The Grocer Gold awards
- Training our 132,000 colleagues through our award-winning Academy
- 9% increase in profit share pool

**Shareholder investment and returns**
- Financial strategy reinforced
- Three year commitment to double-digit annual dividend growth
- Rebalancing of the split between our interim and final dividend payments to be c30:70 in future
- Two year equity retirement programme to cancel £1bn ordinary shares purchased from the market

See page 28 for more on financial strategy

**Sir Ian Gibson**
Chairman

# Another **good** year with **record** sales and customer numbers

"This has been another good year for Morrisons. In a difficult consumer environment, increasing numbers of customers have recognised the great value and quality of our offer and we have again delivered record profits. We have ambitious plans to take Morrisons unique offer to more customers through our accelerating new store programme and through the development of new channels."

## Retail Industry Awards

**Retail Industry Awards:**
Store Manager of the Year
Fresh Produce Retailer of the Year
Meat Retailer of the Year
Drinks Retailer of the Year

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**£874m**
Profit before tax increased compared to last year's £858m, which included an exceptional credit of £91m.

**12% increase**
Underlying earnings per share increased to 23.0p from 20.5p in 2009/10.

**17% increase**
Total dividend for the year has increased 17%, making dividend cover 2.4 times.

**8.37p**
The Board has recommended a final dividend of 8.37p per share, bringing the total dividend for the year to 9.60p per share.

**£46m**
The profit share pool for our colleagues is £46m, an increase of 9% on the previous year.

**£1.3m**
raised for our Charity of the Year – Help the Hospices.

I am pleased to report another year of strong progress for Morrisons. Sales growth was ahead of the market, confirming that our offer remains in tune with the needs of our customers, whilst our solid profit and dividend growth is evidence that we continue to thrive in a challenging economic environment.

Dalton Philips, our new CEO, arrived early in the year and quickly began to make his mark. He has shaped his senior management team with a great blend of new and existing talent, and between them they have developed a clear plan to deliver the next stage of Morrisons growth, with a vision to be 'Different and Better than Ever'.

### Results

Profit before tax was £874m, compared with the prior year's £858m which included an exceptional credit of £91m. Underlying profit before tax, which we regard as the measure of true business performance, was up 13% to £869m. Statutory basic earnings per share were 23.9p, an increase of 5% over the previous year, whilst underlying basic earnings per share increased by 12% to 23.0p. In accordance with our policy of increasing the dividend in line with underlying earnings growth and moving dividend cover in line with the sector average, the Board is recommending a final dividend of 8.37p per share, bringing the total dividend for the year to 9.6p, an increase of 17%.

Our cash generation was again strong, with cash from operations of £1.1bn, up £127m (13%) over the previous year. Capital expenditure of £592m was well within earlier guidance, and was lower than the prior year's £916m (which had included the opening of a new regional distribution centre and a package of stores from the Co-op). We expect the rate of investment to pick up again in 2011/12, as we invest in further distribution capacity and a higher rate of new store openings.

Net debt was £817m, a decrease of £107m over the year, to leave gearing at 15%, a level well below the average for the sector. At the year end the Group had undrawn, committed bank facilities of £625m.

### The Board

Martyn Jones, the Group's Trading Director, took on the new role of Group Corporate Services Director during the year, extending his 20 years of service with the business, whilst stepping down from the Board.

Mark Gunter, the Group's Retail Director, retires from the Board following our AGM in June 2011, after which he will remain an adviser to the Group before full retirement in June 2012. Mark has served on the Board for over ten years of his 25 years of exceptional service.

We are deeply appreciative of their outstanding contributions to Morrisons growth over many years.

As a consequence of these changes, the Group will have two Executive Directors going forward, the Chief Executive and the Group Finance Director.

As previously announced, Paul Manduca, our Senior Independent Director, stepped down from the Board on 9 March 2011. Additionally, Brian Flanagan, a Non-Executive Director since 2005, has indicated that it is his intention to step down from the Board immediately following the AGM in June 2011. Paul and Brian have both made an enormous contribution, over more than five years, to the stabilisation and subsequent success of the Group and we are extremely grateful for their efforts.

### Colleagues

Morrisons commitment to providing our customers with outstanding value, quality and service has once again been recognised with numerous industry awards. We were particularly proud to be awarded Employer of the Year in The Grocer Gold Awards, in recognition of our commitment to the training and career development of our 132,000 colleagues. I am delighted that our growth during the year will provide a profit share pool for them of £46m, an increase of 9% over last year. On behalf of the Board I want to express my thanks to them for their dedication, professionalism and hard work throughout the year.

### Charitable donations

Our colleagues and customers are always enthusiastic supporters of our charitable activities and I am pleased that this year has been no exception. Raise a Smile is Morrisons campaign to support charities by bringing together our suppliers, customers and colleagues to help make a real difference. This year we were pleased to have raised £1.3m for Help the Hospices, our Charity of the Year which supports local hospices for children and adults with a life-limiting or terminal illness. We also contributed £0.4m to the Pakistan flood appeal.

## Strategic highlights 2010/11

Strategy
- Long term strategy reinforced and new vision launched
- New operational plan developed to deliver our vision

See page 12 for more on our strategy

Expansion plans
- Accelerating our new space programme
- Trialling new channels of convenience and online shopping

**Dalton Philips**
Chief Executive

# Reinforce the **differences** and seize the **opportunities**

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"2010 was a year of solid performance in the business, whilst we reshaped the top team and began a series of initiatives and investments to drive the business forward. Our plan to make Morrisons **'Different and Better than Ever'** has great momentum, with store trials under way that are yielding exciting results, our first convenience store sites secured and important e-commerce investments in FreshDirect and kiddicare.com announced."

## Morrisons difference

Morrisons is different. We are different because:

- we are closer to source than any other food retailer through our relationships with farmers and through our unique manufacturing and packing facilities, so we really understand how the food that we sell has been produced. We intend to broaden the range of food we make ourselves to reinforce this difference;
- we prepare more food every day in our stores than any of our competitors because our customers value food that is really fresh; and
- we have in-house craft skills and employ more butchers, bakers and fishmongers than any other supermarket, because our customers like to be served by food specialists.

We will maintain these points of difference by continuing to invest in our colleagues, providing them, through the Morrisons Academy, with the biggest ongoing training programme in UK retail.

## A strong heritage

From selling eggs and butter on a Bradford market stall over 100 years ago the business has grown into Britain's fourth largest supermarket group, serving over 11 million customers a week.

Morrisons is now a household name and it's the same name above the door that William Morrison started in 1899 with the founding principles of great service, quality foods and value for everyone.

Infused with strong values and a sound understanding of food provenance, Morrisons has stayed true to what makes it different and now has the opportunity to be even better than ever.

### Different

We are different to other grocers because:

- we are vertically integrated – we make much of our own food;

- our breadth and depth of craft skills is the best in the industry; and

- we have a greater focus on fresh food.

### Better than Ever

We will constantly invest and innovate to:

- reinforce our differences which create value; and
- seize new opportunities to make Morrisons better for our customers, better for our colleagues and better for our shareholders.

See page 6 for more on vertical integration

See page 8 for more on craft skills

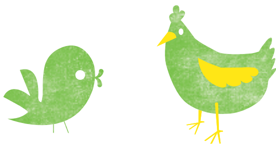
See page 10 for more on fresh food

**We want to give all our customers great, fresh food at low prices.** At Morrisons, we work hard to ensure good quality not just in our stores, but throughout our whole supply chain. By buying food directly from suppliers we know and trust, we can control quality, keep prices down and get fresh food onto our shelves faster.

# Committed to quality, from field to fork

**Today**
Sourcing British food

100% of our fresh beef, lamb, pork and poultry is British.



Visit morrisons.co.uk/today

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**700**

We have 700 tractors and 1,700 trailers delivering to our stores across the country.

**1st**

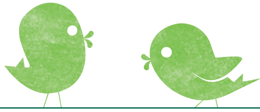
In 2010, we became the first of the big four supermarkets to move to 100% free range for our own-brand eggs.

**Building great relationships with our suppliers**
We care about getting to know the people who produce and prepare our food. Just ask Clive Goulsbra, a fourth-generation Lincolnshire beef farmer who has supplied Morrisons with meat for more than 7 years. Our livestock manager, Michael Winchester, deals direct with Clive, buying at a fair price and delivering to our own meat processing plants, managed by professionals who care about animal welfare.

It's a unique supply chain set-up that works for us in a number of ways. First of all, because we buy direct from farmers, we know exactly what we're buying and where it comes from. By cutting out the middle man, we can save money and pass on those savings to our customers. And by running our own processing plants, we can keep control of quality throughout every stage of the production process.

**Four reasons why our supply chain model makes all the difference:**

- **Quality** – we control quality by owning our own production facilities
- **Insight** – we know what we're buying and where it comes from
- **Value** – we buy direct and pass savings on to the customer
- **Flexibility** – we get our food in store faster and react to the market more quickly



**Today**
Committed to training

Morrisons is now the largest provider of apprenticeships in the UK, with more traditional craft trained skills than any other retailer.

Visit morrisons.co.uk/today

# **Traditional craft skills** in-store

**We pride ourselves on giving customers fresh food just the way they like it.** That's why our stores have Market Street: a place that combines the convenience of supermarket shopping with the skills, experience and helpful advice you'd expect to find in a traditional family food shop or market stall.

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**Market Street gives our customers:**

- Great choice
- Food prepared the way they like it by staff who know their trade
- Expert advice
- A better shopping experience
- Prices that are great value across the ranges

We bake bread from scratch in-store every day. We bake throughout the day too so if we see we're running out, we roll up our sleeves and get baking again.

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

**2,000+**
Skilled butchers

**1,200+**
Fully trained fishmongers

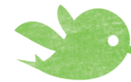
**2,000+**
Skilled bakers

**Traditional service, supermarket convenience**
A welcoming atmosphere. Helpful, knowledgeable advice. Staff who know your name and what you like. Everyone loves the feel of buying groceries in a market or at a specialist food shop. At Morrisons, we don't see any reason why you can't have the same experience in a supermarket.

In Market Street we have more highly trained and experienced tradespeople on hand than any other supermarket. Whether our customers are looking for recipe ideas, advice about what's in season, or a certain cut of meat for their family Sunday roast, our expert staff will be happy to help. And because we're able to respond quickly to changes in demand, we can cut down on unnecessary waste while giving more of our customers what they want.

**Balancing the demands of daily life and a tight budget can be tricky enough without the challenge of preparing fresh, tasty food every night of the week.** That's why, at Morrisons, we're coming up with new ways for our customers to enjoy fresh food for less – and bringing it to market faster than ever.

# **Making it easy** to enjoy **fresh food**



**Today**
Helping towards 5-a-day

Over the last year we have averaged 100 promotions per week on fresh produce, making it easy and affordable for our customers to buy fresh, healthy food.

Visit morrisons.co.uk/today

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**90%**

90% of our fresh produce orders are delivered to store within 12 hours.

**12 weeks**

We responded quickly to our customer demands by launching our Dinner Made Easy range in just 12 weeks.

### New ways to enjoy fresh

Morrisons is all about fresh. While our competitors have looked elsewhere for sales and profits, reducing the amount of store space and attention they give to fresh food, we have become famous for fresh. For example, we guarantee the fresh fish on our fishmonger counter is exactly that – fresh, and never frozen. And we bake bread from scratch in most of our stores every day.

Fresh food is our starting point – but we also want to give customers new and easier ways of enjoying it too. With our Dinner Made Easy range, we provide all the fresh ingredients they need for one recipe in one pack – so customers can rustle up a delicious dinner in minutes. At our Fresh to Go counters, customers can grab a punnet and fill it with a choice of freshly made salads at any time of day. And last year's new product launches for Christmas included authentic Italian Panettone – baked fresh in-store, of course.

**Panettone**
We introduced freshly baked Panettone in our stores this Christmas. The delicious, buttery, sweet bread was loaded with mixed fruit and peel to give it a distinctive flavour and was a sell-out with our customers.

Our staff make sandwiches fresh every day, using ingredients from in-store. And the same goes for our salads: our in-store produced coleslaw, for example, is prepared fresh each day.

- We have up to 24 varieties of freshly made salads to choose from.
- Our pizzas are freshly prepared in-store and carefully topped by hand.
- Our Oven Fresh counter offers a wide choice of fresh, tasty and great value hot food – straight from the oven.

## Strategy overview

Our strategy builds on Morrisons historic strengths and make us unique in the UK grocery market.

See pages 5–11 for more on building on our strengths

Our new vision is aligned to our strategy by reinforcing Morrisons differences and seizing the opportunities.

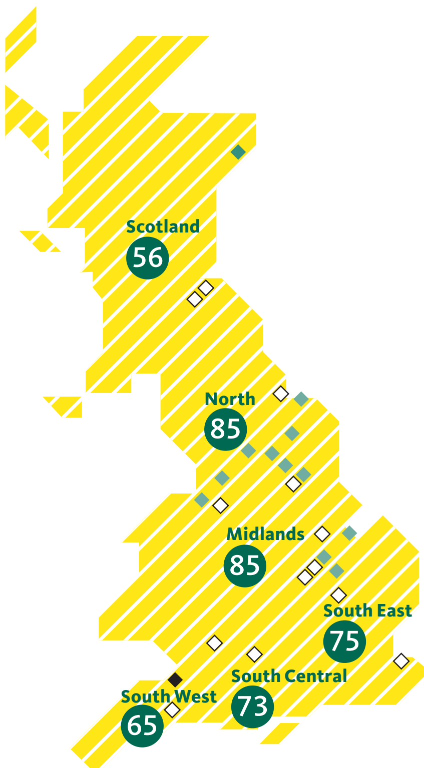
See page 5 for more on being 'Different and Better Than Ever'

We have identified opportunities for growth that will help us deliver our vision.

See page 13 for more on opportunities

## Closer to customers

We are growing our stores across all regions and now have 439 stores nationally.




Key to map

- Stores
- Manufacturing sites
- Distribution centres
- Bridgwater distribution centre, Somerset

## Our strategy

Our strategy is to deliver sustainable long term growth, building on our traditional strengths of fresh food, quality, value and service, backed by our unique vertical integration capability, whilst reflecting our customers' needs and the changes that are taking place in the market. We will do this in a way that stays true to the things that make us Morrisons.

### Vision

Our vision is to be 'Different and Better than Ever'. 'Different and Better than Ever' captures the key initiatives that will help reinforce what makes our Company different from others, and to seize the opportunities that will ensure we continue our growth and great results.

### Strategic priorities

To enable us to deliver the strategy, our strategic priorities are expansion through new space and new channels.

#### New space expansion

Over recent years we have extended the reach of Morrisons away from its traditional heartland in the North and we are now a recognised and truly national brand. Despite this, we estimate there are 6.8m households (out of a total of 23m) who do not yet have easy access to a Morrisons store, and we have strengthened our property acquisition team to enable us to accelerate the pace at which we are able to add new stores to our portfolio. Finding new store sites has become easier because in recent years we have successfully extended the range of store sizes we can operate, whilst still maintaining our unique Market Street offer. Today we operate stores from 8,000 to over 40,000 square feet, which gives us great flexibility in being able to identify and acquire potential new sites. Additionally, we find local planning authorities more and more receptive to us, in part because of the attractive jobs and skills training we bring to an area.

#### New channels – convenience and e-commerce

The grocery market is changing, with customers seeking alternative and complementary channels. Convenience stores and online shopping are the two fastest growing sectors of the market and developing our offer in these channels will be another focus of our future strategy. We will look to do this in a way that is uniquely Morrisons and in a way that makes us 'Different and Better than Ever'.

### Marketplace

We believe the UK grocery market will continue to offer attractive growth in the medium to long term. The UK population is expected to grow at a higher rate in the coming ten years, and the pre-recessionary trend towards healthier eating and concern for the provenance and quality of food will strengthen again as the economic recovery takes hold. The long term trend of food expenditure falling as a proportion of GDP reversed in the past two years, and we believe it is likely to continue to rise given the growing global demand for commodities.

### Shareholder investment and returns

In 2007 we committed to financial management based on four key principles:

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

We have maintained these principles. Our credit rating, assessed by Moody's, is A3, one of the strongest retail ratings in the world. Our property portfolio is 87% freehold, and our pension schemes are well funded.

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## Opportunities at a glance

### Space expansion
We will be accelerating our new store programme and re-setting our target to 2.5m square feet over the next three years.

We will also be optimising our existing space which could give us an additional 750k square feet selling space.

### Convenience
We will be trialling our convenience format in 2011 under the name 'M local'. These stores will offer customers:

- affordable, fresh and convenient food;
- a look and feel that emphasises our fresh credentials; and
- a distinctive experience – something which is truly Morrisons.

### Online
We are committed to retailing online in the coming two years. To support this, we have made two investments to help us launch our e-commerce activities successfully in the future.

### Strengthening our brand
We want to extend our lead on fresh food and have been trialling a range of exciting new concepts.

We will be transforming our own brand products over the next three years to give our customers something distinctive either on price, quality or eating experience.

### Efficiency
We will be increasing efficiency through three main programmes:

- investing in our IT systems and enhancing our distribution network;
- seeking ways to drive costs out of the business and improving store efficiency; and
- investing to extend the range of our food production capability.

Alongside this balance sheet strength, we have been determined to deliver value for shareholders. Over the period since our new policy was established, the dividend has more than doubled, with dividend cover remaining strong at 2.4 times.

We will continue to adopt the same prudent approach to our financial strategy, balancing the need to invest for future business growth and deliver shareholder returns. The Group has a very strong balance sheet which is securely financed with a number of long dated bonds and a new £1.2bn revolving credit facility available at competitive rates until 2016. These available facilities and our anticipated organic cash generation can comfortably fund our capital programme over the coming three years, estimated to be £3.0bn. Additionally, we intend to enhance shareholder returns through:

- a three year commitment to double-digit annual dividend growth;
- a rebalancing of the split between our interim and final dividend payments, to be c30:70 in future; and
- a two year equity retirement programme of £500m per annum, to commence immediately through the purchase of shares in the market, followed by their cancellation.

### Delivering our strategy
#### Operational Plan
We have developed a detailed plan to deliver our vision. The plan has three areas of focus:

- driving sales;
- increasing efficiency; and
- capturing growth.

See page 14 for more on our Operational Plan

### How we manage the business

#### Our employees
Success at Morrisons relies on our 132,000 people delivering great service to our customers each and every day by living our Values.

See page 18 for more on our employees

#### A sustainable and responsible retailer
We aim to build responsible and sustainable values into our business and the products we sell.

See page 16 for more on Corporate Responsibility

#### Risks and uncertainties
We discuss the principle risks and uncertainties that the Group faces in achieving its objectives.

See page 20 for more on risks and uncertainties

### How we have performed

#### Operational review
It has been a record year for us and once again we have delivered strong performance.

See page 22 for more

#### Market overview
A summary of how the market has performed in the year, to set a context for our performance.

See page 25 for more

#### Financial review
Our financial strategy is explained along with more detail on the financial performance and position of the Group.

See page 28 for more

## Acquisitions and investments

**Farmers Boy Deeside**
In the first half of the year, we acquired a cooked meat production plant which will add to our existing capacity and allow us to produce nearly all of our requirements in-house.

**Simply Fresh**
We also acquired Simply Fresh in the first half of the year, a stir fry and prepared vegetable business. It will add capacity and enable us to consolidate our sourcing of all these products in-house.

**Kiddicare**
In February 2011 we purchased kiddicare.com, a specialist retailer operating in the baby and infant merchandising category. We intend to grow the business organically and believe it will bring us four key benefits:

- its sophisticated technology;
- its speed and agility to react to the market that a large corporate finds difficult;
- it is multi-channel and allows us to retail online and in store kiosks; and
- it has best-in-class logistics which is a primary challenge for online product fulfilment.

**FreshDirect – New York**
We have invested in a c10% stake in FreshDirect, a profitable, fast growing and highly successful internet grocer serving the New York market. FreshDirect has a well established infrastructure and profitable operating model which Morrisons can learn from.

## Our Operational Plan

We have developed a detailed plan designed to deliver our vision to be ‘Different and Better than Ever’. Our Differences are explained in the strategy section above. Our opportunity to be Better than Ever rests in our belief that there are still numerous areas of our business that could be operated more effectively or efficiently with the help of investment in systems and infrastructure.

The Plan has three areas of focus: driving sales, increasing efficiency and capturing growth.

### Driving sales

Reinforcing what makes us different will ensure we win with the increasingly value-demanding, health-conscious and time-starved UK consumer.

- Our key point of difference is in the provision of great value fresh food, and we plan to extend our lead still further, exploiting our unique food preparation skills to establish clear ground between us and the rest of our competitors. We are trialling a range of exciting new concepts in-store which will help us to do this.
- The best and quickest source of new sales space is to make more effective use of what we already have. We are planning to liberate space in our stores for new categories by rebalancing our existing range. Trials are underway to establish the most effective means of achieving this but results to date suggest that we could, as a first stage, liberate up to 10% of the existing centre store space in our 20,000 to 40,000 square feet stores (and more in larger stores) which would then be available for new products and categories. Subject to a successful trial, rollout of Project Liberate will begin in 2012, with the prospect of creating up to an additional 0.75m square feet of selling space in the business, equivalent to approximately a full year’s new store programme.
- Our proportion of own label sales lags behind our competitors, despite our vertical integration providing us with a real opportunity to offer differentiated products, and to build a strong own brand. We intend to develop our brands strongly, and to that end have, for the first time, created a separate management structure to oversee this £6bn business.

### Increasing efficiency

We can only offer real value to our customers, invest in service in-store, improve returns to shareholders and drive growth for the future by being as efficient as possible across the business. The replacement of our ageing systems through our Evolve programme and the enhancement of our constrained distribution network, both of which are well advanced, are key to delivering efficiencies throughout the business.

A strong culture of cost control exists within Morrisons. We are planning to build upon this through our Excavate project in which the responsibility for purchasing goods not for resale will be centralised and costs driven out of the business, and through our Fresh Working trial, which seeks to improve the way in which we operate our stores.

### Capturing growth

#### New space

Morrisons is the fourth largest grocery retailer in the UK. We remain under-represented in many parts of the country and we estimate that there are some 6.8m households in the UK who are not located within a convenient 15 minutes drive time from a Morrisons store. This is a higher target customer base than any of our three larger competitors. A key part of our strategy, therefore, is to increase the number of Morrisons stores. In 2010 we set an objective to add 1.5m square feet of selling space in the three years to January 2013. Our first year target was 400,000 square feet and we are pleased to have met this. With our new property team now in place we have an opportunity to capture space more quickly and accordingly are now targeting to deliver 2.5m square feet of new space in the 3 years to January 2014, in addition to the space to be created through the Liberate project.

#### Food production

At our interim results in September 2010, we announced our intention to invest a further £200m in extending the range of our food production capability, enhancing our point of difference in producing the food we sell.

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### Convenience

The convenience sector is the second fastest growing part of the grocery market and as such is an area that we are evaluating carefully. Our success in operating smaller stores in recent years has given us the confidence that we can offer customers something different, with great fresh food. We will explore the opportunity of extending our customer reach with a three store trial during 2011 under the name 'M local'. We are pleased to have identified the trial locations, the first of which will open in July.

### E-commerce

In September at our interim results we also announced that we would undertake research into the e-commerce channel, recognising that the fastest growing sector in grocery retailing is online shopping.

As we researched this channel, we became convinced that Morrisons should be transacting online, as our customers wish us to offer this option. Our research has shown that to do this effectively has significant challenges and that building such capabilities from scratch takes time. We believe we can build a profitable business online, and we are therefore now committing to launch Morrisons.com, for both grocery and non-food products, in the coming two years.

In support of this goal, we are delighted to be making two investments that we believe will help us to launch our e-commerce activities successfully in the future, and in an accelerated way.

The first is the acquisition, previously announced, of kiddicare.com, for £70m. This is a highly successful, specialist retailer operating in the baby and infant merchandise category. It has a truly innovative approach to e-commerce and to serving its customers, and operates an extremely well built technology platform. We intend to grow this business organically, under the continuing leadership of Scott and Elaine Weavers-Wright, two of the best known retailers in UK e-commerce. We believe the business, its products and its customers will fit extremely well alongside Morrisons. In addition to the kiddicare.com acquisition, we are also acquiring absolutely the rights to the kiddicare.com operating and technology platform. This extremely well built, flexible platform will put Morrisons in an early position to launch its e-commerce operation for general merchandise categories, and we expect to launch this gradually from the Spring of 2012.

Just **22** hours

British sweetcorn can arrive in a Morrisons store just 22 hours after being picked.

The second is a £32m investment in FreshDirect, a profitable, fast growing and highly successful internet grocer serving the New York market. We will be taking a c10% stake in the company, with a seat on the Board and the opportunity to embed a team of Morrisons people in the business to learn how it operates. They have been building their business for 12 years, are profitable and growing like-for-like sales at over 20%. We believe our investment will, itself, be highly successful, but that the learning we will get from it will be invaluable. This investment is the first step in developing the offer that we will ultimately launch in the UK.

These two investments will help us to learn from the very best, and get us going. We believe as a result we will get to the right answers faster in both grocery and non-food internet retailing.

We are determined that in both these new channels of online and convenience we will offer customers something which is distinctively Morrisons.

### UK grocery retail market

The consumer continued to face a difficult economic environment during the year. Tax increases, the threat of public sector spending cuts, rising unemployment and the lack of credit all contributed to weak consumer confidence, whilst disposable incomes were also squeezed by inflation increasing at a rate higher than the targets set by the Government. Despite the significant increase in promotional and price activity in the market, the cost of an average shopping basket rose year-on-year, partly due to the weakness of Sterling.

Kantar, a leading market research company, reported that in 2010 grocery market growth was 3.4%, the lowest level of growth for five years, with Morrisons equivalent market growth of 4.5%. Kantar reported that inflation during the year was 2.3%, although the level faced by our customers in Morrisons stores was lower than this.

We anticipate that the market will experience a similar low level of growth in 2011, and that we will see a slight rise in prices due to the continuing emergence of some commodity price pressures including grain and oil. In this environment we expect the market to remain strongly competitive. Morrisons great value credentials and focus on high quality fresh foods leave us well placed to continue to be successful in the projected low growth environment. Our financial strength allows us to invest for the long term to deliver our strategy.

# Corporate Responsibility

## Overview

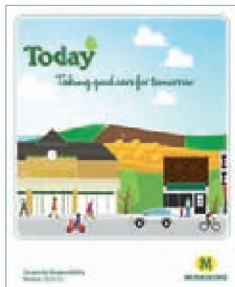
In this section we set out how we manage our corporate responsibility programme, developments over the year and key highlights.

**Today**

By taking good care as we undertake our business in the present we will ensure the long term sustainability of our business in the future. At the heart of our operation we consider carefully how we interact with the world around us, work hard to minimise our impact and strive to make a positive contribution, taking on board the views of all of our key stakeholders.

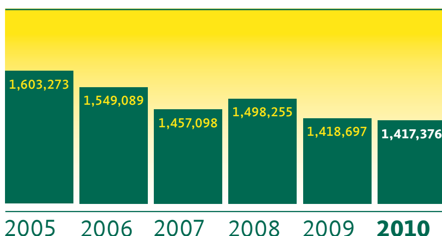
We have had an embedded corporate responsibility programme for a number of years. In 2010 we set out the second major phase of future plans and commitments in our Corporate Responsibility Review. We have, again, made good progress and won recognition for our work.

More details of our programme can be found in this year's Corporate Responsibility Review 2010/11.




See www.morrisons.co.uk/today

### Tonnes of carbon emissions ($CO_2e$)




Emission figures have been updated to be aligned with the Greenhouse Gas Protocol, developed by the World Resource Institute and World Business Council for Sustainable Development. They have been updated with the latest electricity and waste conversion factors issued by DEFRA.

**Source:** SKM Environs Consulting

## Corporate Responsibility at Morrisons

Corporate Responsibility is a specific business discipline that takes a proactive approach to forward thinking management. It recognises that business decisions have to take into account social and environmental factors alongside economic ones.

Our approach to CR is to be 'Different and Better than Ever'. We care about where our food comes from, how it is produced, the people who make it and how it is moved and sold. We want our customers to be confident that food bought at Morrisons is food they can trust.

### How we manage CR

Management and responsibility for delivery of our commitments is led by senior directors on our Management Board. Ongoing management is integrated into the business through Corporate Services which also incorporates policy development, corporate affairs, technical, regulatory compliance and media relations.

## Key highlights and achievements

### Today: Taking good care for tomorrow

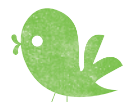
**Business**

We continued our focus on responsible sourcing as well as raising standards in the supply chain. We've made good progress with our commitment to sustainable palm oil with the first element of our policy, that new products use an RSPO certified system, taking effect.

Farming programme initiatives over the year led to two major pieces of work through our applied research programme, on renewable energy use for dairy farms and on free ranging for egg-laying hens. We retain our leading commitment to British farming with our 100% pledge on fresh beef, pork, lamb and poultry.

**Society**

We retained three main strands: our people, community and health and wellbeing. Our people are what make our business successful and investing in them is central to delivering quality, value and service. Our company-wide training programme delivered through the Morrisons Academy has now provided recognised qualifications for over 48,000 of our people.



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**12**% achieved

On target for a 30% absolute reduction in carbon emissions by 2020 (2005 baseline).

**52**% reduction

Exceeded target of 50% reduction of waste to landfill by 2010 (2005 baseline).

**£1.3**m raised

Achieved target of raising at least £1m per annum for our Charity of the Year – Help the Hospices.

Our community programme has helped to raise over £1.3m for our charity partner for the year, Help the Hospices.

Our attention for health and wellbeing has mainly centred on continuous improvement in product formulation reducing both salt and saturated fat levels and further development of our 'Eat Smart' range.

### Environment

Our focus remains firmly fixed on carbon emissions reduction and preventing waste. We made great progress on changing out and replacing more harmful refrigerant gases across our estate. We won four Cooling Industry Awards and were recognised as taking an industry leading position.

We've continued to reduce waste and as anticipated reached our 2010 target to reduce waste from stores to landfill by 50% compared to 2005. We're well on the way with our new target to have zero direct waste to landfill from stores by 2013.

### Stakeholder engagement

The new Corporate Services structure implemented during the year has successfully allowed even greater stakeholder engagement with key groups including shareholders, customers, government, non-governmental organisations, employees, communities and suppliers. Stakeholder engagement is vital to ensure our corporate responsibility is both relevant and effective. It enables us to identify issues and opportunities, respond to changing needs and adhere to best practice by incorporating different views and feedback into the development and progress of the programme.

## Focus on: The Morrisons Farming Programme

**We believe that great quality food starts with great farming. As one of the UK's biggest food retailers, with close working relationships with farmers all over the country, we're committed to supporting British farming and making sure the industry is innovative, competitive and sustainable.**

The Morrisons Farming Programme is a cross-farming industry initiative aimed at helping build a sustainable British farming industry able to feed future generations.

At the heart of the Programme is a network of farmer groups spanning the agricultural sector from beef to dairy to poultry. The groups act as a platform to generate ideas for applied research activity funded by Morrisons that can help build economic, environmental and social sustainability as well as delivery benefits to our customers.

### Energy + efficiency

One area inspiring particular interest among our dairy farmers and supported by Morrisons is greater use of renewable energies – good for farm business profitability, reducing the cost base for our milk supply and with clear environmental benefits.

What emerged was the lack of concise, impartial, farmer friendly information on the range of renewable options available that farmers could consider before making any investment in these technologies for their own business. This led to Morrisons commissioning Newcastle University to produce a report to meet farmers' needs.

### What the report looked at

What farmers told us they wanted was an independent investigation of where they could make energy efficiencies in a typical dairy business, and what options there would be to introduce different renewable energy options.

### Key findings

The report indicates that greater use of renewable energy has the potential to help dairy farmers cut costs by as much as 30%, a yearly saving of over £3,000 on a typical dairy farm. All of which adds up and will help to drive out costs, not just for farmers but ultimately for us and our customers.

### Industry carbon footprint targets – the wider context

Reducing the carbon footprint of agriculture is a challenge facing the entire industry. Both UK and EU legislation has set targets for the reduction of environmentally damaging emissions.

Through engagement with Government and the industry and by providing practical support and research, we are not just demonstrating our commitment to British farming but helping to safeguard it for the future.

# Our people

## Our Values

Our Values bring us together to achieve our vision of making Morrisons 'Different and Better than Ever'. The Values set out what we expect of each other in the business and what our customers can expect from us.

### Can do
Getting things done

### Fresh thinking
Always looking for new and better ways of doing things

### One team
Working well together

### Great selling and service
We love to sell and serve

### Bringing the best out of our people
We're constantly learning and looking to improve on where we are

### Great shopkeeping
Setting high standards in all areas of the business

## Living our Values

At Morrisons we believe that everyone has talent, and bringing the best out of our people is at the heart of our success as a company.

Therefore, we put significant focus on growing our own people, developing them from the shop floor to the top floor of our business, and helping them perform at their best.

On the shop floor, the opportunities begin immediately. New store recruits can achieve a QCF (NVQ) Level 2 Retail Skills qualification (equivalent to five GCSEs at grade C or above) while doing their day job as part of The Morrisons Academy. Last year nearly 48,000 colleagues were successfully accredited with this nationally recognised qualification.

This process ensures that Morrisons has more traditional craft trained people than any other retailer, something that is really valued by our customers. At management level our 'Coaching for Performance' Programme, which translates parallels of winning sports teams into success in the business environment, enables our leaders to become great coaches who can maximise the potential and performance of their teams. More than 1,000 of our senior leaders will undertake the programme in the next 12 months.

At the top floor, our Advanced Leadership Programme prepares our senior management team for progression into the executive directors of the future. In 2010, 20 senior managers joined this programme and three of them have recently progressed to the Management Board, including Mark Harrison, our new Group Retail Director (Designate), who started his career with Morrisons twenty-five years ago on the shop floor.

Mark's example, and the 80% of our other employees that are promoted from within, is proof that our shop floor to top floor approach is working. Our people philosophy makes sound business sense too: in 2010, our approach to recognising talent, rewarding hard work and creating opportunities for progression saw productivity increase by 7%, labour turnover decrease by 6% and a 0.3% fall in absence, resulting in an £8m cost saving to the business.

Not only does our commitment to growing our own talent make financial sense, it also ensures that the traditions and values that have made Morrisons a great company endure, and that these qualities are deeply engrained throughout our organisation. These solid foundations will ensure we grow our talented team and deliver the Morrisons difference – and a high performing business – for years to come.

### Investing in the future

With the intention of creating our leaders of the future, this year we launched our school leavers programme, welcoming 18-year-olds onto our Morrisons Manufacturing Sponsored Degree Programme. While working in Morrisons Manufacturing business, they will also study for a BSc (Hons) in Management and Business at the Bradford University School of Management. It's an approach that gives our students the opportunity to gain industry relevant skills that are aligned with our business objectives.

Launched at a time when students are facing challenging economic conditions and the threat of rising tuition fees, our 'debt-free degrees' offer a genuine opportunity for young people to fulfil their potential, while receiving a competitive salary, payment of their degree fees and excellent training.

We will support more intakes in 2011 and in 2012.

## Retail Industry Awards

**Retail Industry Awards:**
**Store Manager of the Year**
(for the fourth consecutive year)

## The Grocer Gold Awards

**The Grocer Gold**
**Retail Employer of the Year 2010**

## UK National Training Awards 2010

**Regional and National winner**

- Productivity up 7% this year
- Labour turnover down 6%
- Absence down by 0.3%
- An overall £8m cost saving

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### Aiding social mobility

Our belief that everyone has talent, combined with our aim to build long lasting relationships with our local communities, has led to a working partnership with CREATE, an award-winning Leeds-based charity supporting disadvantaged people. Through our association with CREATE, we've already started to recruit and train homeless people into our business. The jobs we're providing will get their lives back on track and create loyal and committed team members. It's our aim to provide 1,000 jobs through our partnership with CREATE.

### Exceptional apprenticeships

Last year, we signed up over 8,500 apprentices. By the end of 2011, we will train a further 18,000 apprentices, making Morrisons the UK's largest modern apprenticeship provider.

### Joining our team

Last year we opened 14 new stores, creating 3,500 jobs. We also welcomed over 800 new colleagues to our team following our acquisition of two manufacturing facilities. Early introductions to Morrisons, coupled with honest communications from our managers, and robust induction processes, helped to ensure a smooth transition for our new people.

### Attracting external talent

We are committed to growing our own people and our plans will ensure we have a strong talent pool for the future. At times, however, we do need to seek talent from outside the organisation, largely to fill new skills areas. Our reputation for looking after our people, as evidenced in The Grocer Gold Awards 2010 when we were named Employer of the Year, ensures we can attract and recruit the best talent in the industry from within and outside the UK. This year we have successfully filled a number of key positions with people from leading organisations.

### Looking ahead

This year we will create a Centre of Excellence for Coaching, in partnership with Leeds Metropolitan University and Leeds Carnegie, who enjoy an international reputation for sports coaching excellence. This partnership will provide every manager across the business with a consistent set of core leadership and coaching skills. By providing managers with the skills to bring the best out of their people, we will help everyone in the business to perform to their best everyday: something that our customers will recognise in the service they receive and the shopping experience they enjoy.

We are also committed to more than doubling our number of female senior managers, so that by 2014 we will have increased the female representation on the company's Senior Management Group from 13% to 30%. We have established a Steering group to drive our detailed action plans which, along with coaching and mentoring, will help more women maximise their careers at Morrisons.

## The Morrisons Academy

The award-winning Morrisons Academy provides a suite of training and development tools to bring out the best in our people at all stages in their career. Founded in 2009, the Academy is built on strong partnerships with leading academic accrediting, training and development providers, including:

- the Bradford School of Management and Bradford Business School, who provide management training and degree courses;
- the Sports Coaching Department at Leeds Metropolitan University, which is a recognised leader in performance coaching, applying learning from world-class sports coaching techniques for our partnership – The Centre of Coaching Excellence; and
- the global leadership guides who support our Advanced Leadership Programme.

The key to our successful partnerships is that they are integrated into the Academy, working alongside our managers, trainers, and coaches to deliver world-class expertise the Morrisons way.

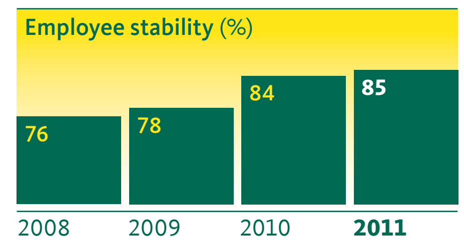
This year the standard set by our Academy was recognised externally at the National Training Awards, with Morrisons winning the overall National Training Award. The judges praised our training best practice, the Academy's unique scale and our exceptional commitment to embedding the programme right across our stores.

**48,000**

In 2010 we trained 48,000 colleagues to QCF (NVQ) Level 2. By the end of 2011, over 100,000 colleagues will have achieved this accreditation.

**95%**

The majority of our Store General Managers are promoted from within and 30% of our Senior Management Team started on the shop floor.



# Risk and uncertainties

## Identifying and monitoring our risks in 2010/11

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.

Within the Group, responsibility for risk management and internal control lies with the Board. Executive management implements and maintains the system of controls.

The business uses a corporate scorecard to monitor the achievement of its objectives and the performance of colleagues.

The scorecard is made up of the following four elements:

Financial

Operational excellence

Customers and suppliers

Our people

## How do we manage the risk management process?

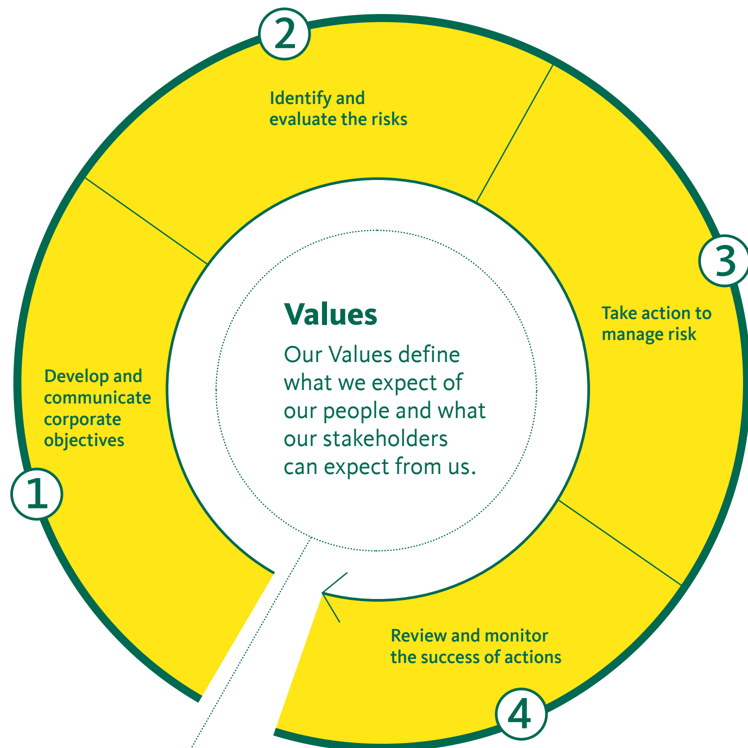
Through the application of reasoned judgement and consideration of the likelihood and consequence of events, the Board believes a successful risk management framework balances risk and reward.

1 — **Develop and communicate corporate objectives**
We develop our strategy based on our vision to be 'Different and Better than Ever'. This informs the setting of objectives across the business and is widely communicated within the business through the use of the scorecard.

2 — **Identify and evaluate the risks**
Colleagues use a variety of mechanisms to identify the risks to the achievement of the corporate objectives including the use of facilitated workshops. The likelihood and consequence of the risks identified is considered.

3 — **Take action to manage risk**
Responsibility for taking necessary actions to manage risk is delegated to appropriate colleagues within the business. The risks and related controls are recorded in risk registers.

4 — **Review and monitor the success of actions**
The Management Board and the other operating boards consider the risks reported within the risk registers. Key risks are reported to the Board, which reviews and monitors the status of risk and control across the Group.




**Our Values are at the heart of how we manage risk**

We understand that any system of control is dependent on the people operating it. Our Values define what we expect of our people and what our stakeholders can expect from us. The Board sets the tone at the top and this is cascaded throughout the organisation.

The list below sets out the most significant risks to the achievement of the Group's goals with respect to the four elements listed in the panel opposite. The list does not include all risks that the Group faces and it does not list the risks in any order of priority.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| Risk | Description | Mitigation |
|---|---|---|
| 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 could 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. |
| 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 long term aims of the Group won't be met and the business may suffer. | Recognising the importance of formulating and implementing a successful strategy, the strategy is developed by the CEO and senior executives. The Group has recently appointed a Strategy Director reporting to the Group Finance Director to further strengthen the business in this respect. The strategy is considered and approved by the Board, which takes time each year to review and monitor its delivery through formal time set aside for this purpose. 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. |
| Colleague engagement and retention | The continued success of the Group relies heavily on the investment in the training and development of our 132,000 colleagues. This is a critical element of the quality of service we offer to our customers. | The Group's employment policies, remuneration and benefits packages are designed to be competitive with other companies, as well as providing colleagues with fulfilling career opportunities. During the year, 48,000 people went through our Academy programme and we started the Morrisons BSc degree programme offering. The Group continually engages with colleagues across the business to ensure that we keep strengthening our team at every level. |
| Corporate 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. | The appropriate management evaluation and verification systems are integrated into operational management activities and these are overseen by the Management Board and the Corporate Compliance and Responsibility Committee. Delivery against targets and key performance indicators is regularly monitored and reported. Further information is available in our Corporate Responsibility report at www.morrisons.co.uk/today. |
| Financial and treasury | The main financial risks that the Group is exposed to relate to the availability of funding, the loss of a financial counter party and the uncertainty produced by fluctuations in interest and foreign exchange rates. All of these things have the potential to undermine the Group's ability to finance its trading activities and its financial results. | 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. The Treasury Committee has certain approved delegated authorities but it is not permitted to trade for profit and it reports twice a year to the Audit Committee on its activities. See note 17 on page 72. |
| Pensions | The Company operates defined benefit and defined contribution schemes.<br>The liabilities of the Group's two defined benefit schemes are derived from cash flow projections over long periods and are therefore inherently uncertain. These are subject to changes in life expectancy, inflation, future salary increases, volatility regarding the value of investments and the returns derived from such investments.<br>The operating and financial costs are recognised in the income statement in the period in which they arise. Therefore, any variation from these assumed values has the potential to introduce volatility to the Group's results. | In consultation with our pension scheme members the Company has taken a number of steps to put the schemes onto a sound financial footing for the long term and reduce the risk to the Group. These have included additional contributions to the schemes, changes to the investment strategy as well as using a prudent basis of assumptions for the actuarial valuation. Last year we moved all future benefit accrual to a career average basis, such that it will grow in line with inflation rather than being linked to final salary. |
| Product quality and safety | We are aware that if we fail or are perceived to fail to deliver to our customers' satisfaction the expected standards of safety in our products, this has the potential to harm them and damage our business reputation. This in turn could adversely impact our market share and our financial results. Our business focuses on fresh food and we have a vertically integrated business model; therefore, food safety is of paramount importance. | 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. Our food manufacturing businesses are ISO 22000 accredited which provides an effective framework for the control of internal processes. 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 also maintain regular supplier assessments for food and non-food categories. Our stock withdrawal procedures operate throughout our supply chain to minimise the impact to customers of any supplier recalls. |
| Property | The business is growing the size of its retail space through acquisition and by modernising and extending existing stores and facilities. If we fail to adequately grow our space in an earnings-enhancing way we will lose market share and our profits will suffer. | We have a property strategy that develops stores to a well proven format and we operate a formal capital approval process which is overseen by the Investment Board. |
| 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 alcohol licensing, 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 and the Corporate Compliance and Responsibility Committee provides oversight over many of these areas. The business designs its policies and procedures to accord with relevant laws and regulations. In respect of Competition Law and the Grocery Supply Code of Practice these are monitored and reported on by the Head of Competition Law Compliance. |
| Systems and integration | The Board identified that many of the existing systems were approaching the end of their useful lives and that a comprehensive programme of replacement was required. This programme of work is expected to take a number of years to complete. The Board is aware of the risks faced by any organisation seeking to successfully implement new systems. | To maximise the likelihood of successful delivery the Group has chosen to partner with some of the world's leading technology companies for key projects. Also our business, like other similar businesses has a capacity to absorb a level of change without having a detrimental impact on continuing business operations. Change programmes within the Group are designed with this in mind and are structured and governed in a manner that allows the Board to monitor their impact. Specifically, a sub-committee of the Audit Committee monitors the progress of the largest programme and receives regular reports from management, Risk & Internal Audit and other specialists. |

## Operating highlights 2010/11

**Strong turnover growth**
- Total turnover increased 7%
- Store sales once again grew ahead of the market
- Like-for-like sales increased 0.9%

See below for Turnover analysis

**New space**
- 15 new stores opened, including one replacement
- 16 Netto stores to be acquired from ASDA
- Over 30 new stores will open in 2011/12

**Business initiatives**
- IT systems replacement continues
- New regional distribution centre development underway and planned to open in late 2011
- Two food production investments earlier in the year are performing well

**Morrisons delivered a strong performance again in 2010/11.** In an environment that was particularly difficult for consumers our continuing focus on quality fresh foods at great value made Morrisons a natural destination.

# **Appealing** to and reaching **more** customers...

### Executive team
Following Dalton Philips' appointment as CEO, and the development of the 'Different and Better than Ever' Plan, the Group's internal management structures and processes were realigned to ensure delivery of the Plan. As a consequence, the Group's previous Executive Board of four was expanded to a Management Board of ten. A number of existing directors and senior managers were promoted to this Board. The management team was strengthened in the year by a number of senior external hires, including a new Commercial Director, Strategy Director, Grocery Director and Private Brand Director.

### Turnover growth
Total turnover grew by 7%, or £1.1bn, with around half the growth coming from sales in our forecourts due to the worldwide increase in oil prices during the year. With petrol prices high, customers looked for value, and as a result more customers filled up at Morrisons. Fuel sales grew by 18%. Our store sales were again ahead of the market, with growth across all regions and a record 11 million customers visiting our stores each week. Like-for-like store sales rose by 0.9%, with customer numbers up 0.2% and average basket spend 0.7%.

As we entered 2010, we indicated that total market growth would be subdued due to the economic backdrop, and that our space opening programme in the year would be somewhat smaller than that of competitors, following the very significant space expansion that we undertook in 2009. In this context, we believe that our 0.9% like-for-like sales growth remained ahead of the market average. Our total market share increased slightly, as expected, to 12.8% during the year, despite the large amounts of new space being added by our competitors. We continue to be prudent in our requirements for new stores and only approve investments that meet the required financial hurdle rate.

### New retail space
We increased our selling space by 0.4m square feet during the year through a combination of store extensions and 15 new store openings, including one replacement. Our growing confidence in our ability successfully to operate a wide range of store sizes is evidenced by our announcement in January that we had reached a conditional agreement with Asda to acquire 16 stores previously operated by Netto, subject to approval by the Office of Fair Trading. These stores, which average 7,500 square feet, will be converted to the Morrisons format and are expected to open in the second quarter of 2011. Along with the existing new store programme, we anticipate opening over 30 stores in 2011.

### Trading
Morrisons has responded to the challenges faced by the consumer by delivering a programme of price cuts and innovative, industry-leading offers which have enabled our customers to save money and eat quality fresh food. In a difficult environment this strong focus on quality and value has, for the fourth year in a row, enabled us to deliver sales growth ahead of the market.

We have maintained our focus on the quality and provenance of our food offer whilst ensuring that we consistently deliver the value our customers demand. As a result our total store sales growth of 4.1% and like-for-like growth of 0.9% were once again ahead of the market. The strength of our offer meant that a record average of 11.0m customers visited our stores each week, an increase of over 0.5m (4.7%), although continuing pressure on consumer disposable incomes was reflected in only a marginal increase of 0.7% in the average basket spend in like-for-like stores.

The rise in the price of oil, exacerbated by increases in fuel duty and continuing Sterling weakness, meant that consumers were paying on average 15.8p per litre more at the pump than last year, with average unleaded prices per litre of 115p. Overall fuel price increases impacted our customers' disposable income by nearly

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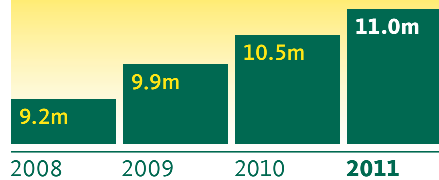
**Weekly average customer numbers**
(Millions)




**439 stores**

We opened 15 new stores in the year, including one replacement.

**+11%**

Operating profit* has increased year-on-year.

* before pensions credit

**67%**

67% of UK primary schools take part in our award-winning 'Let's Grow' initiative.

£400m, income that could otherwise have been spent in-store. Our fuel volumes increased 4.8%, as customers shopped around for the best price in town. Overall, like-for-like fuel sales were up 18% in the year.

Throughout the year the market continued to be heavily promotional and Morrisons led the way in offering the greatest depth and broadest range of offers available. Our prime focus was on reducing the cost of everyday essentials and our offers on bread at 50p and fresh fruit and vegetables at 30p, represented the lowest priced staple products in the country. The range and value of our offers, including our 'Price Crunch Week' and extended 'Collector Card' over the Christmas period resonated particularly well with our customers, and they have visited our stores in record numbers.

Sharp everyday pricing and a strong promotions programme were a feature of Market Street, which again performed strongly. Our unique vertically integrated food production capability supported by the unrivalled food preparation that is carried out every day in-store, allow us to be flexible and offer more great value, innovative offers on fresh produce than any other retailer.

Our customers strongly approve of our support for British farming through our own farm at Dumfries, and because we are the only major British retailer selling 100% British fresh pork, beef, lamb and poultry raised to British standards of animal welfare. Our closeness to the source of our fresh products allows us to talk to our customers with authority about the provenance and freshness of our food offer, a quality which is becoming more important in an increasingly health-conscious environment. During the year we launched our new television advertising campaign which continues the strong emphasis on the provenance, quality and freshness of our food and on our in-store skills, with food stories told to school children. It has proved to be highly effective.

We continued to involve ourselves in the community through further expansion of our award-winning 'Let's Grow' initiative. This has captured the imagination of the nation's school children by showing them where food comes from, how to grow it and by providing them with a wide range of free gardening equipment including seeds, spades and greenhouses. The programme, now in its third year, has been a huge success with over 18,500 schools throughout the country, including 67% of UK primary schools, registering to take part.

| Turnover analysis | Like-for-like stores | Other | 2010/11 Total | 2009/10 Total |
|---|---|---|---|---|
| Sales of goods (£m) | 12,242 | 695 | **12,937** | 12,423 |
| Fuel (£m) | 3,391 | 35 | **3,426** | 2,893 |
| Other sales (£m) | 116 | – | **116** | 94 |
| Turnover exc. VAT (£m) | 15,749 | 730 | **16,479** | 15,410 |
| | | | | |
| Sales per square foot (£) | 21.01 | 17.76 | **20.80** | 20.82 |
| Customer numbers (m) | 528 | 42 | **570** | 545 |
| Customer spend (£) | 23.18 | 16.41 | **22.67** | 22.76 |

## Operating results

| Summary income statement | 2011 £m | 2010 £m | Change % |
|---|---|---|---|
| Turnover | **16,479** | 15,410 | 7 |
| Gross profit | **1,148** | 1,062 | 8 |
| Other operating income | **80** | 65 | 23 |
| Administrative expenses | **(323)** | (315) | 3 |
| Underlying operating profit | **905** | 812 | 11 |
| Pensions credit | **–** | 91 | – |
| Property transactions | **(1)** | 4 | – |
| Operating profit | **904** | 907 | – |
| Net finance charges | **(30)** | (49) | (39) |
| Taxation | **(242)** | (260) | (7) |
| Profit for the period | **632** | 598 | 6 |

Our gross profit grew marginally ahead of turnover despite a higher proportion of low margin fuel sales in the mix this year. The gross profit margin of 7.0% increased by 10 bps over last year.

After cost of goods sold, the Group's two biggest costs are store wages and distribution costs. The increase in new store space opened during the year added to our total store cost base. However through continued in-store labour efficiencies we managed to deliver an overall year-on-year improvement in store labour costs relative to sales, with in-store labour productivity up 4%. Our distribution productivity, measured by cost per case, improved 3% as we benefited from our investment in improved systems and our new South East Regional Distribution Centre (RDC).

Other operating income, whilst small, grew by 23% predominantly as a result of a growth in recycling income.

Our administration expenses were up 2.5%, well below the level of profit and sales growth in the year, reflecting continued close focus on cost control.

### Systems

During the period we accelerated the deployment of our new IT systems across all areas of the business. This six year, £310m programme of investment, will result in the replacement of all the Group's core systems and technology infrastructure. To date, the bulk of the Group's payroll, HR and financial systems have been replaced, a complete new wide-area network installed, the majority of store hardware renewed and voice-picking technology implemented in our grocery and frozen distribution centres. Additionally, the Group's new store electronic point of sale system has been rolled out to over 200 stores and the new trading product master file has been completed for the bulk of ambient and frozen products. The new ERP system has been successfully piloted in one produce factory, and has now commenced full roll-out. The software required to run our distribution centres is currently being piloted in one depot. The success of these activities, and our proven ability to implement changes with no impact on the business, give us great confidence for the remainder of the programme, which will run through 2013.

### Network development

We continue to make good progress in the development of our new South West RDC at Bridgwater. This is an 800,000 square feet facility which will serve some 70 stores and provide further capacity to support our nationwide expansion. The total investment will be £95m. The site will open in the final quarter of 2011 and become fully operational in early 2012. This is three months later than we had originally planned, due to delays experienced by the site developer in achieving a viable total scheme for the site, which depends also on residential development that has proved challenging given the state of the housing market.

### Food production

In order to deliver a unique, great value, fresh offer to our customers and really demonstrate that we understand the provenance of our food, our supply chain is key. We previously announced that we were reviewing further opportunities to expand our manufacturing operations and in the year we made two investments:

- we acquired Simply Fresh, a stir fry and prepared vegetable business for which Morrisons was the biggest customer, but which had significant further capacity. This will enable us to consolidate our sourcing of all these products in-house; and
- we acquired a cooked meat production plant which will add to our existing capacity and allow us to fulfil nearly all of our requirements in-house.

Both businesses are performing well.

### Corporate Responsibility – achievements in the year

We believe that respecting the environment and striving to make a positive contribution to society is essential and that it's important to our colleagues, customers and shareholders too. In 2010 we continued to demonstrate our commitment to business, society and the environment.

As a food focused business we recognise the importance of supporting farmers. Through the Morrisons Farming Programme based at Dumfries House, our farm, we are generating research to help our farmers to farm more profitably and more sustainably. The work is already showing results and two papers were published this year on renewable energy use in dairy farms and on welfare issues for free range hens. We also demonstrated our commitment to raising supplier standards and committed to the use of certified sustainable palm oil in our own brand products by 2015.

Our society programme also had a successful year. Our sector-leading Academy training programme helped over 48,000 colleagues on their route to nationally recognised qualifications and our successful 'Let's Grow' Campaign entered its third year reaching more schools than ever before. We exceeded our target to raise £1,000,000 for Help the Hospices, our charity of the year, by over £300,000.

Our environmental programme is ahead of schedule having already achieved a 12% emissions reduction with 30% targeted by 2020. In 2010 we hit our targets of reducing store waste direct to landfill by 50% and are on track to drive this down to zero by 2013.

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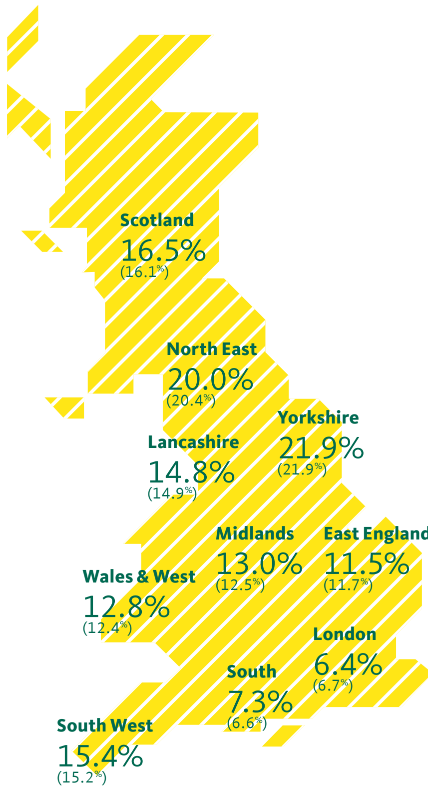
## Morrisons share of UK grocery market

The grocery market last year grew by 3.4% and was worth £93.2bn. Inflation remained relatively stable and stood at 3.1% over the 12 weeks to 23 January 2011.

Morrisons regional market share 2010/11

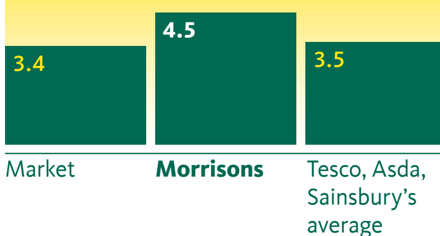



**Source:** Kantar Worldpanel

Morrisons market share %
(52 weeks to January)

| 2008 | 2009 | 2010 | **2011** |
|---|---|---|---|
| 12.0 | 12.2 | 12.6 | **12.8** |

Market share growth in 2010/11 (%)




**Source:** Kantar Worldpanel

## Market overview

The UK grocery market remains in a tough economic climate. Whilst we continue to progress, we recognise the challenges of the marketplace as consumers face financial pressure through government cuts and the recent VAT increase.

## Like every business, the marketplace affects the way we do business.

### Understanding our markets

We keep a regular eye on consumer trends, have programmes where we talk to our customers and also make good use of market data. This allows us to improve our business and deliver the needs of consumers.

### Consumer confidence

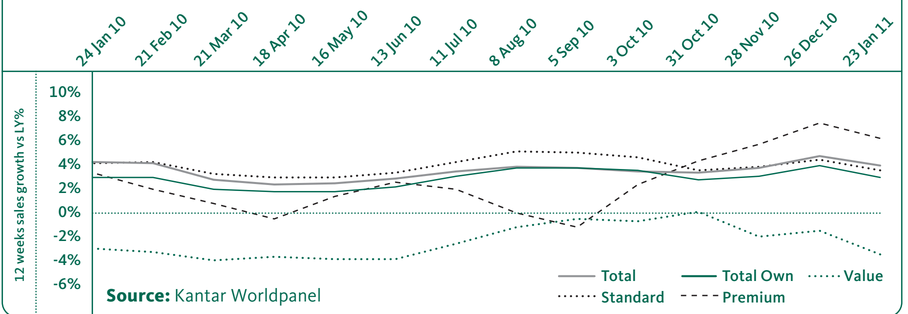
Consumer confidence has remained low throughout 2010, but at a relatively stable level. The coming year will however be pivotal as the impact of the austerity measures are realised. Research suggests that the impact of the recession and government cuts will hit the North the hardest. We are in a good position to perform well in a recession with a range that offers value for money whilst maintaining choice and quality.

### Own label growth

There has been some evidence of people trading up to more expensive products in 2010, with supermarkets' premium own label sales up 2.8%.

Whilst premium sales have risen, there has been a corresponding fall in the sales of value ranges. Consumers do however remain prudent with their spending with greater pressures on their finances.

Private label growth by tier




**Source:** Kantar Worldpanel

### Home cooking and lifestyle trends

Eating healthily remains important to consumers. Through the recession there has been an increase in people entertaining at home rather than going out. Likewise, we have seen a trend towards more people cooking at home rather than eating out. This remains a trend and we continue to develop offers and ranges to help our customers get the most from home cooking, offering fresh quality food at a great value.

### New channels

The market place is continually evolving, and a key trend has been the growth of different retailing 'channels'. Between 2010 and 2014, market sales through local convenience stores are anticipated to grow by 25% and online sales are estimated to grow by 67%. As we develop these areas, they provide a further opportunity for us to grow and meet the needs of our customers.

# Key Performance Indicators (KPIs)

**Identifying our KPIs:** We have identified a number of measures that are important to the success of the business and to stakeholders, financial performance, operational excellence, customers, suppliers and employees. Below are the measures the Board consider to be key to the achievement of the Group's goals.

| KPI | Update | |
|---|---|---|
| **Financial KPIs** | Definition | Commitment |
| Like-for-like sales (ex-fuel, ex-VAT) | Measures store based sales on the same basis as the previous year, excluding the impact of new store openings or store disposals. Also excluded is the impact of major refurbishments and extensions. | Sales growth, particularly organic growth, is key to retail success and long term expansion. |
| UK grocery market share | The business' percentage of retail sales in the grocery sector. | We aim to increase our share of the market year-on-year. |
| Underlying profit | Measures the normal underlying business performance. Profits are adjusted to remove volatile or one-off costs. A reconciliation of underlying profit is provided in note 1 of the Group financial statements. | The Directors consider that underlying profit provides additional useful information for shareholders on trading trends and performance. |
| Underlying basic earnings per share | The EPS measure uses underlying profits as defined above. Calculated by taking underlying profit divided by the weighted average number of shares in issue. | Our earnings should meet the expectations of our shareholders and as such we aim to improve sales and margins whilst investing for long term growth. |
| Dividend cover | Calculated as underlying basic earnings per share divided by total dividend per share for the year. | Our aim is that dividend cover will be the same as the average for the European food retail sector. |
| Net debt | The Group's overall debt position at the year end. A summary of net debt is provided in note 25 of the Group financial statements. | To maintain a strong investment grade balance sheet. |
| Capital expenditure | Cash outflow on capital investment in the year. | We commit to investing for the long term growth of the business and providing shareholders with forward guidance on our plans. |
| **Non-financial KPIs** | Definition | Commitment |
| Colleagues | | |
| Employee stability | The retention of employees to indicate that the Company is an employer of choice. | Our aims are to attract, develop and motivate skilled people. We encourage employee engagement and implement education programmes for all employees to further their skills, thus encouraging employee stability. |
| Corporate responsibility | | |
| Carbon footprint | Our carbon footprint includes energy, waste, refrigeration and transport for our stores, offices, manufacturing and packing facilities. | Having exceeded our 2005 to 2010 commitments, we have now set a new target of reducing our emissions by 30% by 2020. |
| Recycling in store | To recycle all packaging used in store wherever possible. | To increase our recycling rate in stores from 72% in 2007/08 to 80% by end 2010. |
| Waste to landfill | Any remaining waste that we are unable to recycle and that we send to landfill from our stores. | Volume of waste to landfill to be reduced by 50% by the end of December 2010. |
| Charity | | |
| Charity of the Year | Each year our customers and colleagues choose a national charity for fund raising. | Since 2006 we have aimed to raise at least £1m per annum for the charity through collections and fund raising events. |

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| Status | | | | Future |
|---|---|---|---|---|
| **Performance** | **2010/11** | **2009/10** | **2008/09** | |
| Our like-for-like sales were once again ahead of the market (source: Nielsen). | 0.9% | 6.0% | 8.2% | To maintain momentum in growth through our vision to be 'Different and Better than Ever'. |
| Independent data (Kantar Worldpanel) shows that we have increased our market share during the period to 12.8%, an increase of 0.2% from last year. | 12.8% | 12.6% | 12.3% | To continue market share growth through our store opening programme and increasingly attractive customer offering. |
| Underlying profit before tax increased by £102m to £869m, driven by strong like-for-like sales performance as well as store openings. | £869m | £767m | £636m | To continue to grow underlying profit. |
| Underlying basic earnings per share have increased 12% to 23.0p. | 23.0p | 20.5p | 16.7p | Underlying earnings per share to continue to grow in line with underlying profit. |
| Our dividend cover is 2.4 times, in line with the European food retail sector average. This has resulted in dividend growth of 17%. | 2.4 times | 2.5 times | 2.9 times | A three year commitment to double-digit dividend growth each year and a rebalancing of the split between our interim and final dividend payments, to be c30:70 in future. |
| Net debt has decreased by £107m, despite £592m capital investment.<br>Our credit rating remains one of the strongest retail ratings in the world, at A3 for the second year running. | £817m | £924m | £642m | To continue to maintain a strong investment grade balance sheet. |
| As anticipated, capital expenditure was lower than the prior year, which had included the opening of a new regional distribution centre and a package of stores from the Co-op. | £592m | £906m | £678m | We expect the rate of investment to pick up again in 2011/12 as we invest in further distribution capacity and a higher rate of new store openings. |
| **Performance** | **2010/11** | **2009/10** | **2008/09** | |
| | | | | |
| We aim to be the employer of choice and believe we have schemes and measures in place to achieve this. Moreover, 42% of our employees have been with us for over five years with 311 reaching this milestone in 2010. | 85% | 84% | 78% | To continue to improve our employee engagement and make Morrisons the employer of choice. A new employee survey has been carried out by a third party consultancy and we look forward to hearing the views of our colleagues. |
| | | | | |
| Against our new target, we have reduced our carbon emissions by 12%. | 12% reduction | – | – | Reduce carbon emissions by 30% by end 2020. |
| Target exceeded. | 82% | 77% | 73% | We are committed to making further reductions year-on-year. |
| We have exceeded our target in diverting waste from our stores to landfill. We have diverted 25,873 tonnes since 2005. | 52% | 34% | 17% | We have set our future target to send zero waste direct to landfill. |
| | | | | |
| We have raised in excess of £1m for charity since 2007 and were pleased to exceed our target by a further 33% for Help the Hospices. | £1.3m | £1.8m | £1m | The Charity of the Year for 2011/12 is Save the Children. |

# Financial review

## Financial strategy

**Summary**

The Group's financial strategy is to deliver progressive margin improvement, whilst investing for long term growth.

The underlying principles behind this strategy are:

- growing sales ahead of the market;
- delivering earnings that meet the expectations of shareholders; and
- maintaining a strong and prudent balance sheet.

**We are meeting these principles by:**

- increasing our customer appeal and growing sales;
- converting sales growth into profitable growth; and
- investing to yield an appropriate rate of return.

**Performance against financial strategy:**

- like-for-like sales growth was in excess of the market in 2010/11
- underlying earnings per share were 23.0p, an increase from last year of 12%
- the Group's balance sheet builds on our strong financial position:
  - 87% of our estate is freehold;
  - we use prudent assumptions to value our defined benefit pension schemes; and
  - our long term financing facilities adequately cover our planned investments.

**Richard Pennycook**
Group Finance Director

# Strong performance from a resilient business

"The Group's financial performance for the year was strong, despite tough economic and market conditions. Underlying earnings per share increased 12%, whilst net debt decreased by 12%."

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**+7%**

Group turnover in 2010/11 has increased 7% from 2009/10.

**+£127m**

Cash generated from operations once again improved year-on-year.

**£817m**

Net debt reduced from £924m in 2009/10.

**A3**

Our credit rating remains strong and is one of only three European retailers to have this rating.

**15%**

Gearing is 15%, which is well below the sector average, demonstrating our strong balance sheet.

**£592m**

**Capital investment**
We continue to invest in growing our estate, strengthening our supply chain and replacing our IT systems.

### Summary of results

| | 2011 | 2010 | Change |
|---|---|---|---|
| Turnover | **£16,479m** | £15,410m | +7% |
| Underlying profit before tax | **£869m** | £767m | +13% |
| Underlying basic earnings per share | **23.03p** | 20.47p | +12% |

The Operational review on page 22 contains information about the Group's financial performance for the year, in particular turnover growth, like-for-like sales growth and operating profit. The review also contains information on selling space increases and our future space expansion programme.

The Group uses underlying profit as its measure to assess normal underlying business performance and trends. Earnings are adjusted to remove volatile or one-off costs and credits. A reconciliation of underlying profit is provided in note 1 of the Group financial statements.

### Balance sheet

As part of the IASB's Annual Improvements 2009, the Group has adopted an amendment to IAS 17 *Leases*. The amendment removed the automatic classification that land leases are operating leases and requires a review of all land leases held, the conclusion being that all long-lease land premiums have been reclassified as finance leases.

The amendment is classified as a change in accounting policy, and therefore the financial statements include a prior year restatement. The adoption has resulted in a) derecognising long lease land premiums; and b) recognising a corresponding increase in the closing net book value of leasehold land and buildings to reflect the carrying value of the leased assets. Therefore, the impact on the balance sheet is reclassification only. The newly classified finance leases are depreciated over the life of the leases, consistent with the annual amortisation charge incurred on the previous lease prepayments. The net effect of the reclassifications has no impact on net profit before tax for the year ended 30 January 2011, or reserves of the comparative periods.

### Summary cash flow

| | 2011 £m | 2010 £m |
|---|---|---|
| Cash generated from operations | **1,141** | 1,014 |
| Interest and tax | **(238)** | (261) |
| Capital expenditure | **(592)** | (916) |
| Proceeds from sale of plant, property and equipment | **8** | 7 |
| Acquisitions (including debt acquired) | **(7)** | – |
| Dividends paid | **(220)** | (159) |
| Share issues | **16** | 34 |
| **Net cash inflow/(outflow)** | **108** | (281) |
| Non cash movements | **(1)** | (1) |
| Opening net debt | **924** | 642 |
| **Closing net debt** | **817** | 924 |

The Group's net debt reduced over the period as a result of net cash generation.

## Financial review – continued

### Cash generated from operations
Cash generated from operating activities once again improved as a result of strong operating cash flows which increased £127m year-on-year.

### Interest and tax
#### Interest
Net interest paid was £47m, a decrease of £5m from 2010. Interest rates remained low throughout the year reducing both interest paid and interest received year-on-year. Interest paid on bonds dropped £9m following the repayment of €250m Euro bonds in April 2010. Interest was covered 30 times (2010: 19 times). The Company's effective interest cost fell from 4.4% to 4.0% in the year.

#### Tax
Corporation tax paid in the year was £191m (2010: £209m). This cash outflow represented 50% of the total tax bill for the year to 31 January 2010, and 50% of the tax for the year to 30 January 2011. It included repayments received for prior years.

The effective tax rate for the year was 27.7% which is slightly below the prevailing corporation tax rate of 28%. The difference is due to the change in corporation tax rate from 28% to 27% which reduced deferred tax liabilities by £20m, offset by non-qualifying depreciation and expenses for which the Group is unable to obtain a tax deduction. The effect on deferred tax also resulted in a reduction of our effective tax rate of 30.3% last year to 27.7%.

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

### Capital expenditure
Capital expenditure during the period was £592m. We continue to invest in growing our estate, strengthening our supply chain and replacing our IT systems, supporting our strategic positioning of investing for long term growth. Overall capital expenditure was lower than originally planned due to tight cost controls and the deferment of the start of the development of our new regional distribution centre at Bridgwater.

#### Stores and business capital expenditure
We opened 15 new stores including one replacement store, extended 15 stores and refurbished a further 12 stores in the period. Further investments were made strengthening our retail estate and supply chain.

New selling space increased 3% in the year.

| | At 31 January 2010 | New stores* | Store extensions | At 30 January 2011 |
|---|---|---|---|---|
| Total number of trading stores | 425 | 14 | – | **439** |
| Total area in square feet ('000) | 11,867 | 325 | 69 | **12,261** |
| Number of petrol filling stations | 293 | 3 | – | **296** |

*net of replacements

#### IT systems replaced
As expected capital expenditure on the replacement of our IT infrastructure accelerated and we invested £92m during the year.

#### Acquisitions
In the first half of the financial year, the Group invested further to strengthen our manufacturing capabilities in order to improve our offering to our customers. The investments made were in a prepared vegetable facility and a cooked meat production plant. Both acquisitions are treated as 100% subsidiaries for accounting purposes, creating £7m of goodwill. Further information can be found in note 27 of the Group financial statements. Cash outflow and acquired debt was £3m and £4m respectively, with a deferred payment in 2013 of up to £13m.

In January 2011, we announced it had entered into a conditional agreement to purchase 16 Netto stores from ASDA. At the year end, no formal contract had been agreed and no costs have been accrued in relation to this acquisition. The stores will add 120,000 square feet of selling space at an acquisition price of £28m and with further conversion costs of approximately £20m.

### Net debt
At the end of the financial year, net debt was £817m, a decrease of £107m from the prior year end. The decrease was due to a combination of increased cash from operating activities and a reduced level of capital expenditure compared to the previous year. In 2009/10, the Group had a higher level of capital expenditure due to the acquisition of 38 stores from the Co-op for £325m and the development of a new regional distribution centre at Sittingbourne.

At the balance sheet date, we had utilised £475m of our revolving credit facilities, with a further £625m remaining undrawn. On 4 March 2011 we completed a new revolving credit facility at competitively priced margins with our banks, providing £1,200m of committed facilities for 5 years.

#### Gearing
Our gearing ratio was 15% (2010: 19%) and is well below the sector average, demonstrating our strong balance sheet. Our credit rating (provided by Moody's) remains strong at A3, and we continue to be one of only three European retailers to have this rating.

### Pensions
The Group sponsors two defined benefit pension arrangements and both of these pension schemes are managed externally to, and independently of, the Group's operations. Our approach to valuing our defined benefit pension obligations remains prudent.

At 30 January 2011, the schemes had a surplus of £38m. The improvement, from the deficit of £17m at 31 January 2010, is summarised in the table below.

| Pension bridge | £m |
|---|---|
| Net pension deficit at 31 January 2010 | **(17)** |
| Actual vs expected return on scheme assets | **62** |
| Actuarial loss due to changes in financial assumptions | **(28)** |
| Funding above annual service cost | **15** |
| Other | **6** |
| Net pension surplus at 30 January 2011 | **38** |

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**10%**

We are committing to a three year annual dividend growth of at least 10%.

**+56% share price**

From January 2007 to January 2011 Morrisons share price has increased 56% compared to a rise in the FTSE100 of 24%.

**£1bn**

Equity return to take place over two years.

IAS19 *Employee benefits* requires the Group to assess the liabilities with reference to the market conditions at the balance sheet date and the Directors' best estimate of the experience expected from the schemes.

The movement in the year has been influenced by three factors:

- changes in assumptions due to changes in market conditions;
- an update of information on the schemes following the triennial valuation; and
- a change in the way future pension increases are measured.

Scheme assets performed better than assumed returns, however, the liabilities increased by £191m due to a combination of financial and demographic changes in assumptions. Over the year market conditions deteriorated, in particular for Corporate bond yield returns while inflationary expectations rose. A review of longevity was made as part of the triennial valuation review as mentioned below.

The results of the triennial valuation review are based on the latest information on scheme members. This update of the membership status resulted in an improvement to the funding position of £91m.

Further to the above, the schemes value improved due to a one-off increase as a result of changing the way future pension increases (inflation) are measured. In 2010 the UK Government changed the way in which pension increases will be measured in future, by changing the benchmark index to the Consumer Price Index rather than the Retail Price Index. Both the Trustees and the Company consulted legal and actuarial advisors to assess the impact of this change on the two schemes and this resulted in the liabilities of the schemes being reduced by £72m.

The triennial actuarial valuations of the schemes were completed in April 2010 and funding and investment strategy agreed between the Group and the Trustees of the schemes. There was a small combined deficit at this valuation date and the Group has entered into an agreement with the Trustees to pay £30m per annum to meet the cost of pension benefits being built up by the current employees. It is assumed that the small deficit in the funds will be eliminated by the schemes' expected superior investment returns. In line with our prudent approach, we have used the most up-to-date mortality tables, which provide the average life expectancy of members in the UK, this being the latest advice from the Pension Regulator.

## Returns to shareholders

### Dividends

The Board has recommended a final dividend of 8.37 pence per share, making the total dividend for the year 9.60 pence per share, an increase of 17% year-on-year. Payment of the final dividend will be made on 15 June 2011 to shareholders on the register on 13 May 2011.

Dividend cover reduced to 2.4 times, in line with the European food retail sector average. We have reviewed our dividend policy and we are committing to a three year annual dividend growth of at least 10% starting in the new financial year. We will also rebalance the split between interim and final dividend payments to be c30:70 in the future.

| | 2011 | 2010 | Change |
|---|---|---|---|
| Interim dividend paid | **1.23p** | 1.08p | |
| Final dividend proposed | **8.37p** | 7.12p | |
| **Total dividend for the year** | **9.60p** | 8.20p | +17% |

### Shareholder investment and returns

Total shareholder return measures the value of £100 invested in Morrisons compared to the FTSE100 movement. Since 29 January 2006, Morrisons shareholder return has risen 56% compared to a rise in the same period of only 24% and 49% in the FTSE100 and FTSE Food and Drugs sector respectively.

An equity retirement plan was approved by the Board for announcement on 10 March 2011 to purchase in the market £1 billion of ordinary shares over the coming two years, for subsequent cancellation.

## Investments since the year end

Subsequent to the year end, the Group announced it would acquire the trade and assets of kiddicare.com, a multi-channel online retailer for £70m. The acquisition was completed on 28 February 2011.

Additionally, on 9 March 2011 we invested £32m in a c10% stake of FreshDirect, an internet grocer in the US.

## Key judgements and assumptions

Judgements and assumptions made in the financial statements are continually reviewed. Whilst some outcomes have been affected by the volatility in the financial markets, all judgements and assumptions in the accounting policies remain consistent with previous years. Consideration of impairment to the carrying values of assets has been made and we concluded that the individual carrying values of stores and other operating assets are supportable either by value in use or market values. The impact of the current economic conditions on the assessment of going concern has been considered in the general information section of the Directors' report.

# Board of Directors and Management Board

## Board of Directors

**Pictured above:**

| | | |
|---|---|---|
| Sir Ian Gibson | Dalton Philips | Richard Pennycook |
| Mark Gunter | Philip Cox | Brian Flanagan |
| Penny Hughes | Nigel Robertson | Johanna Waterous |

## Management Board

**Dalton Philips**
Chief Executive Officer

**Richard Pennycook**
Group Finance Director

**Mark Gunter**
Group Retail Director

**Neal Austin**
Logistics Director

**Norman Pickavance**
Group HR Director

**Terry Hartwell**
Group Property Director

**Richard Hodgson**
Group Commercial Director

**Martyn Jones**
Group Corporate Services Director

**Martyn Fletcher**
Group Manufacturing Director

**Mark Harrison**
Group Retail Director (designate)

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| | |
|---|---|
| Nomination Committee | ■ |
| Remuneration Committee | ◆ |
| Corporate Compliance and Responsibility Committee | ✱ |
| Audit Committee | ▲ |

Membership of committees at the date of signing the financial statements

## Sir Ian Gibson ◆✱■
Chairman
Chair of the Nomination Committee
(Age 64)

Sir Ian Gibson joined the Group as Non-Executive Deputy Chairman in September 2007. He was appointed Chairman in March 2008. Sir Ian is Chair of the Board's Nomination Committee and a member of its Remuneration Committee and Corporate Compliance and Responsibility Committee. He is also Non-Executive Chairman of Trinity Mirror plc and a non-executive member of the Public Interest Board of the UK firm of PricewaterhouseCoopers LLP. 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.

## Dalton Philips ■✱
Chief Executive
(Age 43)

Dalton Philips joined the Group as Chief Executive on 29 March 2010. He is a member of the Board's Nomination Committee and Corporate Compliance and Responsibility Committee. Prior to joining Morrisons, Dalton was Chief Operating Officer of Loblaw Companies Limited, Canada's largest food distributor and a leading provider of general merchandise, pharmacy and financial products and services. Prior to that position, he was Chief Executive of Irish department store group, Brown Thomas. Between 1998 and 2005 he worked for Wal-Mart's international division holding a range of commercial positions, rising to Chief Operating Officer in Germany. Dalton started his career as a store manager in New Zealand with Jardine Matheson and was later regional director of the Company's Spanish supermarket division.

## Richard Pennycook
Group Finance Director
(Age 47)

Richard Pennycook 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.

## Mark Gunter
Group Retail Director
(Age 52)

Mark Gunter joined the Group in 1986 as a Store General Manager. In 1993, he was appointed Regional Director and Stores Director in 1999. He was appointed to the Board of the Group in 2000 as Group Retail 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. On 31 January 2011, the Company announced that Mark will step down from the Board at the 2011 AGM and leave the Group in June 2012.

## Philip Cox ■◆▲
Chair of Audit Committee
(Age 59)

Philip Cox 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 and is also a member of the Remuneration Committee and the Nomination Committee. 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.

## Brian Flanagan ■◆▲
(Age 58)

Brian Flanagan 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. Brian has informed the Board that he will step down from the Board at the 2011 AGM and will not seek re-election.

## Penny Hughes ■◆▲
Chair of the Corporate Compliance and Responsibility Committee [1]
(Age 51)

Penny Hughes joined the Group as a Non-Executive Director in January 2010. Penny is a member of the Audit, Nomination and Remuneration Committees. Penny is currently a Non-Executive Director of Cable & Wireless Worldwide Plc, The Royal Bank of Scotland plc and Home Retail Group plc, the president of the Advertising Association and a trustee of the British Museum. Penny's 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. With effect from 10 March 2011 Penny has been appointed as Chair of the Corporate Compliance and Responsibility Committee.

## Nigel Robertson ■◆✱
Senior Independent Director
(Age 51)

Nigel Robertson joined the Group as a Non-Executive Director in July 2005. With effect from 10 March 2011 Nigel will be appointed as Senior Independent Director. He is a member of the Nomination, Remuneration and Corporate Compliance and Responsibility Committees, and was Chair of the Corporate Compliance and Responsibility Committee from September 2009 to 9 March 2011. Working in the private equity sector, he is the Group Chief Executive of Health and Surgical Holdings 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.

## Johanna Waterous ■✱▲◆
Chair of the Remuneration Committee [1]
(Age 53)

Johanna Waterous joined the Group as a Non-Executive Director in February 2010. Johanna is a member of the Audit, Nomination, Remuneration and Corporate Compliance and Responsibility Committees. She is currently a Non-Executive Director of RSA Group Plc and Chairman of Sandpiper CI, as well as being an Operating Partner of Global Leisure Partners and Duke Street LLP. 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 and of Kew Enterprises Limited. Between 1998 and 2006, she was Chairman of Tate Enterprises. Johanna has been appointed as Chair of the Remuneration Committee with effect from 10 March 2011.

[1] with effect from 10 March 2011

# Corporate governance report

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## UK Corporate Governance Code

The Board has prepared this report with reference to the UK Corporate Governance Code issued by the Financial Reporting Council in June 2010.

During the year, the Group reviewed, under the auspices of the Board's Corporate Compliance and Responsibility Committee, and revised its Corporate Governance Compliance Statement. The statement, which sets out how the Group complies with each of the provisions of the UK Corporate Governance Code (the 'Code'), was approved by the Board. 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/corporate

### The Board

#### a) Membership

On 30 January 2011, the Board comprised a Non-Executive Chairman, three Executive Directors and six Non-Executive Directors.

There is a clear division of responsibilities between the Non-Executive Chairman and the Chief Executive (CEO), which has been set out in writing and agreed by the Board.

Marc Bolland resigned from the Board on 1 February 2010 and, on the same day, Johanna Waterous joined the Board as a Non-Executive Director. Dalton Philips joined the Board on 29 March 2010. On 9 September 2010 Martyn Jones stepped down from the Board. On 9 March 2011 Paul Manduca stepped down from the Board. On 31 January 2011 the Company announced that, with effect from the Company's AGM on 9 June 2011, Mark Gunter will step down from the Board. On 9 March 2011 Brian Flanagan informed the Board that he will step down from the Board, again with effect from the Company's 2011 AGM. Throughout the period, the majority of the Board consisted of independent Non-Executive Directors. Details of the appointments, roles and backgrounds of the Directors are set out on page 33.

#### b) Performance evaluation and training

The performance of the Board, its committees and its Directors are assessed and appraised regularly. The Chairman is responsible for monitoring the performance of the Chief Executive, who in turn is responsible for monitoring the performance of the Executive Directors.

During the year, a review of the effectiveness of the Board's four principal standing Committees (Audit, Nomination, Remuneration and Corporate Compliance and Responsibility) was completed by an external agency, Independent Audit Limited. That review resulted in a formal report which was presented to the full Board in October 2010 and the principal findings of that review work were considered specifically by the chairs of each of those Committees. Whilst minor improvements to the workings of the individual Committees were recommended and have been, or are being, implemented, the review process disclosed no material matters of concern.

A full independent external review of the Board and the individual Directors will be carried out before the end of the 2011/12 financial year and any major findings will be reported upon in the Corporate governance report for the period ending in January 2012. As reported in the 2010 Annual report, this review was deferred until the current financial year because of the change of Chief Executive during 2009/10.

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The Board is satisfied that 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 which have been implemented already or which are in progress will enable the Group to satisfy the best practice recommendations of the Code in relation to Board evaluation.

During the course of the 2010/11 financial year, the Group has continued with its series of Board training sessions, presented by the Group's external advisers, on various key issues of importance to the Group. This training was designed to address matters of specific relevance to the Group and covered a range of topics including:

- Directors' duties; and
- developments in the audit process and key audit issues of judgement.

The training programme was established in the 2009/10 financial year and will be refreshed and updated so that regular updates are provided to the Board on key governance, corporate practice and legal/accounting issues.

### c) Senior Independent Director

Paul Manduca, the Senior Independent Director (SID) until 9 March 2011, has been available to shareholders throughout the period 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. With effect from 10 March 2011, Nigel Robertson will assume the role of SID and will be similarly available to shareholders.

### d) Non-Executive Directors

The Non-Executive Directors provide a varied range of skills and experience to the Group. The Board is satisfied that all Non-Executive Directors, including the Non-Executive Chairman, remain independent according to the definition contained in the Combined Code. No Non-Executive Director:

- has previously 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 Director's fees;
- has close family ties with any of the Group's advisers, 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; or
- has served on the Board for more than nine years.

All Directors are provided with a comprehensive, formal and tailored induction to the business. The minimum time commitment expected of the Non-Executive Directors is one day per month attendance at meetings, together with attendance at the Annual General Meeting, Board away days and site visits, plus adequate preparation time. The Board is satisfied that each of the Non-Executive Directors commits sufficient time to the business of the Group and contributes 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 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 Corporate Governance Compliance Statement set out in the 'Investor Relations' section of the Group's website www.morrisons.co.uk/corporate

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 £60m in aggregate.

## Management Board

The Management Board is made up of representatives of the senior management of the Group and is chaired by the Chief Executive. It has detailed terms of reference and has responsibility for the day-to-day operations of the Group. This includes development and implementation of strategy (subject to overall supervision by the Board), financial performance, reporting and control, risk management, operational improvement programmes, the entry by the Group into major contracts and commitments, the development of corporate policies and procedures and the ongoing review and supervision of the operational activities of the business of the Group. It reviews and makes recommendations to the Board in respect of budgets and long term planning and dividend levels as well as reviewing proposed announcements, whether financial or related to ad hoc events. It also keeps under supervision the Group's senior management talent, capabilities and succession plans.

## Committees of the Board

The principal committees of the Board are the Audit, Remuneration, Nomination and Corporate Compliance and Responsibility (CCR) Committees.

Full terms of reference of the Committees are available on request and in the Corporate Governance Compliance Statement set out in the Investor Relations section of the Group's website www.morrisons.co.uk/corporate

### a) Nomination Committee

During the year the activities of the Committee were focused on advice to the executive management on the establishment and composition of the Management Board and on senior management succession planning. The Committee has engaged an executive search agency, MWM Consulting, to assist in the process of identification of potential candidates to join the Board as and when appropriate.

### b) Remuneration Committee

The objective of the Group's remuneration policy is to encourage a strong performance culture and an emphasis on long term shareholder value creation. The intention is to position remuneration arrangements competitively against the market, with a clear reward structure to enable the Group to attract, retain and motivate the best talent who are key to the Group's recent and future success.

The Group HR Director has advised the Group on all remuneration related matters, including pensions and Executive Directors' contracts. Where necessary this advice was supplemented by external advisers.

The committee also receives advice from its appointed advisers Hewitt New Bridge Street on remuneration matters, Pension Capital Strategies Limited (a member of the Jardine Lloyd Thompson Group) in respect of pensions, and Ashurst LLP in respect of Executive Directors' contracts.

The activities of the Remuneration Committee during the year are set out in more detail in the Directors' remuneration report on page 40.

### c) Audit Committee

The Board has delegated to the Audit Committee the responsibility for reviewing on its behalf and making recommendations to the Board as to:

- the integrity of financial reports;
- the effectiveness of the Group's internal control and risk management system; and
- the independence of the external auditors.

The Audit Committee's responsibilities have not changed during the year.

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.

The Audit Committee is chaired by Philip Cox who has the requisite recent and relevant financial experience. 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.

**During the year, the membership of those Committees was:**

| Name | Nomination | Remuneration | Audit | CCR |
|---|---|---|---|---|
| | Committee membership | | | |
| Sir Ian Gibson | •* | • | | • |
| Dalton Philips | • | | | • |
| Philip Cox | • | • | •* | |
| Brian Flanagan | • | • | • | |
| Penny Hughes | • | • | • | |
| Martyn Jones | | | | • |
| Paul Manduca | • | •* | | |
| Nigel Robertson | • | • | • | •* |
| Johanna Waterous | • | • | • | • |

* Chair of the Committee

**The Directors attended the following number of Board and Committee meetings:**

| Number of meetings | Board | Nomination | Remuneration | Audit | CCR |
|---|---|---|---|---|---|
| | | Committee membership | | | |
| Sir Ian Gibson | 11/11 | 6/6 | 13/13 | | 4/4 |
| Dalton Philips | 9/9 | 5/5 | | | 3/3 |
| Richard Pennycook | 10/11 | | | | |
| Mark Gunter | 10/11 | | | | |
| Philip Cox | 10/11 | 6/6 | 12/13 | 6/6 | |
| Brian Flanagan | 10/11 | 5/6 | 12/13 | 6/6 | |
| Penny Hughes | 9/11 | 6/6 | 9/13 | 5/6 | |
| Martyn Jones | 8/8 | | | | 3/3 |
| Paul Manduca | 11/11 | 5/6 | 13/13 | | |
| Nigel Robertson | 10/11 | 6/6 | 13/13 | 2/2 | 4/4 |
| Johanna Waterous | 10/11 | 6/6 | 10/13 | 6/6 | 3/4 |

### (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 announcements, together with any other formal announcements relating to financial performance;
- the accounting principles, policies and procedures adopted in the Group's financial statements, including, where necessary, challenging the judgements made; and
- the potential effects of tax and pensions accounting and other significant judgemental and complex accounting issues dealt with in the accounts.

The Audit Committee oversees the Group's relationship with the external auditors. 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. 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 work of the external auditors as set out in the engagement letter;
- the external auditors' work plan for the Group;
- the detailed findings of the audit, including a discussion of any major issues that arose during the audit;
- the letter from KPMG Audit Plc confirming its independence and objectivity; and
- the audit fee and the extent of non-audit services provided by the external auditors.

In this period, the external auditors have continued to provide a significant level of non-audit work, primarily to provide the Board with independent assurance in respect of IT systems replacement. The Board believes that this activity is a reasonable extension of their statutory audit work and that there are safeguards in place to avoid a threat to their independence or objectivity. The Board has a policy on the engagement of the external auditors to supply non-audit services and the Committee has reviewed the scope of non-audit services provided by the external auditors to ensure that there was no impairment of objectivity. A copy of that non-audit services policy is available in the Corporate Governance Compliance Statement set out in the 'Investor Relations' section of the Group's website at www.morrisons.co.uk/corporate
This non-audit services policy is designed to assist the Company and each of its subsidiaries in ensuring that the engagement of the external auditors to provide non-audit services:

- is only carried out in appropriate circumstances;
- is transparent; and
- does not impair the judgement or independence of the external auditors.

When assessing the non-audit services for approval the Audit Committee will take the following into consideration:

- whether the skills and experience of the audit firm make it the most suitable supplier of the non-audit service;
- whether there are safeguards in place to ensure that there is no threat to the objectivity or independence in the conduct of the audit resulting from the provision of such services by the external auditor;
- the nature of the non-audit services, the related fee levels and the fee levels individually and in aggregate relative to the audit fee; and
- the criteria which govern the compensation of the individuals performing the audit.

KPMG also follows its own ethical guidelines and continually reviews its audit team to ensure that its independence is not compromised.

The Audit Committee has determined that it will review not less than annually whether the incumbent auditors should remain in place or whether an auditor selection process should be initiated.

### (ii) Internal control

The Board is responsible for setting a system of internal controls for the Group and reviewing its effectiveness. Executive management is responsible for implementing and maintaining the system of controls. This system is intended to manage rather than eliminate the risk of not meeting the Group's strategic objectives, whilst recognising that certain inherent risks may be outside the Group's control. The Board recognises that any system of internal control can only seek to 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 discharged this responsibility 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; and
- monitoring the adequacy and timeliness of management's response to identified audit issues.

The Audit Committee receives regular reports from the Head of Risk and Internal Audit on any whistle-blowing activity in respect of concerns expressed by colleagues about possible malpractice or wrongdoing. Whilst there were no significant concerns raised by colleagues, all actions required were discussed and agreed with the Committee.

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 weaknesses had been identified during this review the Board would have taken the necessary steps to remedy them.

### d) Corporate Compliance and Responsibility Committee (CCR)

The CCR Committee, chaired by a Non-Executive Director, Nigel Robertson, reviews and oversees the development and implementation of policy in relation to health and safety, environmental, competitive and ethical compliance, corporate social responsibility (CSR), including the Group's engagement with community organisations and charitable bodies, and governance and other reputational management issues. With effect from 10 March 2011 Penny Hughes has been appointed as chair of the CCR Committee.

The Committee's remit does not cover operational matters but it performs an oversight, monitoring and advisory role in relation to these key areas in the Company's governance and development.

The Committee, which reports to the Board, was set up and met four times during the financial year and, as well as reviewing its terms of reference, it received presentations on the Group's CSR, health and safety and competition compliance policies and procedures.

## 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 unless unavoidably unable to do so.

The Chairs of the Audit, Nomination, Remuneration and CCR Committees are available to answer any questions.

Additionally, the Group's brokers sought independent feedback from investors following the annual and interim results in 2010. This feedback was reported to the Board.

## Code compliance

The Board has been kept fully up to date by the Company Secretary and the Head of Risk and Internal Audit as to the developments in corporate governance following the Walker Review and the Financial Reporting Council's revision of the UK Corporate Governance Code.

The Board is confident that its corporate governance policies and procedures are appropriate and that the Company is fully compliant with the Code. Notably, although not yet required to do so, the Board has resolved that it will comply with the best practice recommendation set out in Code Provision B.7.1 such that all directors will be submitted for re-election at its AGM.

# Directors' remuneration report



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## Dear Shareholder,

I am pleased to present the remuneration report for the financial year ended 30 January 2011 for which we will be seeking approval from shareholders in June 2011.

As you are aware, we made some important changes to Morrisons remuneration policy last year to deliver appropriately structured remuneration arrangements which are aligned with Morrisons key strategic priorities and the market. I am pleased to say that we received a strong vote in favour of last year's remuneration report at the 2010 Annual General Meeting (AGM). While there have been no major changes to the remuneration policy during 2010/11 and none are anticipated for 2011/12, the main points to note are as follows:

- base salary levels were reviewed in January 2011. On 1 February 2011, Richard Pennycook received an increase to base salary from £540,750 to £570,000 to reflect additional business development and strategic responsibilities. The base salaries for Dalton Philips and Mark Gunter are unchanged;
- following a review of the 2010/11 annual bonus arrangement, the Committee concluded that the current structure remains appropriate for 2011/12. The strong focus on delivering profit growth, supported by the achievement of a number of key strategic initiatives and personal performance objectives, will therefore continue for 2011/12. Following a strong overall performance during the year, actual bonus payments for the year ended 30 January 2011 were 44.7% of the maximum potential based on profit, 90% of the maximum potential based on scorecard measures and between 74% and 100% of the maximum potential based on personal objectives;
- the structure of long term incentive arrangements, delivered through the Long Term Incentive Plan, remains unchanged. The Committee is of the view that the award levels and the performance metrics/targets, based on earnings per share and relative like-for-like sales growth which were applied to the 2010 awards, remain appropriate for the awards to be granted in 2011;
- as a result of Marc Bolland's resignation as Chief Executive towards the end of the 2009/10 financial year, the Remuneration Committee considered it critical to secure Richard Pennycook's services as Group Finance Director. Following consultation with a number of the Company's largest shareholders at that time, the appointment of the Chief Executive and completion of his strategic review, the Committee agreed that Richard Pennycook should be granted an award over restricted shares worth £1,250,000 in March 2011 which will vest on the second anniversary of grant, subject to continued employment and the Group's Underlying EPS growth meeting or exceeding the growth in the Retail Prices Index over the period to the end of the 2012/13 financial year. While this is an unusual arrangement, the Committee considers that the granting of this award is in the long-term interests of shareholders and is appropriate; and
- following a review of the Non-Executive Chairman's role, responsibility levels and time commitment, Sir Ian Gibson's fee, which had remained unchanged since it was set in September 2007, was increased from £300,000 to £375,000 with effect from 1 July 2010.

Following the changes made to the policy last year, the Remuneration Committee is now satisfied that the current remuneration arrangements meet the stated polices of encouraging a strong performance culture, emphasising long term shareholder value creation and being positioned competitively in relation to major competitors to enable the Company to attract, retain and motivate the best talent. Strong linkage has also been created between the annual bonus measures for 2011/12 and achievement of the major deliverables of the Group's new Operational Plan 'Different and Better than Ever'.

During 2010/11, the Committee has also dealt with the following Board changes:

- on 9 September 2010, Martyn Jones stepped down from the Board, switching roles from the Group Trading Director to the Group Corporate Services Director; and
- on 31 January 2011, the Company announced Mark Gunter's intention to retire, stepping down from the Board at the 2011 AGM.

Details surrounding the remuneration arrangements for Martyn Jones and the retirement arrangements for Mark Gunter are set out in the Directors' remuneration report which follows.

Finally, as this is my last remuneration report following the announcement that I will step down from the Board on 9 March 2011, I would like to thank my fellow Committee members for their support over the last year. Going forward, Johanna Waterous will chair the Remuneration Committee.

**Paul Manduca**
Chair of the Remuneration Committee

The Group is required to prepare a Directors' remuneration report for the 52 weeks ended 30 January 2011 and put that report to a shareholder vote. A resolution to approve this report will be proposed at the AGM of the Company to be held on 9 June 2011.

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 2006 and Schedule 8 of the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008. The report has therefore been divided into separate sections for unaudited and audited information.

## Unaudited information

### Remuneration Committee: membership and remit

During the year the following individuals were members of the Remuneration Committee.

| Name of Director | Membership | |
|---|---|---|
| | From | To |
| P Manduca (Chairman to 9 March 2011) | 6 Sep 2005 | 9 Mar 2011 |
| P Cox | 1 Apr 2009 | To date |
| B Flanagan | 1 Jul 2005 | To date |
| I Gibson | 1 Sep 2007 | To date |
| P Hughes | 1 Jan 2010 | To date |
| N Robertson | 1 Jul 2005 | To date |
| J Waterous (Chairman from 10 March 2011) | 1 Feb 2010 | To date |

The Chief Executive, Dalton Philips, and the Group Human Resources Director, Norman Pickavance, also attend meetings (other than where their own remuneration is being discussed). The Company Secretary, Greg McMahon, acts as secretary to the Committee.

The Committee was advised during the year by the Group Human Resources Director and Hewitt New Bridge Street, the Committee's appointed external adviser, on matters relating to senior executive remuneration. Pension Capital Strategies Limited (a member of the Jardine Lloyd Thompson Group) also provided advice in respect of pensions and Ashurst LLP provided legal advice to the Committee on senior executive contracts. Hewitt New Bridge Street provided no other material advice to the Company during the year. Pension Capital Strategies provide advice to management on relevant pension matters and Ashurst LLP provide other legal services to the Company.

The Committee met on 13 occasions during the year and the meeting attendance record is set out on page 36 of the Corporate Governance Report.

The remit of the Committee covers the total remuneration of the Executive Directors and other senior managers comprising the Management Board. The full terms of reference for the Committee can be obtained from the Company Secretary and can be found on the Company's web site at: www.morrisonsplc.co.uk/Corporate/Investors

### Remuneration policy

The Remuneration Committee remains of the view that the Company's executive 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 competitively;
- 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

A substantial proportion of the Executive Directors' pay is performance-related. The following chart demonstrates the balance between fixed and performance-related pay for the 2011/12 financial year for the Chief Executive and other Directors at target and maximum performance levels. Maximum performance assumes the achievement of maximum bonus and full vesting of shares under the Long Term Incentive Plan (LTIP).

**Performance-related versus fixed remuneration**
(Percentage %)

**Chief Executive**

Target

Maximum

0 20 40 60 80 100

**Other directors**

Target

Maximum

0 20 40 60 80 100

Salary Pension Bonus LTIP

### Base salary

Base salary is a fixed cash sum payable monthly in arrears. In order to set the right balance in Executive Directors' packages, the policy is to set salaries competitively against the appropriate external market. The Remuneration Committee has regard to the following when reviewing salary levels:

- the rates for similar roles in comparator companies, both in FTSE 100 retailers, particularly the Company's major competitors, and more generally in UK-based companies of a similar size and complexity (specifically FTSE 100 companies ranked 20 to 60 by market capitalisation excluding those whose turnover is substantially derived from outside the UK);
- 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; and
- pay quantum and structure throughout the Company.

Base salaries are normally reviewed annually in the light of personal performance, benchmark data and internal relativities.

On 1 February 2011, Richard Pennycook received an increase to base salary from £540,750 to £570,000 to reflect additional business development and strategic responsibilities. The base salaries for Dalton Philips and Mark Gunter are unchanged. Current base salaries, together with the previous salaries, are set out below:

| | 2011/12 | 2010/11 |
|---|---|---|
| D Philips | £800,000 | £800,000 |
| R Pennycook | £570,000 | £540,750 |
| M Gunter | £540,750 | £540,750 |

### Annual bonus

An annual bonus plan was operated for Executive Directors and other senior managers during 2010/11.

For 2010/11, the maximum bonus for Executive Directors was 200% of base salary, with 50% of any bonus payable deferred in shares for three years under the Deferred Share Bonus Plan (DSBP). Under the DSBP the shares comprising the deferred element of the bonus payment will vest three years from the date that the deferred share award is made and it is intended that dividend equivalents will accrue on shares that vest. These deferred shares are normally forfeited if the individual leaves the Company prior to vesting.

Measurement for the annual bonus was based upon profit before taxation (excluding exceptional items), strategic corporate scorecard measures and personal objectives, weighted as set out below:

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

Scorecard measures for 2010/11 were structured around delivery of major strategic projects; employee-related objectives; continued sales growth and actions to increase the operating margin. No bonus would have been payable for the achievement of strategic corporate scorecard measures or personal objectives unless the minimum profit target had been achieved.

Bonus awards to the executives for the financial year ended 30 January 2011 reflect the Company's strong underlying profit performance achieved during a year of significant internal change and tough external market conditions. Performance under the profit measure was ahead of target and resulted in a bonus payment for this element of 44.7% of the potential bonus payable for this measure. The majority of the strategic corporate scorecard elements were met at the levels set for maximum payment resulting in a payment of 90% of the potential bonus payable for this element. Strong performance by individual executives has resulted in between 74% and 100% for the potential bonuses payable for achievement of personal objectives. Bonus payments for the financial year ending 30 January 2011 therefore ranged from 122% to 128% of base salary, of which half is deferred in shares under the DSBP. Details of the actual amounts paid for 2010/11 are set out in the Directors' emoluments table on page 45.

The performance measures and weightings for the 2011/12 bonus plan are unchanged.

Scorecard measures for 2011/12 will focus on the delivery of major strategic objectives which are aligned with the key deliverables of the Group's Operational Plan 'Different and Better than Ever' described on page 14 of this Annual Report and financial statements. No bonus will be payable for the achievement of corporate scorecard measures or personal objectives unless the minimum profit target, which is higher than the 2010/11 out-turn, has been achieved.

As in prior years, specific performance targets have not been disclosed as they are considered to be commercially confidential, but they will be demanding.

Bonuses for the management tier immediately below Executive Director level will be awarded on similar terms to the above but at reduced levels.

### All Employee Sharesave Scheme

The Group operates a Sharesave Scheme which is approved by HM Revenue & Customs. All eligible employees, including Executive Directors, may be invited to participate on similar terms to save up to a maximum of £250 each month for a fixed period of three 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 relevant launch date. A grant was made under the plan during 2010 at the maximum 20% discount, details of which are set out on pages 84 and 85 of the Notes to the Group financial statements.

### Long Term Incentive Plan

The Long Term Incentive Plan 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 2010, awards were made to 928 participants, including Executive Directors, their direct reports and management tiers below (including supermarket store managers). An award of shares worth 275% of salary was made to Dalton Philips with awards worth 240% of salary for the other Executive Directors, in each case in April 2010. For tiers below Executive Director, awards were made during the year at lower levels dependent upon seniority.

Performance under the plan is measured over three years. As was the case in 2010/11, the performance measures for 2011/12 awards will be 75% based on earnings per share (EPS) and 25% based on like-for-like non-fuel sales growth as measured against the IGD (Institute of Grocery Distribution) Index. 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.

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 the threshold EPS target has been met.

For the awards intended to be granted in April 2011, 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 (RPI) 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 over the three years ending with the 2013/14 financial year. Underlying EPS will be as referred to in note 9 to the financial statements. The Group will report EPS in this way in its Annual report.

25% of the sales growth related component of the award will vest if the Group's like-for-like sales match the IGD 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 2013/14 financial year. Like-for-like sales are 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.

### Share award for Richard Pennycook

As a result of Marc Bolland's resignation as Chief Executive towards the end of the 2009/10 financial year, the Remuneration Committee considered it essential to secure Richard Pennycook's services as Group Finance Director. Following consultation with a number of the Company's largest shareholders at that time, the appointment of Dalton Philips as Chief Executive and the completion of his strategic review, the Committee agreed that he should be granted an award over restricted shares worth £1,250,000 (based on the dealing day before the grant date) in March 2011 which will vest on the second anniversary of grant, subject to continued employment and the Group's Underlying EPS growth meeting or exceeding the growth in the Retail Prices Index over the period to the end of the 2012/13 financial year.

While this is an unusual arrangement, the Committee considers that the granting of this award is in the long term interests of shareholders and is satisfied that it is appropriate. Richard Pennycook's participation in the annual bonus arrangement and LTIP will continue in line with the policy stated above.

Listing Rule 9.4.3 requires the following additional detail to be disclosed in the Company's Annual Report and Accounts. If Mr Pennycook ceases employment by way of death, retirement with the Company's consent, disability or injury or any other reason as agreed by the Committee, the award will vest on the date of cessation subject to the Remuneration Committee's assessment of the Company's EPS performance. Otherwise, the award will lapse on cessation of employment. The award will also vest early in the event of a change of control subject to the Remuneration Committee's assessment of the Company's EPS performance. The award will not, unless the Committee decides otherwise, vest on an internal reorganisation but will instead be exchanged for an equivalent award over shares in the new holding company. The award will not confer any shareholder rights on Mr Pennycook until it vests, except that Mr Pennycook will be entitled to a payment (in cash and/or shares) shortly after vesting to reflect the dividends that would have been paid on those shares between grant and vesting. In the event of any variation of the Company's share capital or any other event which materially affects the price of the Company's shares, the award may be adjusted in such manner as the Committee sees fit. The terms of the award may be amended in such manner as the Committee and Mr Pennycook may agree provided that amendments to the benefit of Mr Pennycook may only be made with the prior consent of shareholders (unless they are minor amendments to benefit the administration of the award, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for the Company or Mr Pennycook).

The above award, which is non-pensionable, will be granted pursuant to the authority contained in Listing Rule 9.4.2R2. To the extent that the award vests, it will be satisfied with existing shares other than treasury shares. Shares received from this award will be subject to the retention provisions set out in the Company's shareholding guidelines for Executive Directors.

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## 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), including, in future years, shares from the deferred element of the annual bonus, 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. The Remuneration Committee will review Executive Directors' shareholdings annually in the context of this policy. The shareholdings for the Executive Directors, as at 30 January 2011, are shown in the Directors' interests section on page 48 of this remuneration report.

## Pension arrangements

The Executive Directors (with the exception of Dalton Philips who received a salary supplement equal to 25% of base salary during the year) participate in the Morrisons Defined Benefit Pension Scheme. From October 2009 the basis of future pension accrual changed from final salary to career average revalued earnings (CARE). Under these new defined benefit arrangements, pension entitlements for participating Executive Directors accrue at the rate of a maximum of 3% for each year. Accrued benefits, including those preserved from the former final salary arrangement, increase in line with the Retail Prices Index to the date of leaving the Group.

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 (who stepped down from the Board on 9 September 2010) are all subject to Company maximum earnings limit which is currently £123,600 and is reviewed annually from 1 April in line with RPI.

The pension arrangements include life assurance cover whilst in employment, a pension in the event of ill health or disability and a pension for the individual's spouse and any dependent 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 RPI or by 5% per annum compound for pensions accrued prior to 6 April 2006 and 2.5% for pensions accrued from 6 April 2006, whichever is the lower.

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 2010/11.

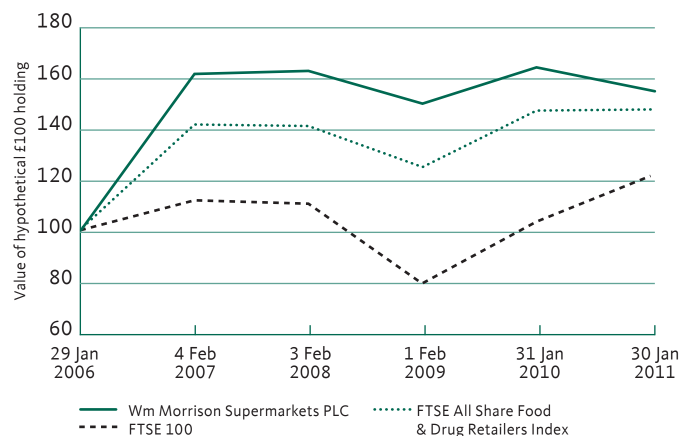
## Benefits

Benefits in kind include transport costs, private health provision and in certain cases a telephone allowance. The Executive Directors are eligible for an allowance towards the cost of independent financial advice and also receive the Company's normal staff discount entitlement which is not taxable.

## 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 30 January 2011. 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




**Source:** Thomson Reuters

## 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 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 Dalton Philips at the time of his recruitment and to Mark Gunter and Martyn Jones from 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) |
|---|---|---|
| D Philips | 26 Jan 2010 | 12 |
| R Pennycook | 23 May 2006 | 12 |
| M Gunter | 5 Apr 2007 | 12 |
| M Jones (ceased to be a Director on 9 September 2010) | 5 Apr 2007 | 12 |
| M Bolland (ceased to be a Director on 1 February 2010) | 7 June 2006 | 12 |

## **Directors' remuneration report** – continued

As disclosed last year, Marc Bolland's contract of employment and directorship was terminated on 1 February 2010. Under the termination agreement, a payment in lieu of notice of £282,331 was made in respect of salary, pension and benefits for the period 1 February 2010 to 30 April 2010. There was no entitlement to an annual bonus in respect of the financial year ended 31 January 2010 and all outstanding LTIP awards lapsed. Mr Bolland also retained the use of his Company leased flat for the three month period to which his payment in lieu of notice applied. Further details are provided within the Directors' emoluments and share awards tables in the audited section of this remuneration report.

On 9 September 2010, Martyn Jones stepped down from the Board following his appointment as Group Corporate Services Director, to head the newly formed Corporate Services function. Mr Jones continues to be employed by the Group.

Mark Gunter has indicated his intention to retire from the Company following a career with Morrisons spanning over 25 years. Mr Gunter has provided advanced notice of his intention to retire to enable an orderly succession and handover of his accountabilities. It is anticipated that he will retire during 2012 having served his full notice period and on that basis no termination payment will be made to Mr Gunter on leaving the Company. Mr Gunter will participate in the annual bonus plan for the 2011/12 financial year on a pro-rata basis. His share plan awards will be treated in accordance with the relevant plan rules. Shares from deferred annual bonus awards will vest at his retirement, LTIP awards will continue to vest at the normal vesting dates subject to performance conditions and time pro-rating and options under the Sharesave scheme may be exercised for a period of 6 months following retirement.

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 Company. Any fees received in respect of these appointments, which are disclosed under the Directors' emoluments table, are retained by the Executive Directors concerned.

### b) Non-Executive Directors

The dates of commencement of the original term of appointments and the date the current term commenced are set out in the table below.

With the exception of Sir Ian Gibson, the appointments may be terminated earlier by, and at the discretion of, either party upon one month's written notice. Sir Ian Gibson's notice period was reduced from 12 months to three months on his re-appointment as Non-Executive Chairman following the end of his initial three year term.

| Name of Director | Date original term commenced | Date current term commenced | Expected date of expiry of current term |
|---|---|---|---|
| I Gibson | 1 Sep 2007 | 1 Sep 2010 | 1 Sep 2013 |
| P Cox | 1 Apr 2009 | 1 Apr 2009 | 1 Apr 2012 |
| B Flanagan | 1 Jul 2005 | 1 Jul 2008 | 1 Jul 2011 |
| P Hughes | 1 Jan 2010 | 1 Jan 2010 | 1 Jan 2013 |
| P Manduca | 6 Sep 2005 | 6 Sep 2008 | 9 Mar 2011 |
| N Robertson | 1 Jul 2005 | 1 Jul 2008 | 1 Jul 2011 |
| J Waterous | 1 Feb 2010 | 1 Feb 2010 | 1 Feb 2013 |

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 least every three years.

The remuneration of the Non-Executive Directors is a matter for the Non-Executive 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. The remuneration of the Non-Executive Chairman is a matter for the Remuneration Committee and 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 staff discount entitlement, and are not eligible to participate in the Group's pension arrangements.

The Chairman's fee, which had previously remained unchanged since it was set in September 2007, was reviewed during the year taking account of the individual's increased time commitments and prevailing market rates within the comparator companies as used for Executive Directors. As a consequence, the fee was increased from £300,000 to £375,000 with effect from 1 July 2010.

The fee levels for Non-Executive Directors, which were last increased in May 2008, were reviewed during the year by Board members comprising the Chairman and the Executive Directors. This review took account of factors including market rates, individual time commitment and the responsibilities of each role. The Committee Chairmanship fee for the Audit and the Remuneration Committee were both increased from £10,000 to £20,000 with effect from 1 October 2010. The base fee, the additional fee for the Senior Independent Director and the fee for chairing the Corporate Compliance and Responsibility Committee were unchanged. Current fee levels are as follows:

| Name | Base £000 | Committee Chairmanship £000 | Senior Independent Director £000 | Total £000 |
|---|---|---|---|---|
| I Gibson | 375 | – | – | 375 |
| P Cox | 60 | 20 | – | 80 |
| B Flanagan | 60 | – | – | 60 |
| P Hughes | 60 | – | – | 60 |
| P Manduca | 60 | 20 | 20 | 100 |
| N Robertson | 60 | 10 | – | 70 |
| J Waterous | 60 | – | – | 60 |

| | | | |
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## Audited information

### Directors' emoluments and pension entitlements

The emoluments of the Directors were as follows:

| Name | Directors salaries/fees £000 | Benefits in kind[5] £000 | Pension supplement £000 | Annual cash bonus[6] £000 | Payments following termination £000 | Total year to 30 Jan 2011 £000 | Total year to 31 Jan 2010 £000 |
|---|---|---|---|---|---|---|---|
| **Non-Executive Chairman** | | | | | | | |
| I Gibson | 344 | – | – | – | – | **344** | 300 |
| **Executive Directors** | | | | | | | |
| D Philips[1] | 676 | 234 | 169 | 478 | – | **1,557** | – |
| R Pennycook | 541 | 37 | 63 | 340 | – | **981** | 1,165 |
| M Gunter | 541 | 33 | 63 | 339 | – | **976** | 1,172 |
| M Jones[3] | 275 | 20 | 30 | 167 | – | **492** | 969 |
| M Bolland[2,4] | 3 | – | 1 | – | 300 | **304** | 1,159 |
| **Non-Executive Directors** | | | | | | | |
| P Cox | 73 | – | – | – | – | **73** | 54 |
| B Flanagan | 60 | – | – | – | – | **60** | 60 |
| P Hughes | 60 | – | – | – | – | **60** | 5 |
| P Manduca | 93 | – | – | – | – | **93** | 90 |
| N Robertson | 70 | – | – | – | – | **70** | 63 |
| J Waterous[1] | 60 | – | – | – | – | **60** | – |
| **Former Directors** | | | | | | | |
| S Murray[2] | – | – | – | – | – | **–** | 61 |
| Total | 2,796 | 324 | 326 | 1,324 | 300 | **5,070** | 5,098 |

1 Dalton Philips was appointed as an Executive Director on 29 March 2010. Johanna Waterous was appointed as a Non-Executive Director on 1 February 2010.

2 Susan Murray resigned from the Board with effect from 31 December 2009. Marc Bolland resigned from the Board with effect from 1 February 2010.

3 On 9 September 2010 Martyn Jones stepped down from the Board following his appointment as Group Corporate Services Director. Mr Jones has received no additional payments as a consequence of this change and his ongoing remuneration package will reflect his new below-Board responsibilities.

4 Details of the termination payment made to Marc Bolland, which were disclosed in last year's remuneration report, and which comprised a payment in lieu of notice for salary, pension, benefits and the use of his Company leased flat are summarised on page 44 of this remuneration report.

5 Details of benefits in kind are set out on page 43 of this remuneration report. For Dalton Philips the figure in the table includes the cost to the Company of his relocation from Canada to the UK, as agreed at the time of his recruitment.

6 For all Executive Directors, 50% of the total bonus earned is paid in cash as shown in the table with 50% deferred in shares for three years under the Deferred Share Bonus Plan. Details of this plan are described under the annual bonus section on page 41 of this remuneration report. The bonus for Dalton Philips has been pro-rated to reflect the period of time worked in the Company during the financial year. The bonus payment shown in the table for Martyn Jones is for the period to 9 September 2010 during which he was an Executive Director (the bonus paid in cash for the full financial year was £275,490). The deferred share awards in respect of the 2010/11 annual bonus will be granted in March 2011 and details of the shares comprising these awards will be included in next year's remuneration report. Further details of the bonus payments to the Executive Directors are set out on page 41 of this remuneration report.

In addition to the emoluments detailed above, a charge of £3.3m has been made to the income statement in respect of Directors' share-based payments.

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

For the period 2010/11 Richard Pennycook received cash fees from Persimmon Plc of £54,115 for his role as Non-Executive Director at Persimmon Plc.

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

| Name | Accrued pension at 31 Jan 2010 £000 | Increase in accrued pension (excluding inflation) in year ended 30 Jan 2011 £000 | Transfer value of the increase in accrued pension during the year £000 | Accrued pension at 30 Jan 2011 £000 | Transfer value of accrued pension at 31 Jan 2010 £000 | Transfer value of accrued pension at 30 Jan 2011 £000 | Movement in transfer value during the year £000 |
|---|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | | |
| R Pennycook | 18 | 4 | 40 | 22 | 186 | 245 | 59 |
| M Gunter | 53 | 2 | 37 | 58 | 748 | 858 | 110 |
| M Jones | 43 | 2 | 32[1] | 47[1] | 599 | 689 | 90 |
| Total | 114 | 8 | 109 | 127 | 1,533 | 1,792 | 259 |

1 as at 9 September 2010

# Directors' remuneration report – continued

## Share awards

As at 30 January 2011, Directors' interests under the Long Term Incentive Plan (LTIP) and one-off recruitment awards for Dalton Philips were as follows:

| | Note | Date of grant | Share price on date awards granted | At 31 Jan 2010 | Shares granted | Shares lapsed | Shares vested[6] | At 30 Jan 2011 | Share price at date awards vested[6] | Vesting date |
|---|---|---|---|---|---|---|---|---|---|---|
| **D Philips** | | | | | | | | | | |
| Unrestricted Share Award | 5 | 31 Mar 2010 | 293.50p | – | 319,401 | – | 319,401 | **–** | 293.50p | 31 Mar 2010 |
| Restricted Share Award | 5 | 31 Mar 2010 | 293.50p | – | 120,965 | – | – | **120,965** | – | 25 Mar 2012 |
| LTIP | 3 | 22 Apr 2010 | 296.80p | – | 744,148 | – | – | **744,148** | – | 22 Apr 2013 |
| | | | | – | 1,184,514 | – | 319,401 | **865,113** | | |
| **R Pennycook** | | | | | | | | | | |
| LTIP | 1 | 24 May 2007 | 313.75p | 305,798 | – | – | 305,798 | **–** | 262.20p | 24 May 2010 |
| LTIP | 2 | 14 Apr 2008 | 277.25p | 374,410 | – | – | – | **374,410** | – | 14 Apr 2011 |
| LTIP | 3 | 9 Apr 2009 | 260.25p | 415,562 | – | – | – | **415,562** | – | 9 Apr 2012 |
| LTIP | 3 | 29 Jan 2010 | 289.10p | 184,770 | – | – | – | **184,770** | – | 29 Jan 2013 |
| LTIP | 3 | 22 Apr 2010 | 296.80p | – | 438,979 | – | – | **438,979** | – | 22 Apr 2013 |
| | | | | 1,280,540 | 438,979 | – | 305,798 | **1,413,721** | | |
| **M Gunter** | | | | | | | | | | |
| LTIP | 1 | 24 May 2007 | 313.75p | 318,540 | – | – | 318,540 | **–** | 262.20p | 24 May 2010 |
| LTIP | 2 | 14 Apr 2008 | 277.25p | 390,010 | – | – | – | **390,010** | – | 14 Apr 2011 |
| LTIP | 3 | 9 Apr 2009 | 260.25p | 415,562 | – | – | – | **415,562** | – | 9 Apr 2012 |
| LTIP | 3 | 29 Jan 2010 | 289.10p | 184,770 | – | – | – | **184,770** | – | 29 Jan 2013 |
| LTIP | 3 | 22 Apr 2010 | 296.80p | – | 438,979 | – | – | **438,979** | – | 22 Apr 2013 |
| | | | | 1,308,882 | 438,979 | – | 318,540 | **1,429,321** | | |
| **M Jones** | | | | | | | | | | |
| LTIP | 1 | 24 May 2007 | 313.75p | 168,857 | – | – | 168,857 | **–** | 262.20p | 24 May 2010 |
| LTIP | 1 | 24 Oct 2007 | 296.75p | 78,553 | – | – | 78,553 | **–** | 298.30p | 24 Oct 2010 |
| LTIP | 2 | 14 Apr 2008 | 277.25p | 306,527 | – | – | – | **306,527** | – | 14 Apr 2011 |
| LTIP | 3 | 9 Apr 2009 | 260.25p | 345,821 | – | – | – | **345,821** | – | 9 Apr 2012 |
| LTIP | 3 | 22 Apr 2010 | 296.80p | – | 365,309 | – | – | **365,309** | – | 22 Apr 2013 |
| | | | | 899,758 | 365,309 | – | 247,410 | **1,017,657** | | |
| **M Bolland** | | | | | | | | | | |
| LTIP | 1,4 | 24 May 2007 | 313.75p | 557,445 | – | 557,445 | – | **–** | – | 24 May 2010 |
| LTIP | 2,4 | 14 Apr 2008 | 277.25p | 682,518 | – | 682,518 | – | **–** | – | 14 Apr 2011 |
| LTIP | 2,4 | 14 Oct 2008 | 243.50p | 175,547 | – | 175,547 | – | **–** | – | 14 Oct 2011 |
| LTIP | 3,4 | 9 Apr 2009 | 260.25p | 816,523 | – | 816,523 | – | **–** | – | 9 Apr 2012 |
| | | | | 2,232,033 | – | 2,232,033 | – | **–** | | |

[1] LTIP awards granted in 2007 were subject to three year performance targets, measured to 31 January 2010. Performance measures were 75% based on EPS (25% of the EPS related component of the award vested for Group EPS in 2009/10 of 15.8p per share, rising on a pro-rata basis to 100% for an EPS of 19.0p per share) and 25% based on like-for-like non-fuel sales growth (25% of the sales growth related component vested if the Group's like-for-like non-fuel sales grew by 3% per annum compound rising on a pro-rata basis to 100% for growth of 5% per annum compound). Following the end of the 2009/10 financial year, the Remuneration Committee was satisfied that these performance targets had been met in full. As explained in last year's remuneration report, for tax planning purposes the 2007 LTIP awards in the above table (other than for Marc Bolland) were converted to forfeitable shares on 16 March 2010 so that sufficient shares could be sold on behalf of participants to pay the Income Tax and National Insurance liability in the 2009/10 tax year. In relation to these 2007 LTIP awards which vested in the year, recipients received a cash sum as payment for the dividends that would have been paid on the vested shares between the grant and vesting dates. Richard Pennycook received £48,545; Mark Gunter received £50,568 and Martyn Jones received £42,010.

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[2] LTIP awards granted in 2008 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 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. No awards can vest under the sales targets unless the threshold EPS target has been met. Following the end of the 2010/11 financial year, the Remuneration Committee is satisfied that the EPS performance of 23.0p will result in approximately 90% vesting of the shares comprising the EPS measure and that the sales measure has been met in full. Approximately 93% of the total 2008 LTIP award will therefore vest on 14 April 2011.

[3] LTIP awards granted in 2009 and 2010 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 against the IGD Index. 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 over three years. 25% of the sales growth related component will vest if the Group's like-for-like non-fuel sales match the IGD Index, rising on a pro-rata basis until 100% vests for outperforming the Index by at least 2% over three years. No awards can vest under the sales targets unless the threshold EPS target has been met.

[4] Marc Bolland's outstanding LTIP awards lapsed on 1 February 2010 when he ceased to be employed by the Company.

[5] As disclosed in last year's remuneration report, Dalton Philips was granted two share awards to facilitate his recruitment, compensating him for share awards forfeited upon leaving his previous employer. On 31 March 2010, Mr Philips was granted, pursuant to the authority contained in Listing Rule 9.4.2R2: (i) an unrestricted share award over 319,401 shares (designed to replace an award which was due to vest in March 2010); and (ii) a restricted share award over 120,965 shares which will vest on 25 March 2012 subject to continued employment (designed to replace a restricted share award where vesting was dependant upon continued employment but with no performance conditions).

[6] The monetary value of awards that have vested will be calculated by multiplying the relevant number of shares by the market price at the date of vesting.

## Share options

Options granted to Directors to acquire ordinary shares in the Group are as follows:

| Date of grant | At 31 Jan 2010 | Number of options during the 52 weeks ended 30 Jan 2011 Granted | Exercised | Lapsed | At 30 Jan 2011 | Exercise price | Market price on day of exercise | Gain on exercise £000 | Exercisable From | To |
|---|---|---|---|---|---|---|---|---|---|---|
| **R Pennycook** | | | | | | | | | | |
| 18 May 2007 | 3,825[1] | – | 3,825 | – | – | 247p | 262.7p | 1 | 1 Jul 2010 | 1 Jan 2011 |
| | 3,825 | – | 3,825 | – | – | | | 1 | | |
| **M Gunter** | | | | | | | | | | |
| 2 Apr 2003 | 260,000 | – | 260,000 | – | – | 175p | 300p | 325 | 2 Apr 2006 | 2 Apr 2013 |
| 12 Nov 2004 | 220,000 | – | 220,000 | – | – | 222p | 300p | 172 | 12 Nov 2007 | 12 Nov 2014 |
| 14 May 2009 | 4,621[1] | – | – | – | 4,621 | 198p | – | – | 1 Jul 2012 | 1 Jan 2013 |
| | 484,621 | – | 480,000 | – | 4,621 | | | 497 | | |
| **M Jones** | | | | | | | | | | |
| 5 Apr 2001 | 50,000 | – | 50,000 | – | – | 187p | 300p | 57 | 5 Apr 2004 | 5 Apr 2011 |
| 2 Apr 2003 | 88,000 | – | 88,000 | – | – | 175p | 300p | 110 | 2 Apr 2006 | 2 Apr 2013 |
| 14 May 2009 | 4,621[1] | – | – | – | 4,621 | 198p | – | – | 1 Jul 2012 | 1 Jan 2013 |
| | 142,621 | – | 138,000 | – | 4,621 | | | 167 | | |

[1] Options granted under the Sharesave scheme

The 1995 Senior Executive Share Option Scheme expired at the end of its 10-year life on 25 May 2005 and no grants have been made under it since November 2004. All performance conditions attached to options granted under this scheme have been satisfied in prior years.

The ordinary share mid-market price ranged from 257.60p to 306.30p and averaged 282.46p during the period. The price on 30 January 2011 was 264.0p compared to 291.30p on 1 February 2010.

### 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. Within the 10% limit, up to 5% may be used for discretionary share plans. As at 30 January 2011, the Group's share usage against these limits was 4.02% and 0.53% 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 beneficial interests of the Directors and their families in the shares of the Company were as follows:

| | 30 January 2011 Ordinary shares | 31 January 2010 Ordinary shares |
|---|---|---|
| I Gibson | **108,055** | 108,055 |
| D Philips | **188,183** | – |
| R Pennycook | **275,043** | 182,098 |
| M Gunter | **232,085** | 44,409 |
| P Cox | **–** | – |
| B Flanagan | **–** | – |
| P Hughes | **–** | – |
| P Manduca | **25,000** | 25,000 |
| N Robertson | **–** | – |
| J Waterous | **6,716** | – |

There were no changes in the above interests in the period from 30 January 2011 to 9 March 2011.

## Approval

This report in its entirety has been approved by the Remuneration Committee and the Board of Directors and signed on its behalf by

**Paul Manduca**
Chair of the Remuneration Committee
9 March 2011

# General information



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### The Directors' report and business review
Pages 2 to 51 inclusive of this Annual report consist of a Directors' report and business review that has been drawn up and presented in accordance with, and in reliance on, English company law. The liabilities of the Directors in connection with that Directors' report and business review shall be subject to the limitations and restrictions provided by the Companies Act 2006.

### Forward-looking statements
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 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 attributable to the owners of the Company amounted to £632m (2009/10: £598m). The Directors have declared and recommend the following dividends:

| | £m |
|---|---|
| Paid interim dividend of 1.23p per share (2009/10: 1.08p) | 32 |
| Recommended final dividend of 8.37p per share (2009/10: 7.12p) | 222 |

The final dividend, if approved by shareholders at the Annual General Meeting (AGM), is to be paid on 15 June 2011 to ordinary shareholders on the register of members at close of business on 13 May 2011. If the final dividend is approved by shareholders, the total ordinary dividend for the year will be 9.60p per share.

### Auditors
A resolution to re-appoint KPMG Audit Plc as auditors and a separate resolution to authorise the Directors to set their remuneration is to be proposed at the forthcoming AGM.

### Annual General Meeting
The notice of the 2011 AGM of the Company (to be held at the Company's headquarters at Gain Lane in Bradford on 9 June 2011) is to be sent to shareholders with an accompanying explanatory letter from the Chairman. The Directors believe each of the resolutions to be proposed at the AGM are in the best interests of the Group and recommend shareholders to vote in favour of each of them. Shareholders will also receive notification of the availability of the results on the Group's website, unless they have positively elected to receive a printed version of the results.

### Share capital
The authorised and called-up share capital of the Company, together with details of shares allotted during the year, are shown in note 22 of the Group financial statements.

At the AGM of the Company held in 2010, a special resolution was passed to renew the authority given at the AGM held in June 2009 to the purchase by the Company of up to 262,983,160 ordinary shares representing approximately 10% of the issued ordinary share capital at that time. This authority remained valid on 31 January 2011. During the period the Company did not purchase any of its own shares pursuant to that authority, which will expire at the close of the 2011 AGM.

In addition, 6,666,293 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 9 March 2011 the Company had been notified by the following shareholders (excluding Directors) that they have interests in 3% or more of the issued share capital of the Company:

| | Number of shares | % of holding |
|---|---|---|
| Black Rock Inc | 265,248,903 | 9.98 |
| Invesco | 133,357,656 | 5.02 |
| Brandes Investment Partners LP | 132,155,077 | 4.97 |
| Ameriprise Financial Inc | 131,284,252 | 4.90 |
| Nigel Pritchard | 112,883,882 | 4.25 |
| Walter Scott & Partners Ltd | 107,775,155 | 4.06 |
| Legal & General Group Plc | 104,976,462 | 3.94 |
| Susan Pritchard | 94,720,169 | 3.56 |
| Zurich Financial Services | 81,286,130 | 3.06 |

The number of shares appearing above is that appearing in the relevant notification to the Company. The percentage appearing above is the percentage that number represents of the issued share capital of the Company as at 9 March 2011.

### 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.

# General information – continued

## Directors

The current Directors of the Group and their biographies are shown on page 33. Marc Bolland resigned from the Board on 1 February 2010 and Johanna Waterous was appointed as a Non-Executive Director on the same day. Martyn Jones retired from the Board on 9 September 2010. On 31 January 2011, the Company announced that Mark Gunter will step down from the Board at the 2011 AGM, scheduled for 9 June 2011, and will leave the Group in June 2012. Paul Manduca served on the Board throughout the year and retired from the Board on 9 March 2011.

On 9 March 2011, Brian Flanagan informed the Board that he will step down from the Board at the 2011 AGM.

In line with the best practice guidance of Provision B.7.1 of the UK Corporate Governance Code, the Board has resolved that all Directors will submit themselves for re-election annually.

Accordingly, save for Mark Gunter and Brian Flanagan, who will both step down from the Board at the 2011 AGM, all of the current Directors, being eligible, will offer themselves for re-election at the 2011 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 39 to 48.

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.

## Employee relations

Morrisons is an Equal Opportunities employer. Equal Opportunities are offered to all regardless of race, colour, nationality, ethnic origin, sex (including gender reassignment), marital or civil partnership status, disability, religion or belief, sexual orientation, age or trade union membership.

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 candidates and employees who have a disability or become disabled in any way during the course of their employment. A full assessment of the individual's needs is undertaken and reasonable adjustments are made to the work environment or practices in order to assist those with disabilities.

All candidates and employees are treated equally in respect of recruitment, promotion, training, pay and other employment policies and conditions. All decisions are based on relevant merits and abilities.

## Political and charitable donations

During the period the Group made charitable donations amounting to £0.1m (2010: £0.1m). The donations were mainly small donations to support local communities. In addition the Group supported various charities and in the year over £1.3m (2010: £1.8m) was raised by customers and colleagues for the Charity of the Year and £0.4m raised for the Pakistan flood appeal. 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

The Directors' assessment of the Group and the Company's ability to continue as a going concern has taken into consideration the effect that the current economic climate has on the Group.

The Group's ability to borrow cash has not been adversely affected by the continuing lack of liquidity in the financial markets and the Group has negotiated and has available to it committed, competitive facilities that will meet the Group's needs in the short and medium term.

The principal risks that the Group is challenged with have been set out on page 20 along with how the Directors mitigate these risks in the current economic climate.

After reviewing the Group's financial forecasts including an assessment of working capital and other medium term plans, the Directors are confident that the Company and the Group have adequate financial resources available 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. It is Group policy to ensure all payments are made within mutually agreed credit terms. Where disputes arise the Group attempts to sort these out promptly and amicably to ensure delays in payment are kept to a minimum. Trade creditors for the Group at the financial year end represented 28 days of purchases (2010: 29 days).

## Groceries Supply Code of Practice

The Groceries Supply Code of Practice (GSCOP) came into effect on 4 February 2010. GSCOP replaced the existing Supermarket Code of Practice.

The new code, which applies to all grocery retailers with annual turnover in excess of £1bn, was part of a package of remedies introduced to address a number of issues identified by the Competition Commission at the conclusion of its market investigation into the supply of groceries in the UK.

Prior to implementation of GSCOP, the Group appointed a Code Compliance Officer and provided comprehensive training to in excess of 650 colleagues who work with the GSCOP code in their everyday dealings with suppliers. As required under the provisions of GSCOP, training has also been provided to all new employees who will be subject to the GSCOP code.

During the period since implementation, matters relating to GSCOP have been reported to the Board, through appropriate sub-committees, on a periodic basis. Although only recently implemented, the GSCOP process appears to be working well. The Board will continue to keep the important issue of GSCOP compliance under close supervision.

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## Health and safety policy

It is the Group's intention, so far as is reasonably practicable, to ensure the health, safety and welfare of all its employees, customers 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 Management 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

Additional information for shareholders is required by the implementation of the EU Takeover Directive into UK Law.

Pursuant to section 992 of the Companies Act 2006, the Company is required to disclose certain additional information. Such disclosures, which are not covered elsewhere in this report, include the following paragraphs. The disclosures set out below are in some cases a summary of the relevant provisions of the Company's Articles of Association and the relevant full provisions can be found in the Articles which are available for inspection at the Company's registered office.

### Share capital and rights attaching to the Company's shares

Under the Company's Articles of Association, any share in the Company may be issued with such rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise as the Company may from time-to-time by ordinary resolution determine (or, in the absence of any such determination, as the Directors may determine).

At a general meeting of the Company every member has one vote on a show of hands and, on a poll, one vote for each share held. The notice of general meeting specifies deadlines for exercising voting rights either by proxy or present in person in relation to resolutions to be passed at a general meeting.

No member is, unless the Board decides otherwise, entitled to attend or vote either personally or by proxy at a general meeting or to exercise any other right conferred by being a shareholder if he or any person with an interest in shares has been sent a notice under section 793 of the Companies Act 2006 (which confers upon public companies the power to require information with respect to interests in their voting shares), and he or any interested person failed to supply the Company with the information requested within 14 days after delivery of that notice. The Board may also decide that no dividend is payable in respect of those default shares and that no transfer of any default shares shall be registered. These restrictions end seven days after receipt by the Company of a notice of an approved transfer of the shares or all the information required by the relevant section 793 notice, whichever is the earlier.

The Directors may refuse to register any transfer of any share which is not a fully-paid share, although such discretion may not be exercised in a way which the Financial Services Authority regards as preventing dealings in the shares of the relevant class or classes from taking place on an open or proper basis. The Directors may likewise refuse to register any transfer of a share in favour of more than four persons jointly. The Company is not aware of any other restrictions on the transfer of shares in the Company other than certain restrictions that may from time to time be imposed by laws and regulations (for example, insider trading laws).

The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities or voting rights.

### Appointment and powers of Directors

Directors are appointed by ordinary resolution at a general meeting of ordinary shareholders. The Directors have the power to appoint a Director during the year but any person so appointed must be put up for appointment at the next AGM.

Subject to its Articles of Association and relevant statutory law and to such direction as may be given by the Company in general meeting by special resolution, the business of the Company shall be managed by the Directors, who may exercise all powers of the Company which are not required to be exercised by the Company in general meeting.

### Articles of Association

The Company's Articles of Association may only be amended by a special resolution at a general meeting of shareholders.

## Other disclosures

There are no persons with whom the Group has contractual or other arrangements which are essential to the business of the Group.

The Company is not party to any significant arrangements which take effect, alter or terminate upon a change of control of the Company following a takeover bid.

The Company does not have any employee share schemes where the shares to which the scheme relates have rights with regard to the control of the Company which are not exercisable by employees.

By the order of the Board

**Greg McMahon**
Company Secretary
9 March 2011

# Statement of Directors' responsibilities in respect of the Annual report and 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 IFRSs 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).

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of their profit or loss for that period. 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 judgements and estimates that are reasonable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs 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; and
- 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 adequate accounting records that are sufficient to show and explain the Parent Company's transactions and 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 2006. 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 complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK 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

**Greg McMahon**
Company Secretary
9 March 2011

# Independent auditors' report to the members of Wm Morrison Supermarkets PLC


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We have audited the financial statements of Wm Morrison Supermarkets PLC for the year ended 30 January 2011 set out on pages 54 to 101. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditors' 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

As explained more fully in the Directors' responsibilities statement set out on page 52, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm

### Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 30 January 2011 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the Parent Company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group financial statements, Article 4 of the IAS Regulation.

### Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 50, in relation to going concern;
- the part of the Corporate governance statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.


**Chris Hearld**
(Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants
1 The Embankment
Neville Street
Leeds
LS1 4DW

9 March 2011

# Consolidated financial statements

under International Financial Reporting Standards

## Group accounting policies

### General information

Wm Morrison Supermarkets PLC is a public limited company incorporated in the United Kingdom under the Companies Act 2006 (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

The financial statements have been prepared for the 52 weeks ended 30 January 2011 (2010: 31 January 2010) in accordance with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretation Committee interpretations (IFRIC) as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. IFRS and IFRIC are issued by the International Accounting Standards Board (the IASB) and must be adopted into European Union law, referred to as endorsement, before they become mandatory under the IAS Regulation. Shown below are recent standards and interpretations that have been issued by the IASB, indicating their status of endorsement.

The financial statements have been prepared on a going concern basis. The Directors' assessment of going concern has been considered within the general information section of the Directors' report.

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.

### Business combinations

IFRS 3 (revised) *Business combinations* and consequential amendments to IAS 27 *Consolidated and separate financial statements*, IAS 28 *Investments in associates* and IAS 31 *Interests in joint ventures*, are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

During the period, the Group has made two acquisitions as set out in note 27, and the requirements of these standards have been applied in accounting for these transactions. The Group's accounting policy under the new standards is set out within significant accounting policies.

### Long-leasehold land

The amendment to IAS 17 *Leases* is effective for annual periods beginning on or after 1 January 2010. During the period, the Group has reassessed the classification of unexpired land leases between operating and finance leases. Leases newly classified as finance leases have been accounted for retrospectively in accordance with IAS 8 *Accounting policies, changes in accounting estimates and errors*, and the required disclosures have been made.

The adoption of the amendment to IAS 17 *Leases* has resulted in a) derecognising long-lease land premiums previously classified within non-current asset lease prepayments, and the current element classified within debtors; and b) recognising a corresponding increase in the closing net book value of leasehold land and buildings to reflect the carrying value of the leased assets. The impact on previously disclosed costs and net book value for each of the balance sheet dates of 30 January 2011, 31 January 2010 and 1 February 2009 is detailed in notes 11 and 15.

The Group has assessed the present value of future minimum lease payments and considers these obligations to be immaterial for disclosure.

The depreciation rate on the newly classified leases is consistent with the annual amortisation charge incurred on the previous lease prepayments. Therefore there is no impact on profit for the period for the year ended 30 January 2011, or reserves of comparative periods.

There is no impact on earnings per share previously disclosed.

### New IFRS and amendments to IAS and interpretations

There are a number of standards and interpretations issued by the IASB 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 24* | Related party disclosures (revised) | 1 January 2011 |
| IFRS 7 | Amendment to Financial instruments: Disclosures on derecognition | 1 July 2011 |
| IAS 12 | Amendment to Income taxes on deferred tax | 1 January 2012 |
| IFRS 9 | Financial instruments | 1 January 2013 |
| International Financial Reporting Interpretations Committee | | |
| IFRIC 14* | IAS 19 Prepayment of a minimum funding requirement (amendment) | 1 January 2011 |
| IFRIC 19* | Extinguishing financial liabilities with equity instruments | 1 July 2010 |

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

The application of these standards and interpretations is not anticipated to have a material effect on the Group's financial statements.

### 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 financial statements 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 significant accounting policies in the context of the Group's operations:

### Segmental reporting

The Group is required to determine and present its operating segments based on the way in which financial information is organised and reported to the chief operating decision-maker (CODM). During the period there has been an internal reorganisation of the senior management structure, leading to the foundation of the Management Board (see page 35 for discussion of the role of this board and details of its members). Following this reorganisation, the CODM has been identified as the Management Board as it is this Board that makes the key operating decisions of the Group. Previously the CODM was reported as being the Executive Board.

The Directors consider, based on its internal reporting framework and management and operating structure, that it has one operating segment, that of grocery retailing. The level of disclosure of segmental and other information is driven by such assessment. Further details of the considerations made and the resulting disclosures are provided in note 3 to the financial statements.

### 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, vouchers 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.

#### b) Other sales

Other revenue primarily comprises income from concessions and commissions based on the terms of the contract and manufacturing sales made direct to third party customers recognised on despatch of goods. Revenue collected on behalf of others is not recognised as turnover, other than the related commission. Sales are recorded net of value added tax and intra-group transactions.

### Cost of sales

Cost of sales consists of all costs to the point of sale including manufacturing, warehouse and transportation costs. Store depreciation, store overheads and store-based employee costs are also allocated to cost of sales.

### 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.

### Other operating income

Other operating income primarily consists of income not directly related to the operating of supermarkets and mainly comprises rental income from investment properties and income generated from recycling of packaging. 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 12.

### Property transactions

Property includes the balance sheet headings of Property, plant and equipment and Investment property. The results of transactions relating to disposal of property are reported in profit for the period 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 profit for the period on an effective interest rate basis except for interest costs that are directly attributable to the construction of buildings and other qualifying assets which are capitalised and included within the initial cost of the asset. Capitalisation of interest ceases when the asset is ready for use.

## Group accounting policies – continued

### Deferred and current tax

The current income tax charge is calculated on the basis of the tax laws in effect during the period and any adjustments to tax payable in respect of previous periods. Taxable profit differs from the profit as reported in profit for the period as it is adjusted both for items that will never be taxable or deductible and temporary differences. Current tax is charged to profit for the period, 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 to profit for the period 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.

### Intangible assets

#### a) Business combinations and goodwill

The acquisition method of accounting is used to account for business combinations by the Group. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit for the period.

Goodwill arising on a business combination is not amortised but is reviewed for impairment on an annual basis or more frequently if there are indicators that goodwill may be impaired.

#### b) Software development costs

Costs that are directly attributable to the creation of identifiable software, which meet the development asset recognition criteria as laid out in IAS 38 *Intangible assets* are recognised as intangible assets. Direct costs include consultancy costs, the employment costs of internal software developers and borrowing costs. Borrowing costs are capitalised until such time as the software is substantially ready for its intended use.

All other software development and maintenance costs are recognised as an expense as incurred.

Computer software development costs recognised as assets are amortised over their estimated useful lives (3 to 10 years) on a straight-line basis.

#### c) Licences

Separately acquired pharmaceutical licences and software licences are recognised at historic cost. Those acquired in a business combination are recognised at fair value at the acquisition date. Pharmaceutical licences and software licences are amortised over their useful lives (3 to 10 years) on a straight-line basis.

### 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 buildings | 2.5% |
| Leasehold land | Over the lease period |
| Leasehold buildings | Over the shorter of lease period and 2.5% |
| Plant, equipment, fixtures and vehicles | 10–33% |
| Assets under construction | 0% |

### Investment property
Property held to earn rental income is classified as Investment property. Investment property is recorded at cost less accumulated depreciation and any recognised impairment loss. The depreciation policy is consistent with that described for property, plant and equipment.

Income from investment properties is disclosed in 'Other operating income' and details are shown in note 12 Investment property. The related operating costs are immaterial and are included within Administrative expenses.

### Impairment of non-financial assets
Property, plant and equipment, Investment property and Intangible assets 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 and other non-recoverable taxes less rebates. Stocks represent 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.

### 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 made available to third parties 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 charged on a straight-line basis to the date of the next rent review.

### Lessor accounting – finance leases
The Group does not lease any assets on a finance lease basis.

### Lessee accounting – operating leases
Rental payments are taken to profit for the period 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.

### Lessee accounting – finance leases
The present value, calculated using the interest rate implicit in the lease, of the future minimum lease payments is included within Property, plant and equipment 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 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.

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.

### 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 profit 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 revalued earnings.

## Group accounting policies – continued

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 20. The operating and financing costs of the scheme are recognised separately in profit for the period when 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 other comprehensive income.

The Group has a right to recognise an asset, should one arise, in respect of the Group's net obligations to the pension schemes. Therefore either an asset or a liability is recognised in the balance sheet, calculated separately for each scheme.

Payments by the Group to the defined contribution scheme are charged to profit for the period 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.

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.

### 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 and other 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 profit for the period. 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 profit for the period 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 through profit or loss.

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.

To minimise the risk from potential movements in energy prices, the Group has energy price contracts which are designated as cash flow hedges. To minimise the risk from potential movements in foreign exchange rates, the Group uses forward exchange contracts which are designated as cash flow hedges. In the prior year, the Group had a cross-currency swap designated as a cash flow hedge. This derivative financial instrument, which matured during the current financial year, was 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 movement in fair value of the derivative financial instrument is recognised in other comprehensive income and presented in the hedging reserve in equity.

The gain or loss on any ineffective part of the hedge is immediately recognised in profit for the period within Cost of sales in relation to the energy price contracts and within Finance income/costs in relation to the cross-currency swap. 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 profit for the period when the transaction occurs.

**Net debt**

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

**Share capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any Group company purchases the Company's equity share capital, the consideration paid, including directly attributable incremental costs, is deducted from retained earnings until the shares are cancelled. On cancellation, the nominal value of the shares is deducted from share capital and the amount is transferred to the capital redemption reserve.

**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 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 for 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 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) Determination of useful lives, residual values and carrying values of Intangible assets, Property, plant and equipment, and Investment property

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 Intangible assets, Property, plant and equipment and Investment property. The selection of these residual values and estimated lives, particularly in respect of plant and equipment, requires the exercise of judgement.

The Group is required to assess whether there is indication of impairment to the carrying values of assets. In making that assessment, judgements are made in estimating value in use. The Directors consider that the individual carrying values of stores and other operating assets are supportable either by value in use or market values.

# Consolidated statement of comprehensive income

52 weeks ended 30 January 2011

| | Note | 2011 £m | 2010 £m |
|---|---|---|---|
| **Turnover** | 2 | **16,479** | 15,410 |
| Cost of sales | | **(15,331)** | (14,348) |
| **Gross profit** | | **1,148** | 1,062 |
| | | | |
| Other operating income | | **80** | 65 |
| Administrative expenses | | **(323)** | (224) |
| (Losses)/profits arising on property transactions | | **(1)** | 4 |
| **Operating profit** | 5 | **904** | 907 |
| | | | |
| **Analysed as:** | | | |
| Operating profit before pensions credit | | **904** | 816 |
| Pensions credit within administrative expenses | 20 | **–** | 91 |
| **Operating profit** | | **904** | 907 |
| | | | |
| Finance costs | 6 | **(43)** | (60) |
| Finance income | 6 | **13** | 11 |
| **Profit before taxation** | | **874** | 858 |
| Taxation | 7 | **(242)** | (260) |
| **Profit for the period attributable to the owners of the Company** | | **632** | 598 |
| | | | |
| **Other comprehensive income/(expense):** | | | |
| Actuarial gain/(loss) arising in the pension scheme | 20 | **34** | (71) |
| Foreign exchange movements | | **–** | (1) |
| Cash flow hedging movement | | **3** | (11) |
| Tax in relation to components of other comprehensive income/(expense) | 7 | **(11)** | 22 |
| **Other comprehensive income/(expense) for the period, net of tax** | | **26** | (61) |
| | | | |
| **Total comprehensive income for the period attributable to the owners of the Company** | | **658** | 537 |
| | | | |
| Earnings per share (pence) | | | |
| – basic | 9 | **23.93** | 22.80 |
| – diluted | 9 | **23.43** | 22.37 |

# Consolidated balance sheet

30 January 2011


| | | | |
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| | Note | 2011 £m | Restated (note 11) 2010 £m | Restated (note 11) 2009 £m |
|---|---|---|---|---|
| **Assets** | | | | |
| **Non-current assets** | | | | |
| Intangible assets | 10 | **184** | – | – |
| Property, plant and equipment | 11 | **7,557** | 7,439 | 6,838 |
| Investment property | 12 | **229** | 229 | 242 |
| Net pension asset | 20 | **38** | – | – |
| Other financial assets | 14 | **3** | – | 81 |
| | | **8,011** | 7,668 | 7,161 |
| **Current assets** | | | | |
| Stocks | | **638** | 577 | 494 |
| Debtors | 15 | **268** | 199 | 244 |
| Other financial assets | 14 | **4** | 71 | – |
| Cash and cash equivalents | | **228** | 245 | 327 |
| | | **1,138** | 1,092 | 1,065 |
| **Liabilities** | | | | |
| **Current liabilities** | | | | |
| Creditors | 16 | **(1,914)** | (1,845) | (1,915) |
| Other financial liabilities | 17 | **–** | (213) | (1) |
| Current tax liabilities | | **(172)** | (94) | (108) |
| | | **(2,086)** | (2,152) | (2,024) |
| **Non-current liabilities** | | | | |
| Other financial liabilities | 17 | **(1,052)** | (1,027) | (1,049) |
| Deferred tax liabilities | 19 | **(499)** | (515) | (472) |
| Net pension liabilities | 20 | **–** | (17) | (49) |
| Provisions | 21 | **(92)** | (100) | (112) |
| | | **(1,643)** | (1,659) | (1,682) |
| **Net assets** | | **5,420** | 4,949 | 4,520 |
| **Shareholders' equity** | | | | |
| Called-up share capital | 22 | **266** | 265 | 263 |
| Share premium | 22 | **107** | 92 | 60 |
| Capital redemption reserve | 23 | **6** | 6 | 6 |
| Merger reserve | 23 | **2,578** | 2,578 | 2,578 |
| Retained earnings and hedging reserve | 23 | **2,463** | 2,008 | 1,613 |
| **Total equity attributable to the owners of the Company** | | **5,420** | 4,949 | 4,520 |

The financial statements on pages 54 to 88 were approved by the Board of Directors on 9 March 2011 and were signed on its behalf by:

**Dalton Philips**
Chief Executive

**Richard Pennycook**
Group Finance Director

# Consolidated cash flow statement

52 weeks ended 30 January 2011

| | Note | 2011 £m | Restated (note 11) 2010 £m |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from operations | 24 | **1,141** | 1,014 |
| Interest paid | | **(52)** | (60) |
| Taxation paid | | **(191)** | (209) |
| Net cash inflow from operating activities | | **898** | 745 |
| **Cash flows from investing activities** | | | |
| Interest received | | **5** | 8 |
| Proceeds from sale of property, plant and equipment | | **8** | 7 |
| Purchase of property, plant and equipment and investment property | | **(494)** | (916) |
| Purchase of intangible assets | | **(98)** | – |
| Cash outflow from acquisition of subsidiaries | 27 | **(3)** | – |
| Net cash outflow from investing activities | | **(582)** | (901) |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of ordinary shares | | **16** | 34 |
| New borrowings | | **25** | 200 |
| Repayment of borrowings | | **(154)** | (1) |
| Dividends paid to equity shareholders | | **(220)** | (159) |
| Net cash (outflow)/inflow from financing activities | | **(333)** | 74 |
| **Net decrease in cash and cash equivalents** | | **(17)** | (82) |
| Cash and cash equivalents at start of period | | **245** | 327 |
| **Cash and cash equivalents at end of period** | | **228** | 245 |

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

| | Note | 2011 £m | 2010 £m |
|---|---|---|---|
| Net decrease in cash and cash equivalents | | **(17)** | (82) |
| Cash outflow from decrease in debt and lease financing | | **154** | 2 |
| Cash inflow from increase in loans | | **(25)** | (200) |
| Other non-cash movements | | **(1)** | (2) |
| Debt acquired on acquisition of subsidiaries | 27 | **(4)** | – |
| Opening net debt | | **(924)** | (642) |
| **Closing net debt** | 25 | **(817)** | (924) |

# Consolidated statement of changes in equity

52 weeks ended 30 January 2011


| | | | |
|---|---|---|---|
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| Performance review | 22 | — | 31 |
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| **Group financial statements** | 52 | — | 88 |
| Company financial statements | 89 | — | 101 |
| Investor information | 102 | — | 105 |


| | Note | Attributable to the owners of the Company | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Share capital £m | Share premium £m | Capital redemption reserve £m | Merger reserve £m | Hedging reserve £m | Retained earnings £m | Total equity £m |
| **Current year** | | | | | | | | |
| At 31 January 2010 | | **265** | **92** | **6** | **2,578** | **3** | **2,005** | **4,949** |
| Profit for the period | | – | – | – | – | – | **632** | **632** |
| Other comprehensive income: | | | | | | | | |
| Actuarial gain arising in the pension scheme | 20 | – | – | – | – | – | **34** | **34** |
| Cash flow hedging movement | | – | – | – | – | **3** | – | **3** |
| Tax in relation to components of other comprehensive income | 7 | – | – | – | – | **(1)** | **(10)** | **(11)** |
| Total comprehensive income for the period | | – | – | – | – | **2** | **656** | **658** |
| Employees share options schemes: | | | | | | | | |
| Share-based payments | 26 | – | – | – | – | – | **17** | **17** |
| Share options exercised | 22 | **1** | **15** | – | – | – | – | **16** |
| Dividends | 8 | – | – | – | – | – | **(220)** | **(220)** |
| Total transactions with owners | | **1** | **15** | – | – | – | **(203)** | **(187)** |
| **At 30 January 2011** | | **266** | **107** | **6** | **2,578** | **5** | **2,458** | **5,420** |

| | Note | Attributable to the owners of the Company | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Share capital £m | Share premium £m | Capital redemption reserve £m | Merger reserve £m | Hedging reserve £m | Retained earnings £m | Total equity £m |
| **Prior year** | | | | | | | | |
| At 1 February 2009 | | 263 | 60 | 6 | 2,578 | 12 | 1,601 | 4,520 |
| Profit for the period | | – | – | – | – | – | 598 | 598 |
| Other comprehensive income: | | | | | | | | |
| Actuarial loss arising in the pension scheme | 20 | – | – | – | – | – | (71) | (71) |
| Foreign exchange movements | | – | – | – | – | – | (1) | (1) |
| Cash flow hedging movement | | – | – | – | – | (11) | – | (11) |
| Tax in relation to components of other comprehensive income | 7 | – | – | – | – | 2 | 20 | 22 |
| Total comprehensive (expense)/ income for the period | | – | – | – | – | (9) | 546 | 537 |
| Employees share options schemes: | | | | | | | | |
| Share-based payments | 26 | – | – | – | – | – | 17 | 17 |
| Share options exercised | 22 | 2 | 32 | – | – | – | – | 34 |
| Dividends | 8 | – | – | – | – | – | (159) | (159) |
| Total transactions with owners | | 2 | 32 | – | – | – | (142) | (108) |
| **At 31 January 2010** | | 265 | 92 | 6 | 2,578 | 3 | 2,005 | 4,949 |

# Notes to the Group financial statements

52 weeks ended 30 January 2011

## 1 Underlying profit

The Directors consider that underlying earnings per share measures referred to in the Chairman's statement, Operational review and Financial review provide additional useful information for shareholders on underlying trends and performance and reflects how the business is monitored internally. The adjustments are made to reported profit to (a) remove the impact of pension interest income volatility on profit for the period; (b) remove the one-off pensions credit as a result of the move from final salary to CARE (note 20); (c) remove losses or profits arising on property transactions since they 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.

| | 2011 £m | 2010 £m |
|---|---|---|
| Profit after tax | **632** | 598 |
| Add back: tax charge for the period[1] | **242** | 260 |
| Profit before tax | **874** | 858 |
| Adjustments for: | | |
| Net pension interest (income)/cost (note 6)[1] | **(6)** | 4 |
| Pensions credit[1] | **–** | (91) |
| Loss/(profit) arising on property transactions[1] | **1** | (4) |
| **Underlying profit before tax** | **869** | 767 |
| Taxation[1] | **(261)** | (230) |
| **Underlying profit after tax charge** | **608** | 537 |
| **Underlying earnings per share (pence)** | | |
| – basic (refer note 9(b)) | **23.03** | 20.47 |
| – diluted (refer note 9(b)) | **22.54** | 20.08 |

[1] Adjustments marked 1 equal £24m (2010: £61m) as shown in the reconciliation of earnings disclosed in note 9(b).

## 2 Sales analysis

This table is provided to reconcile like-for-like sales described in the Operational review with the total turnover.

| | Like-for-like stores | Other | 2011 Total £m | 2010 Total £m |
|---|---|---|---|---|
| Sale of goods in-stores | 12,242 | 695 | **12,937** | 12,423 |
| Fuel | 3,391 | 35 | **3,426** | 2,893 |
| Total store based sales | 15,633 | 730 | **16,363** | 15,316 |
| Other sales | 116 | – | **116** | 94 |
| **Total turnover** | 15,749 | 730 | **16,479** | 15,410 |

Fuel sales are removed from quoted like-for-like figures given the volatility in the fuel price to provide a more stable measure.

## 3 Segmental Reporting

The Group's principal activity is that of grocery retailing, derived solely from the UK. The Group is not reliant on any major customer of 10% or more of revenues.

### Consideration of IFRS 8 Operating segments

The Group has made the following considerations in arriving at conclusions and the corresponding disclosure in these financial statements:

IFRS 8 requires the consideration of the chief operating decision maker (CODM) within the Group. In line with the Group's internal reporting framework and management structure, the key operating decisions are made by the Management Board.

Consideration in particular was given to retail outlets, the fuel resale operation and the manufacturing entities.

Key internal reports received by the CODM, primarily the Board Management Accounts, focus on the performance of the Group as a whole. The operations of all elements of the business are driven by the retail sales environment and hence have fundamentally the same economic characteristics. All operational decisions made are focused on the performance and growth of the retail outlets and the ability of the business to meet the supply demands of the stores. Given this, the Group has considered the overriding core principals of IFRS 8 and has determined that it has one operating segment.

| | | | |
|---|---|---|---|
| Strategic review | 4 | — | 21 |
| Performance review | 22 | — | 31 |
| Governance | 32 | — | 51 |
| Group financial statements | 52 | — | 88 |
| Company financial statements | 89 | — | 101 |
| Investor information | 102 | — | 105 |


## 3 Segmental Reporting – continued

**Reconciliation of reportable segment revenues, profit or loss, assets and liabilities and other material items**

Performance is measured by the CODM based on profit as reported in the Board Management Accounts. This report presents the financial position before (a) income tax; (b) pension interest income volatility; and (c) profit arising from property related transactions. This underlying profit figure is used to measure performance as management believes that this is the most relevant in evaluating the results of the Group relative to other entities that operate within the retail industry. This information and the reconciliation to the statutory position can be found in note 1.

## 4 Employees and Directors

| | 2011 £m | 2010 £m |
|---|---|---|
| **Employee benefit expense for the Group during the period** | | |
| Wages and salaries | **1,663** | 1,638 |
| Social security costs | **122** | 113 |
| Share-based payments (note 26) | **19** | 17 |
| Pension costs | **32** | 29 |
| Pensions credit (note 20) | **–** | (91) |
| Other staff costs | **2** | 1 |
| | **1,838** | 1,707 |

| | 2011 No. | 2010 No. |
|---|---|---|
| **Average monthly number of people employed by business group** | | |
| Stores | **117,821** | 120,135 |
| Manufacturing | **5,861** | 4,810 |
| Distribution | **5,679** | 5,890 |
| Centre[2] | **2,713** | 2,908 |
| | **132,074** | 133,743 |

[2] In 2010 centre included employees on maternity leave and long term sick leave. In 2011 employees on maternity leave have been allocated to the appropriate business group.

In the prior year, key management comprised Executive and Non-Executive Directors. Following the internal reorganisation of the senior management structure leading to the foundation of the Management Board, the Group also considers members of the Management Board to be key management.

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

| | 2011 £m | 2010 £m |
|---|---|---|
| **Directors** | | |
| Short term employee benefits | **5.0** | 5.3 |
| Pension costs | **0.4** | 0.5 |
| Termination benefits | **0.3** | – |
| Share-based payments | **3.3** | 1.9 |
| | **9.0** | 7.7 |

There are two Executive Directors (2010: three) who have retirement benefits accruing under the Group's defined benefit pension scheme.

Additional information on Directors' emoluments (including the highest paid Director and gains on the exercise of share options and long term incentive schemes) can be found in the Directors' remuneration report on pages 39 to 48.

The aggregate remuneration paid or accrued for the period from which the Management Board formed in October 2010, excluding members already included in the Directors table above, is as follows:

| | 2011 £m |
|---|---|
| **Management Board** | |
| Short term employee benefits | **2.3** |
| Pension costs | **0.1** |
| Share-based payments | **0.7** |
| | **3.1** |

## 5 Operating profit

| | 2011 £m | Restated (note 11) 2010 £m |
|---|---|---|
| The following items have been included in arriving at operating profit: | | |
| Depreciation: | | |
| – property, plant and equipment – owned assets | **300** | 298 |
| – property, plant and equipment – under finance lease | **2** | 2 |
| – investment property | **7** | 6 |
| Charge to profit for the period | **309** | 306 |
| Amortisation | **10** | – |
| Operating lease rentals: | | |
| – minimum lease payments | **44** | 40 |
| – sublease receipts | **(6)** | (6) |
| Value of stock expensed | **12,380** | 11,548 |

**Services provided by the Group's auditor**

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

| | 2011 £m | 2010 £m |
|---|---|---|
| Audit services | | |
| – statutory Group and Company audit | **0.5** | 0.4 |
| – statutory audit of subsidiaries | **0.2** | 0.2 |
| – audit related regulatory reporting | **–** | 0.1 |
| Tax services | | |
| – advisory services | **0.1** | 0.1 |
| Other | | |
| – independent project assurance | **0.5** | 0.9 |
| | **1.3** | 1.7 |

## 6 Finance costs and income

| | 2011 £m | 2010 £m |
|---|---|---|
| Interest payable on short term loans and bank overdrafts | **(6)** | (5) |
| Interest payable on bonds | **(36)** | (45) |
| Interest capitalised | **7** | 5 |
| Total interest payable | **(35)** | (45) |
| Fair value movement of derivative instruments | **(1)** | (8) |
| Other finance costs | **(7)** | (7) |
| **Finance costs** | **(43)** | (60) |
| Bank interest received | **3** | 4 |
| Amortisation of bonds | **3** | 8 |
| Other finance income | **1** | 3 |
| Pension liability interest cost | **(120)** | (109) |
| Expected return on pension assets | **126** | 105 |
| Net pension interest income/(expense) | **6** | (4) |
| **Finance income** | **13** | 11 |
| **Net finance cost** | **(30)** | (49) |

Interest is capitalised at the effective interest rate incurred on borrowings before taxation. Tax relief is obtained on interest paid and this reduces the tax charged for the period.

## 7 Taxation

### a) Analysis of charge in the period

| | 2011 £m | 2010 £m |
|---|---|---|
| Corporation tax | | |
| – current period | **280** | 205 |
| – adjustment in respect of prior period | **(5)** | (27) |
| | **275** | 178 |
| Deferred tax | | |
| – current period | **(33)** | 54 |
| – adjustment in respect of prior period | **–** | 28 |
| | **(33)** | 82 |
| **Tax charge for the period** | **242** | 260 |

### b) Tax on items charged/(credited) in other comprehensive income

| | 2011 £m | 2010 £m |
|---|---|---|
| Actuarial gain/(loss) arising in the pension scheme | **10** | (20) |
| Cash flow hedges | **1** | (2) |
| Total tax on items included in other comprehensive income | **11** | (22) |
| | | |
| Analysis of items (credited)/charged to other comprehensive income: | | |
| Current tax | **(6)** | 17 |
| Deferred tax (note 19) | **17** | (39) |

### c) Tax reconciliation

The tax for the period is lower (2010: higher) than the standard rate of corporation tax in the UK of 28% (2010: 28%). The differences are explained below:

| | 2011 £m | 2010 £m |
|---|---|---|
| Profit before tax | **874** | 858 |
| Profit before tax at 28% (2010: 28%) | **245** | 240 |
| *Effects of:* | | |
| Expenses not deductible for tax purposes | **1** | 4 |
| Non-qualifying depreciation | **31** | 24 |
| Deferred tax on Safeway acquisition assets | **(11)** | (8) |
| Divestment profits not taxable | **–** | 1 |
| Effect of change in tax rate | **(20)** | – |
| Other | **1** | (2) |
| Prior period adjustments | **(5)** | 1 |
| **Tax charge for the period** | **242** | 260 |

## 8 Dividends

| | 2011 £m | 2010 £m |
|---|---|---|
| Amounts recognised as distributed to equity holders in the year: | | |
| Interim dividend for the year ended 30 January 2011 of 1.23p (2010: 1.08p) | **32** | 28 |
| Final dividend for the year ended 31 January 2010 of 7.12p (2009: 5.0p) | **188** | 131 |
| | **220** | 159 |

The Directors are proposing a final dividend in respect of the financial period ending 30 January 2011 of 8.37p per share which will absorb an estimated £222m of shareholders' funds. Subject to approval at the AGM, it will be paid on 15 June 2011 to shareholders who are on the register on 13 May 2011.

A dividend reinvestment plan is available in respect of the final dividend.

## 9 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.

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 (2010: two) classes of instrument 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.

### 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:

| | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| | 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 | **632** | **2,640.5** | **23.93** | 598 | 2,623.3 | 22.80 |
| **Effect of dilutive instruments** | | | | | | |
| Share options and LTIPs | **–** | **56.4** | **(0.50)** | – | 50.5 | (0.43) |
| **Diluted EPS** | **632** | **2,696.9** | **23.43** | 598 | 2,673.8 | 22.37 |

### b) Underlying earnings per share

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

| | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| | Earnings £m | Weighted average number of shares millions | EPS pence | Earnings £m | Weighted average number of shares millions | EPS pence |
| **Underlying EPS** | | | | | | |
| **Basic EPS** | | | | | | |
| Earnings attributable to ordinary shareholders | **632** | **2,640.5** | **23.93** | 598 | 2,623.3 | 22.80 |
| Adjustments to determine underlying profit (note 1) | **(24)** | **–** | **(0.90)** | (61) | – | (2.33) |
| | **608** | **2,640.5** | **23.03** | 537 | 2,623.3 | 20.47 |
| **Effect of dilutive instruments** | | | | | | |
| Share options and LTIPs | **–** | **56.4** | **(0.49)** | – | 50.5 | (0.39) |
| **Diluted EPS** | **608** | **2,696.9** | **22.54** | 537 | 2,673.8 | 20.08 |

### c) Adjusted earnings per share

In prior years earnings per share calculations for the purposes of the LTIP performance conditions varied from underlying earnings per share. However, for all schemes existing at the current year end and future schemes, the performance conditions are based on underlying earnings per share without further adjustment.

## 10 Intangible assets

| | Goodwill £m | Software development costs £m | Licences £m | Total £m |
|---|---|---|---|---|
| **Current year** | | | | |
| **Cost** | | | | |
| At 31 January 2010 | – | – | – | **–** |
| Acquired in a business combination (note 27) | 7 | – | – | **7** |
| Transferred from property, plant and equipment | – | 78 | 11 | **89** |
| Additions | – | 89 | 9 | **98** |
| Interest capitalised | – | 6 | – | **6** |
| **At 30 January 2011** | 7 | 173 | 20 | **200** |
| **Accumulated amortisation and impairment** | | | | |
| At 31 January 2010 | – | – | – | **–** |
| Charge for the period | – | 6 | 4 | **10** |
| Reclassified from property, plant and equipment | – | 3 | 3 | **6** |
| **At 30 January 2011** | – | 9 | 7 | **16** |
| **Net book amount** | | | | |
| **At 30 January 2011** | 7 | 164 | 13 | **184** |
| At 31 January 2010 | – | – | – | **–** |

Software development costs includes £6m (2010: £nil) in respect of capitalised borrowing costs.

During the year software development costs and licences previously held within Property, plant and equipment have been reclassified and presented separately within Intangible assets. During the implementation of the Group's new IT systems, these costs have become more significant that in previous years and management consider that given the increased cost associated with these assets, presenting them separately provides more useful information to the users of the financial statements. The reclassification has no impact on profit for the period.

## 11 Property, plant and equipment

| | Land and buildings | | | |
|---|---|---|---|---|
| | Freehold £m | Leasehold £m | Plant, equipment, fixtures & vehicles £m | Total £m |
| **Current year** | | | | |
| **Cost** | | | | |
| At 31 January 2010 (restated) | 6,894 | 833 | 1,777 | **9,504** |
| Acquisition of subsidiary undertakings (note 27) | 6 | 3 | 5 | **14** |
| Additions at cost | 242 | 53 | 186 | **481** |
| Interest capitalised | 1 | – | – | **1** |
| Transfer from investment properties | 17 | – | – | **17** |
| Transfer to intangible assets | – | – | (89) | **(89)** |
| Disposals | (8) | (3) | (34) | **(45)** |
| **At 30 January 2011** | 7,152 | 886 | 1,845 | **9,883** |
| **Accumulated depreciation and impairment** | | | | |
| At 31 January 2010 (restated) | 797 | 106 | 1,162 | **2,065** |
| Charge for the period | 90 | 21 | 191 | **302** |
| Transfer from investment properties | 1 | – | – | **1** |
| Transfer to intangible assets | – | – | (6) | **(6)** |
| Disposals | (3) | (2) | (31) | **(36)** |
| **At 30 January 2011** | 885 | 125 | 1,316 | **2,326** |
| **Net book amount at 30 January 2011** | 6,267 | 761 | 529 | **7,557** |
| **Assets under construction included above** | 110 | 2 | 25 | **137** |

## 11 Property, plant and equipment – continued

Since 3 February 1985, the cost of financing property developments prior to their opening date has been included in the cost of the project. The cumulative amount of interest capitalised in the total cost above amounts to £246m (2010: £245m).

The totals above includes a net book amount of £273m (2010: £259m) and depreciation of £13m (2010: £11m) in relation to property, plant and equipment held under finance lease.

Leasehold land and buildings have been restated for the comparative periods as a result of an amendment to IAS 17 *Leases*. At 30 January 2011, the effect is a decrease of £271m (2010: £257m; 2009: £250m) to non-current asset lease prepayments and an increase to closing net book value of leasehold land and buildings of £273m (2010: £259m; 2009: £251m).

| | Land and buildings | | Plant, equipment, fixtures & vehicles £m | Restated Total £m |
|---|---|---|---|---|
| | Freehold £m | Restated Leasehold £m | | |
| **Prior year** | | | | |
| **Cost** | | | | |
| At 1 February 2009 (restated) | 6,519 | 635 | 1,449 | 8,603 |
| Additions at cost | 346 | 196 | 337 | 879 |
| Interest capitalised | 5 | – | – | 5 |
| Transfer from investment properties | 28 | 2 | – | 30 |
| Disposals | (4) | – | (9) | (13) |
| **At 31 January 2010 (restated)** | 6,894 | 833 | 1,777 | 9,504 |
| **Accumulated depreciation and impairment** | | | | |
| At 1 February 2009 (restated) | 681 | 86 | 998 | 1,765 |
| Charge for the period | 107 | 20 | 173 | 300 |
| Transfer from investment properties | 10 | – | – | 10 |
| Disposals | (1) | – | (9) | (10) |
| **At 31 January 2010 (restated)** | 797 | 106 | 1,162 | 2,065 |
| **Net book amount at 31 January 2010 (restated)** | 6,097 | 727 | 615 | 7,439 |
| **Assets under construction included above** | 32 | 2 | 158 | 192 |

## 12 Investment property

| | 2011 £m | 2010 £m |
|---|---|---|
| **Cost** | | |
| At start of period | **277** | 294 |
| Additions | **23** | 13 |
| Transfer to property, plant and equipment | **(17)** | (30) |
| **At end of period** | **283** | 277 |
| **Accumulated depreciation** | | |
| At start of period | **48** | 52 |
| Charge for the period | **7** | 6 |
| Transfer to property, plant and equipment | **(1)** | (10) |
| **At end of period** | **54** | 48 |
| **Net book amount at end of period** | **229** | 229 |

Included in other operating income is £22m (2010: £21m) of rental income generated from investment properties.

The fair value of investment properties at the end of the period was £279m (2010: £281m). The Directors do not believe that there has been a material change in yield since last year.

## 13 Capital commitments

| | 2011 £m | 2010 £m |
|---|---|---|
| Contracts placed for future capital expenditure not provided in the financial statements | **178** | 95 |

## 14 Other financial assets

| | 2011 £m | 2010 £m |
|---|---|---|
| **Non-current assets** | | |
| Energy price contracts | **3** | – |
| **Current assets** | | |
| Cross-currency swaps | **–** | 71 |
| Energy price contracts | **4** | – |

The cross-currency swaps covered the Group from currency exposure arising from payments of interest and repayment of the principal in relation to Euro bonds. The cross-currency swaps and the Euro bonds matured and were repaid during the year.

The notional principal amount of the outstanding cross-currency swaps at 30 January 2011 was €nil (2010: €250m).

## 15 Debtors

| | 2011 £m | Restated (note 11) 2010 £m |
|---|---|---|
| Trade debtors | **201** | 148 |
| Less: Provision for impairment of trade debtors | **(4)** | (3) |
| | **197** | 145 |
| Other debtors | **18** | 11 |
| Prepayments and accrued income | **53** | 43 |
| | **268** | 199 |

Debtors have been restated for the comparative periods as a result of an amendment to IAS 17 *Leases*. The impact at 30 January 2011 is a decrease of £2m (2010: £2m; 2009: £1m).

The ageing analysis of trade debtors is as follows:

| | 2011 £m | 2010 £m |
|---|---|---|
| Neither past due nor impaired | **191** | 137 |
| Past due but not impaired: | | |
| – not more than three months | **3** | 6 |
| – greater than three months | **3** | 2 |
| Impaired debt | **4** | 3 |
| | **201** | 148 |

As at 30 January 2011, trade debtors, that were neither past due nor impaired, related to a number of debtors for whom there is no recent history of default.

The other classes of debtors do not contain impaired assets.

## 16 Creditors – current

| | 2011 £m | 2010 £m |
|---|---|---|
| Trade creditors | **1,400** | 1,350 |
| Other taxes and social security payable | **33** | 32 |
| Other creditors | **127** | 134 |
| Accruals and deferred income | **354** | 329 |
| | **1,914** | 1,845 |

## 17 Other financial liabilities

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

| | 2011 £m | 2010 £m |
|---|---|---|
| **Current** | | |
| **Bank loans, bonds overdrafts due within one year or on demand:** | | |
| €250m Euro bonds 6.50% April 2010 | **–** | 198 |
| | **–** | 198 |
| Energy price contracts | **–** | 14 |
| Forward foreign exchange contracts | **–** | 1 |
| | **–** | 213 |

| | 2011 £m | 2010 £m |
|---|---|---|
| **Non-current** | | |
| £150m Sterling bonds 6.50% August 2014 | **154** | 154 |
| £200m Sterling bonds 6.00% January 2017 | **201** | 202 |
| £200m Sterling bonds 6.12% December 2018 | **204** | 205 |
| Total non-current bonds | **559** | 561 |
| Floating credit facility – 1.13% (2010: 0.81%) | **475** | 450 |
| Other loans – 9.38% | **11** | 11 |
| Energy price contracts | **–** | 5 |
| Finance lease obligations | **7** | – |
| | **1,052** | 1,027 |

### Borrowing facilities

Borrowings are denominated in Sterling and bear fixed interest rates, with the exception of the floating credit facility which bears floating interest rates. All borrowings are unsecured.

The expiry date for the floating credit facility is consistent with the undrawn element of the facility disclosed below.

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:

| | 2011 £m | 2010 £m |
|---|---|---|
| Undrawn facilities expiring: | | |
| – between 1 and 2 years | **625** | – |
| – between 2 and 3 years | **–** | 650 |

# 18 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, bonds, other 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 deposits which arise directly from its operations.

The Group enters into derivative transactions, in the form of forward currency contracts, cross-currency swaps and energy price contracts. The purpose of these derivative instruments is to manage risks arising from the Group's operations and its sources of finance. As part of normal banking arrangements, the Group utilises letters of credit in order to facilitate contracts with third parties. The financial derivatives relating to commitments entered into during the year are to manage the risks arising from its usage of energy and foreign currency. It remains the Group's policy not to engage in speculative trading of financial instruments.

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 makes the majority of its purchases in Sterling, however it incurs currency exposure in respect of overseas trade purchases made in currencies other than Sterling, primarily being Euro and US Dollar. The Group's objective is to reduce risk to short term profits and losses from exchange rate fluctuations. It is Group policy that any transactional currency exposures recognised to have a material impact on short term profits and losses 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 on up to 50% (2010: 50%) of its forecasted purchases within the next six months.

The sensitivity to a reasonably possible change (+/– 20%) in the US Dollar/Euro exchange rate 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. At the year end, the Group had undrawn committed facilities of £625m (note 17); these facilities remain available to the Group.

The table below summarises the maturity profile of the Group's other financial liabilities based on contractual undiscounted payments, which includes interest payments. Creditors and current tax liabilities have been excluded from this analysis as these balances are due within 12 months and their contractual undiscounted payments equal their carrying balances as the impact of discounting is not significant. Where borrowings are subject to a floating rate, an estimate for interest has been made.

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.

| | 2011 £m | 2010 £m |
|---|---|---|
| Less than one year | **41** | 270 |
| One to two years | **516** | 39 |
| Two to three years | **42** | 487 |
| Three to four years | **185** | 35 |
| Four to five years | **25** | 185 |
| More than five years | **468** | 493 |

## 18 Financial instruments – continued

### a) Financial risk management – continued

#### ii) Liquidity risk – continued

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

| At 30 January 2011 | < 1 year £m | 1–2 years £m | 2–3 years £m | 3–4 years £m |
|---|---|---|---|---|
| **Derivatives settled on a gross basis** | | | | |
| Forward contracts – cash flow hedges | | | | |
| – Outflow | **(54)** | **–** | **–** | **–** |
| – Inflow | **54** | **–** | **–** | **–** |
| **Derivatives settled on a net basis** | | | | |
| Energy price contracts – cash flow hedges | | | | |
| – Outflow | **(4)** | **(3)** | **–** | **–** |

| At 31 January 2010 | < 1 year £m | 1–2 years £m | 2–3 years £m | 3–4 years £m |
|---|---|---|---|---|
| **Derivatives settled on a gross basis** | | | | |
| Cross-currency swap – cash flow hedges | | | | |
| – Outflow | (160) | – | – | – |
| – Inflow | 231 | – | – | – |
| Forward contracts – cash flow hedges | | | | |
| – Outflow | (51) | – | – | – |
| – Inflow | 50 | – | – | – |
| **Derivatives settled on a net basis** | | | | |
| Energy price contracts – cash flow hedges | | | | |
| – Outflow | (14) | (4) | (2) | – |

#### iii) Credit risk

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents, deposits with banking groups as well as credit exposures from other sources of income such as supplier income and tenants of investment properties.

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 banking group 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 does not expect any significant performance losses from counterparties.

The Group trades only with recognised, creditworthy third parties. It is the Group's policy that tenants of investment properties 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 15. There are no significant concentrations of credit risk within the Group.

#### iv) Other risk

Pricing risk: The Group manages the risks associated with the purchase of electricity, gas and diesel consumed by its activities. This does not include fuel purchased for resale to customers. The Treasury Committee reviews the Group's market price exposure to these commodities on a quarterly basis and determines a strategy for utilising derivative financial products in order to mitigate the volatility of energy prices.

The Group intends to hold derivatives to maintain cover of its energy purchases of up to 75% over an appropriate timescale.

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 55% (2010: 61%) of the Group's borrowings are at fixed rate, thereby substantially reducing the Group's exposure to adverse movements in interest rates.

Cash and cash equivalents are a significant interest-bearing asset held by the Group. At year end, a 1% movement in interest rate would have had a £2m (2010: £2m) impact on the Group's annual finance income/(expense). There are no other significant interest-bearing assets held by the Group.

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## 18 Financial instruments – continued

### b) Capital management

The Group defines the capital that it manages as the Group's total equity and net debt balances.

The Group's objectives are to safeguard its ability to continue as a going concern providing returns to shareholders, through the optimisation of the debt and equity balance, and to maintain a strong credit rating and headroom. The Group manages its capital structure and makes appropriate decisions in light of the current economic conditions and strategic objectives of the Group. Initiatives available to achieve the Group's desired capital structure include adjusting the amount of dividends paid to shareholders, issuing new shares and buying back share capital.

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 has been no change in the objectives, policies or processes with regards to capital management during the years ended 30 January 2011 and 31 January 2010.

### c) Fair values

#### i) Financial assets

All financial derivatives are held at fair value which has been determined by reference to prices available from the markets on which the instruments are traded.

Cash and cash equivalents and Debtors are held at book value which equals the fair value. The values of the financial assets are disclosed within note 14.

#### ii) Financial liabilities

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:

| | 2011 Amortised cost £m | 2011 Fair value £m | 2010 Amortised cost £m | 2010 Fair value £m |
|---|---|---|---|---|
| Total bonds – current | – | – | 198 | 220 |
| Total bonds – non-current | **559** | **621** | 561 | 598 |
| | **559** | **621** | 759 | 818 |

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

### d) Hedging activities

#### Cash flow hedge

At 31 January 2010, the Company held a cross-currency swap was been designated as a cash flow hedge. This derivative financial instrument was used to minimise risk from potential movements in foreign exchange rates inherent in cash flow of certain liabilities which have been settled during the current year.

To minimise the risk from potential movements in energy prices, the Group has energy price contracts which are also designated as cash flow hedges.

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 30 January 2011, the total notional amount of outstanding forward foreign exchange contracts to which the Group has committed was £54m (2010: £51m). The fair value of these outstanding forward contracts at the balance sheet date was a liability of £nil (2010: £1m).

## 18 Financial instruments – continued

### e) Fair value hierarchy

IFRS 7 requires an analysis of financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

All financial instruments carried at fair value within the Group at 30 January 2011 and 31 January 2010 are financial derivatives and all are categorised as Level 2 instruments.

## 19 Deferred tax

| | 2011 £m | 2010 £m |
|---|---|---|
| Deferred tax liability | **(544)** | (563) |
| Deferred tax asset | **45** | 48 |
| Net deferred tax liability | **(499)** | (515) |

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 (liabilities)/assets 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 31 January 2010 | (563) | 5 | 3 | 40 | **(515)** |
| Credited/(charged) to profit for the period | 29 | (5) | – | 9 | **33** |
| Charged to other comprehensive income | – | (10) | – | (7) | **(17)** |
| **At 30 January 2011** | (534) | (10) | 3 | 42 | **(499)** |
| **Prior year** | | | | | |
| At 1 February 2009 | (546) | 14 | 6 | 54 | (472) |
| Charged to profit for the period | (17) | (29) | (3) | (33) | (82) |
| Credited to other comprehensive income | – | 20 | – | 19 | 39 |
| **At 31 January 2010** | (563) | 5 | 3 | 40 | (515) |

Included within the total credited/(charged) to profit for the period is an amount credited of £20m (2010: £nil) and within the total charged to other comprehensive income of £2m (2010: £nil) in respect of the change in the tax rate at which deferred tax balances are expected to reverse.

It has been announced that the tax rate will continue to be reduced by 1% per year to 24%. This has yet to be enacted.

## 20 Pensions

### a) Defined benefit pension scheme

The Group operates two defined benefit pension schemes, the 'Morrison' and 'Safeway' schemes, providing benefits 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 revalued earnings (CARE). The assets of the schemes are held in separate trustee administered funds; no part of the schemes is wholly unfunded. The latest full actuarial valuations, which were carried out at 6 April 2010 and 1 April 2010 for the Morrison and Safeway schemes respectively, were updated for IAS 19 *Employee benefits* purposes for the period to 30 January 2011 by a qualified independent actuary.

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## 20 Pensions – continued

### a) Defined benefit pension scheme – continued

During the prior year, the pension schemes moved from a final salary basis to career average revalued earnings representing an accounting curtailment of certain pension liabilities. In accordance with IAS 19 *Employee benefits*, the defined pension schemes' obligations were revalued by the schemes' actuaries immediately prior to the change and assumptions reviewed at that date. As a result a pensions credit of £91m was recognised in profit for the period during the prior year.

On 8 July 2010 the Government announced that the Consumer Price Index (CPI) rather than the Retail Price Index (RPI) will be used as the basis for inflationary increases to pensions in its next update of the statutory requirement. Following this, the Accounting Standards Board has issued UITF 48 *Accounting implications of the replacement of the retail prices index with the consumer prices index for retirement benefits* clarifying the required accounting treatment and indicating the use of CPI rather than RPI where the scheme rules allow. In the absence of specific guidance issued under IFRS, the requirements of this UITF have been applied in accounting for this change. The Group has consulted with its advisors and based on review of certain clauses in the schemes' trust deeds has concluded that this change is applicable to certain deferred members within the Group's defined benefit schemes. The trust deeds state that for those members affected, a statutory index should be used and therefore the actuarial assumptions applied within this financial report have been updated accordingly. This has resulted in a credit of £72m recognised in other comprehensive income within actuarial gains/(losses) during the year.

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 31 January 2011 is £36m (2010: £42m).

### b) Assumptions

The major assumptions used in this valuation to determine the present value of the schemes' defined benefit obligation are shown below. The assumptions used at the valuation date of 2 July 2009, used in calculating the pension credit recognised in the year to 31 January 2010 of £91m, remained the same as the previous year end (1 February 2009) apart from the discount rate, which reduced from 6.25% to 6.0%.

#### i) Financial

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| Rate of increases in salaries | **5.05%** | 4.85–5.85% | 4.75–5.75% |
| Rate of increase in pensions in payment and deferred pensions | **3.30%–3.80%** | 3.60% | 3.50% |
| Discount rate applied to scheme liabilities | **5.60%** | 5.65% | 6.25% |
| Inflation assumption | **3.80%** | 3.60% | 3.50% |

#### 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:

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| Male | **24.2** | 23.5 | 23.5 |
| Female | **25.1** | 25.8 | 25.8 |

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

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| Male | **21.8** | 22.2 | 22.2 |
| Female | **22.8** | 24.7 | 24.7 |

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.

## 20 Pensions – continued

### ii) Longevity – continued

The current mortality table used is S1PMA/S1PFA-Heavy YOB (2010 and 2009: PNX00 YOB LC). As disclosed in the Critical accounting assumptions on page 59, the results of the experience study conducted for the Safeway scheme have been used to adjust the longevity assumption for both schemes.

### iii) Expected return on assets

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

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| Long term rate of return on: | | | |
| Equities | **7.45%** | 7.25% | 7.00% |
| Corporate bonds | **5.60%** | 5.65% | 6.00% |
| Gilts | **4.44%** | 4.35% | 4.25–4.50% |
| Property related funds | **5.60%** | 5.65% | 6.00% |
| Cash | **1.50%** | 1.50% | 2.50% |

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.

### 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 categories 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 value 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:

| | 2011 £m | 2010 £m | 2009 £m |
|---|---|---|---|
| Equities | **1,001** | 798 | 592 |
| Corporate bonds | **667** | 636 | 547 |
| Gilts | **622** | 609 | 545 |
| Property and property related funds | **4** | 54 | 71 |
| Cash | **10** | 14 | 3 |
| Total fair value of schemes' assets | **2,304** | 2,111 | 1,758 |
| Present value of defined benefit funded obligation | **(2,266)** | (2,128) | (1,807) |
| **Net pension asset/(liability) recognised in the balance sheet** | **38** | (17) | (49) |
| Related deferred tax (liability)/asset (note 19) | **(10)** | 5 | 14 |
| **Net surplus/(deficit)** | **28** | (12) | (35) |

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

| | 2011 £m | 2010 £m | 2009 £m |
|---|---|---|---|
| Fair value of scheme assets at start of period | **2,111** | 1,758 | 1,939 |
| Expected return on scheme assets | **126** | 105 | 130 |
| Actuarial gain/(loss) recognised in other comprehensive income | **62** | 245 | (425) |
| Employer contributions | **41** | 42 | 141 |
| Employee contributions | **10** | 10 | 10 |
| Benefits paid | **(46)** | (49) | (37) |
| **Fair value of scheme assets at end of period** | **2,304** | 2,111 | 1,758 |

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.

## 20 Pensions – continued

### c) Valuations – continued

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

| | 2011 £m | 2010 £m | 2009 £m |
|---|---|---|---|
| Defined benefit obligation at start of period | **(2,128)** | (1,807) | (2,007) |
| Current service cost | **(26)** | (26) | (38) |
| Employee contributions | **(10)** | (10) | (10) |
| Interest on defined benefit obligation | **(120)** | (109) | (113) |
| Actuarial (loss)/gain recognised in other comprehensive income | **(28)** | (316) | 324 |
| Benefits paid | **46** | 49 | 37 |
| Pensions credit | **–** | 91 | – |
| **Defined benefit obligation at end of period** | **(2,266)** | (2,128) | (1,807) |

### d) Sensitivities

Below is listed the impact on the liabilities at 30 January 2011 of changing key assumptions whilst holding other assumptions constant:

| | | |
|---|---|---|
| Discount factor | +/– 0.1% | £57m |
| Longevity | +/– 1 year | £75m |

### e) Profit for the period

The following amounts have been (charged)/credited in employee benefits in arriving at operating profit:

| | 2011 £m | 2010 £m | 2009 £m |
|---|---|---|---|
| Current service cost | **(26)** | (26) | (38) |
| Pensions credit | **–** | 91 | – |
| | **(26)** | 65 | (38) |

The amounts for current service cost and pensions credit have been (charged)/credited in the following income statement lines:

| | 2011 £m | 2010 £m | 2009 £m |
|---|---|---|---|
| Cost of sales | **(21)** | (21) | (30) |
| Administrative expenses | **(5)** | 86 | (8) |
| | **(26)** | 65 | (38) |

The following amounts have been included in finance income:

| | 2011 £m | 2010 £m | 2009 £m |
|---|---|---|---|
| Expected return on pension scheme assets | **126** | 105 | 130 |
| Interest on pension scheme liabilities | **(120)** | (109) | (113) |
| | **6** | (4) | 17 |

## 20 Pensions – continued

### f) Actuarial gains and losses recognised in other comprehensive income

The amounts included in the other comprehensive income were:

| | 2011 £m | 2010 £m | 2009 £m |
|---|---|---|---|
| Actual return less expected return on scheme assets | **62** | 245 | (425) |
| Experience gains and losses arising on scheme obligation | **(128)** | – | (4) |
| Changes in financial assumptions underlying the present value of scheme obligations | **100** | (316) | 328 |
| Actuarial movement recognised in other comprehensive income | **34** | (71) | (101) |
| Taxation on actuarial movement in other comprehensive income | **(10)** | 20 | 29 |
| Net actuarial movement recognised in other comprehensive income | **24** | (51) | (72) |

| | 2011 £m | 2010 £m | 2009 £m |
|---|---|---|---|
| Cumulative gross actuarial movement recognised in other comprehensive income | **(125)** | (159) | (88) |
| Taxation on cumulative actuarial movement recognised in other comprehensive income | **34** | 44 | 24 |
| Cumulative net actuarial movement recognised in other comprehensive income | **(91)** | (115) | (64) |

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

| | 2011 £m | 2010 £m | 2009 £m |
|---|---|---|---|
| Expected return on schemes' assets | **126** | 105 | 130 |
| Actuarial movement recognised in other comprehensive income reflecting the difference between expected and actual return on assets | **62** | 245 | (425) |
| Actual return on schemes' assets | **188** | 350 | (295) |

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.

### g) History of experience gains and losses

| | 2011 £m | 2010 £m | 2009 £m | 2008 £m | 2007 £m |
|---|---|---|---|---|---|
| Difference between the expected and actual return on scheme assets: | | | | | |
| – Amount | **62** | 245 | (425) | (113) | 78 |
| – Percentage of scheme assets | **2.7%** | 11.6% | (24.2%) | (5.8%) | 4.4% |
| Experience gains and losses arising on scheme liabilities: | | | | | |
| – Amount | **(128)** | – | (4) | 83 | 37 |
| – Percentage of present value of scheme obligation | **(5.6%)** | – | (0.2%) | 4.1% | 1.9% |
| Effects to changes in the demographic and financial assumptions underlying the present value of the scheme liabilities: | | | | | |
| – Amount | **100** | (316) | 328 | (6) | 55 |
| – Percentage of present value of scheme obligation | **4.4%** | (14.8%) | 18.2% | (0.3%) | 2.8% |
| Total amount recognised in other comprehensive income: | | | | | |
| – Amount | **34** | (71) | (101) | (36) | 170 |
| – Percentage of present value of scheme obligation | **1.5%** | (3.3%) | (5.6%) | (1.8%) | 8.6% |
| Total value of schemes' assets | **2,304** | 2,111 | 1,758 | 1,939 | 1,774 |
| Present value of defined benefit obligation | **(2,266)** | (2,128) | (1,807) | (2,007) | (1,972) |
| Net pension asset/(liability) recognised in the balance sheet | **38** | (17) | (49) | (68) | (198) |

| | | | |
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## 20 Pensions – continued

### h) Defined contribution pension scheme

Employees joining the Company after September 2000 are no longer eligible to gain automatic entry into the defined benefit 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:

| | 2011 £m | 2010 £m | 2009 £m |
|---|---|---|---|
| Stakeholder pension scheme | **(4)** | (3) | (3) |
| Life assurance scheme | **(2)** | (2) | (1) |
| Total costs | **(6)** | (5) | (4) |

## 21 Provisions

| | Property provisions £m |
|---|---|
| At 31 January 2010 | **100** |
| Charged to comprehensive income | **3** |
| Unused amounts reversed during the period | **(10)** |
| Utilised in period | **(6)** |
| Unwinding of discount | **5** |
| **At 30 January 2011** | **92** |

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 62 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, the amount reversed in the period primarily relates to a store that has been reopened as it fits well with our new smaller stores format and a number of tenants' lease breakpoints being passed resulting in a continuing commitment from the tenants to continue the lease.

Other property provisions comprise petrol filling station decommissioning reserve and dilapidations cost. Provision is made for decommissioning costs for when the petrol filling station tanks reach 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 in which it was originally leased. Provision is made for these costs, which are incurred on termination of the lease.

## 22 Called-up share capital

| | Number of shares millions | Share capital £m | Share premium £m | Total £m |
|---|---|---|---|---|
| **Current year** | | | | |
| At 31 January 2010 | 2,651 | 265 | 92 | **357** |
| Share options exercised | 7 | 1 | 15 | **16** |
| **At 30 January 2011** | 2,658 | 266 | 107 | **373** |
| **Prior year** | | | | |
| At 1 February 2009 | 2,630 | 263 | 60 | 323 |
| Share options exercised | 21 | 2 | 32 | 34 |
| **At 31 January 2010** | 2,651 | 265 | 92 | 357 |

The total authorised number of ordinary shares is 4,000 million shares (2010: 4,000 million shares) with a par value of 10p per share (2010: 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.

## Notes to the Group financial statements – continued

52 weeks ended 30 January 2011

## 23 Reserves

| | 2011 £m | 2010 £m |
|---|---|---|
| Capital redemption reserve | **6** | 6 |
| Merger reserve | **2,578** | 2,578 |
| Hedging reserve | **5** | 3 |
| Retained earnings | **2,458** | 2,005 |
| **Total** | **5,047** | 4,592 |

Included in retained earnings is a deduction of £31m (2010: £44m) in respect of treasury shares held at balance sheet date. This represents the cost of 13,181,346 (2010: 16,985,266) of the Company's ordinary shares (nominal value of £1.3m (2010: £1.7m)). 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 market value of the shares at 30 January 2011 was £35m (2010: £49m). The trust has waived its rights to dividends. These shares are not treasury shares as defined by the London Stock Exchange.

### a) Capital redemption reserve

The Company purchased 57,788,600 of its own shares in the open market for cancellation between 31 March 2008 and 21 November 2008 at a cost of £146m. The shares repurchased represented 2.15% of the ordinary share capital at 3 February 2008. There has not been any movement in this reserve in the current period.

### b) Merger reserve

The merger reserve represents the reserve in the Company's balance sheet arising on the acquisition in 2004 of Safeway Limited. In the opinion of the Directors, this reserve is not distributable and accordingly it will be carried forward as a capital reserve.

### c) Hedging reserve

This represents the gains and losses arising on the cash flow hedges from the Group's cross-currency swaps, energy price contracts and forward exchange contracts (note 18).

## 24 Cash flow from operating activities

| | 2011 £m | Restated (note 11) 2010 £m |
|---|---|---|
| Profit for the period | **632** | 598 |
| Adjustments for: | | |
| Taxation | **242** | 260 |
| Depreciation | **309** | 306 |
| Amortisation | **10** | – |
| Loss/(profit) on disposal of property, plant and equipment | **1** | (5) |
| Net finance cost (note 6) | **30** | 49 |
| Other non-cash changes[1] | **16** | (81) |
| Excess of contributions over pension service cost | **(15)** | (16) |
| Increase in stocks | **(61)** | (83) |
| (Increase)/decrease in debtors | **(75)** | 44 |
| increase/(decrease) in creditors | **60** | (46) |
| Decrease in provisions | **(8)** | (12) |
| **Cash generated from operations** | **1,141** | 1,014 |

[1] Other non-cash changes includes the impact of the pensions credit arising on moving from a final salary basis to career average revalued earnings within the defined benefit pension schemes (note 20).

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## 25 Analysis of net debt

| | 2011 £m | 2010 £m |
|---|---|---|
| **Cash and cash equivalents per cash flow** | **228** | 245 |
| Cross-currency swaps | **–** | 71 |
| Energy price contracts | **7** | – |
| **Other financial assets (note 14)** | **7** | 71 |
| Bonds | **–** | (198) |
| Energy price contracts | **–** | (14) |
| Forward foreign exchange contracts | **–** | (1) |
| **Current financial liabilities (note 17)** | **–** | (213) |
| Bonds | **(559)** | (561) |
| Floating credit facility | **(475)** | (450) |
| Other unsecured loans | **(11)** | (11) |
| Energy price contracts | **–** | (5) |
| Finance lease obligations | **(7)** | – |
| **Non-current financial liabilities (note 17)** | **(1,052)** | (1,027) |
| **Net debt** | **(817)** | (924) |

## 26 Share-based payments

The Group operates a number of share-based payments schemes; (i) the Executive share option scheme, (ii) the Sharesave scheme, (iii) an equity-settled Long Term Incentive Plan (LTIP) and (iv) deferred share awards.

The total charge for the period relating to employee share-based payment plans was £19m (2010: £17m), all of which related to equity-settled share-based payment transactions. After corporation and deferred tax, the total charge to profit for the period was £16m (2010: £16m). In addition £2m (2010: £nil) has been charged directly to equity in relation to dividends accrued and paid in accordance with the LTIP scheme rules.

### 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.

The fair value of options granted has been calculated using a binomial stochastic option pricing model and the assumptions were as follows:

| Grant date | 12 Nov 2004 | 02 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 prior to the date of grant.

## 26 Share-based payments – continued

### a) Share option schemes – continued

#### i) Executive share option scheme – continued

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | 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 | **1.88** | **1,059** | 1.84 | 1,814 |
| Exercised | **1.89** | **(902)** | 1.80 | (755) |
| Outstanding at end of period | **1.79** | **157** | 1.88 | 1,059 |
| Exercisable at end of period | **1.79** | **157** | 1.88 | 1,059 |

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | Weighted average share price at date of exercise | Number of shares thousands | Weighted average share price at date of exercise | Number of shares thousands |
| **Share options exercised in the financial period** | **£2.96** | **902** | £2.91 | 755 |

| | 2011 | 2010 |
|---|---|---|
| **Share options outstanding at the end of the period** | | |
| Range of exercise prices | **£1.75–£1.87** | £1.75–£2.22 |
| Weighted average remaining contractual life | **1.5 years** | 3.0 years |

#### 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 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 only subject to service conditions and is equity-settled.

Those options which have been granted to those eligible employees, including Directors, who chose to participate in the scheme have been fair valued using a binomial stochastic option pricing model. The fair value of options granted and the assumptions were as follows:

| Grant date | 18 May 2010 | 14 May 2009 | 18 May 2007 | 24 Apr 2006 |
|---|---|---|---|---|
| Share price at grant date | £2.70 | £2.43 | £3.26 | £1.94 |
| Fair value of options granted | £9.7m | £17.4m | £12.3m | £16.2m |
| Exercise price | £2.37 | £1.98 | £2.47 | £1.58 |
| Dividend yield | 3.04% | 2.38% | 1.23% | 1.91% |
| Annual risk free interest rate | 1.63% | 2.10% | 5.58% | 4.57% |
| Expected volatility [1] | 26.5% | 28.0% | 23.5% | 25.6% |

[1] The volatility measured at the standard deviation of expect 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 requirement that the employee has to save in order to purchase shares under the Sharesave plan is a non-vesting condition. This feature has been incorporated into the fair value at grant date by applying a discount to the valuation obtained from the binomial stochastic option pricing model using the assumptions disclosed above. The discount has been determined by estimating the probability that the employee will stop saving based on expected future trends in the share price and employee behaviour.

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## 26 Share-based payments – continued
### a) Share option schemes – continued
### ii) Sharesave scheme – continued

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | 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 | **2.07** | **32,218** | 1.83 | 29,073 |
| Granted | **2.37** | **17,450** | 1.98 | 27,650 |
| Exercised | **2.46** | **(5,764)** | 1.58 | (20,532) |
| Forfeited | **2.15** | **(5,203)** | 2.16 | (3,973) |
| Outstanding at end of period | **2.14** | **38,701** | 2.07 | 32,218 |
| Exercisable at end of period | **2.47** | **20** | 1.58 | 29 |

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | Weighted average share price at date of exercise | Number of shares thousands | Weighted average share price at date of exercise | Number of shares thousands |
| Share options exercised in the financial period | **£2.70** | **5,764** | £2.48 | 20,532 |

| | 2011 | 2010 |
|---|---|---|
| **Share awards outstanding at the end of the period** | | |
| Range of exercise prices | **£1.98–£2.47** | £1.58–£2.47 |
| Weighted average remaining contractual life | **2.3 years** | 2.5 years |

### b) Long Term Incentive Plans
### i) Equity based Long Term Incentive Plan (LTIP)

In May 2007, a discretionary Long Term Incentive Plan for the benefit of certain employees as approved by the Remuneration Committee was introduced. 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.

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

| Grant date | 14 Oct 2010 | 22 Apr 2010 | 29 Jan 2010 | 20 Oct 2009 | 9 April 2009 | 14 Oct 2008 | 14 Apr 2008 | 24 Oct 2007 | 6 Jun 2007 | 24 May 2007 |
|---|---|---|---|---|---|---|---|---|---|---|
| Share price at grant date | £2.96 | £2.97 | £2.93 | £2.71 | £2.50 | £2.42 | £2.77 | £2.88 | £3.13 | £3.23 |
| Assumed leavers | 8% | 8% | – | 5% | 5% | 5% | 5% | 4% | 3% | 3% |
| Performance criteria achieved | 80% | 80% | 90% | 90% | 90% | 90% | 90% | 90% | 90% | 90% |
| Fair value of share awards granted | £1.1m | £14.4m | £1.1m | £1.0m | £18.8m | £0.6m | £12.5m | £0.4m | £0.1m | £10.5m |

## 26 Share-based payments – continued

### b) Long Term Incentive Plans – continued

#### i) Equity-based Long Term Incentive Plan (LTIP) – continued

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | Weighted average exercise price in £ per share | Share awards thousands | Weighted average exercise price in £ per share | Share awards thousands |
| **Movement in outstanding share awards** | | | | |
| Outstanding at start of period | **–** | **17,976** | – | 10,598 |
| Granted | **–** | **7,862** | – | 8,055 |
| Exercised | **–** | **(3,423)** | – | – |
| Forfeited | **–** | **(2,690)** | – | (677) |
| Outstanding at end of period | **–** | **19,725** | – | 17,976 |
| Exercisable at end of period | **–** | **–** | – | – |

| | 2011 | 2010 |
|---|---|---|
| Share awards outstanding at the end of the period | | |
| Range of exercise prices | **–** | – |
| Weighted average remaining contractual life | **1.4 years** | 1.5 years |

#### ii) Deferred share awards

As part of the recruitment package for certain senior management deferred share awards may be granted. These are primarily to replace the value of share schemes forfeited from the previous employer. Vesting of these awards is only subject to service conditions and is equity settled.

The fair value at the date of grant, which is being charged to profit for the period over the vesting period, has been calculated based on the following assumptions

| Grant date | 25 Mar 2010 |
|---|---|
| Share price at grant date | £2.95 |
| Assumed leavers | 0% |
| Exercise price | £nil |
| Fair value of share awards granted | £0.4m |

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | Weighted average exercise price in £ per share | Share awards thousands | Weighted average exercise price in £ per share | Share awards thousands |
| **Movement in outstanding share awards** | | | | |
| Outstanding at start of period | **–** | **–** | – | – |
| Granted | **–** | **121** | – | – |
| Outstanding at end of period | **–** | **121** | – | – |
| Exercisable at end of period | **–** | **–** | – | – |

| | 2011 | 2010 |
|---|---|---|
| Share awards outstanding at the end of the period | | |
| Range of exercise prices | **–** | – |
| Weighted average remaining contractual life | **1.2 years** | – |

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## 27 Business combinations

IFRS 3 (revised) *Business combinations* has been applied to the two acquisitions completed during the period which increase the manufacturing capabilities of the Group.

### a) Farmers Boy (Deeside) Limited

On 9 July 2010 Farmers Boy (Deeside) Limited acquired the trade of production of sliced meats and delicatessen products and associated assets of Brookfield Foods Limited, a company within the Cranswick plc group with 49% of the shares of Farmers Boy (Deeside) Limited being issued as consideration. 51% of the issued share capital was retained within the Group. As part of the transaction a put and call option has been put in place between the Group and Cranswick plc. As a result of the nature of these options, Farmers Boy (Deeside) Limited has been treated as a 100% subsidiary from acquisition, with the stake of Cranswick plc being treated as debt. The fair value of the Group's commitment in relation to the 49% shareholding at the date of acquisition is £13m.

### b) Band Camp Limited

On 12 July 2010 the Group acquired 100% of the issued share capital of Band Camp Limited from its previous owners for a cash consideration of £2m. Band Camp Limited is the parent company of Simply Fresh Foods Limited which is a producer of prepared vegetable products. Following the acquisition Band Camp Limited has changed its name to Simply Fresh Holdings Limited.

Assets and liabilities recognised as a result of the acquisitions

| | Fair value | |
|---|---|---|
| | **Farmers Boy (Deeside) Limited £m** | **Band Camp Limited £m** |
| Property, plant and equipment | **6** | **8** |
| Trade and other receivables | **–** | **1** |
| Trade and other payables | **–** | **(2)** |
| Bank overdraft | **–** | **(1)** |
| Borrowings | **–** | **(4)** |
| Net identifiable assets acquired | **6** | **2** |
| Goodwill | **7** | **–** |
| Total consideration | **13** | **2** |

## 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:

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | **Property £m** | **Vehicles, plant and equipment £m** | **Property £m** | **Vehicles, plant and equipment £m** |
| Within one year | **44** | **10** | 35 | 7 |
| More than one year and less than five years | **202** | **14** | 134 | 14 |
| After five years | **518** | **–** | 427 | – |
| | **764** | **24** | 596 | 21 |

### b) Lessor arrangements

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

| | **2011 £m** | **2010 £m** |
|---|---|---|
| Within one year | **27** | 26 |
| More than one year and less than five years | **92** | 88 |
| After five years | **138** | 148 |
| | **257** | 262 |

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

## 29 Contingent liabilities

In April 2010, the Office of Fair Trading (OFT) confirmed that it has dropped the allegations against Morrisons in relation to its ongoing Dairy Products investigation. Morrisons had always believed strongly that it had no case to answer, and therefore the OFT's decision to drop all allegations against Morrisons was a welcome vindication of Morrisons position. At the same time, the OFT confirmed that of the four allegations it had originally made against the Company's subsidiary company, Safeway Limited, two were also being dropped. The OFT's investigation is expected to conclude in the first half of 2011.

Additionally, the OFT issued a decision that the Group was engaged in unlawful practices in relation to retail prices for tobacco products in the UK. The Board considers the OFT's stance to be illogical and without foundation and expects that when the case is considered with proper judicial scrutiny by the Competition Appeals Tribunal, it will be overturned. The Board has not made a provision for such a liability.

## 30 Post balance sheet events

### a) Business combinations

On 28 February 2011, the Group completed the acquisition of the trade and assets of Kiddicare, a multi-channel online retailer. The total cash consideration for the purchase was £70m. Due to the limited time available between the acquisition and the approval of these financial statements, the Group is still in the process of establishing the fair value of the assets and liabilities acquired. The net book value of the assets acquired and liabilities assumed was £12m.

On 9 March 2011, the Group made a £32m investment to acquire a c10% stake in FreshDirect, an internet grocer serving the New York market.

### b) Borrowings

On 4 March 2011, the Group concluded a renewal of its revolving finance facility. The new facility will be provided by a syndicate of 8 banks, and will give the Group access to funding of £1,200m for a period of 5 years from the date of signing.

## 31 Principal subsidiaries

| Subsidiaries of Wm Morrison Supermarkets PLC | Principal activity | Equity holding % |
|---|---|---|
| Bos Brothers Fruit and Vegetables BV | Produce wholesaler | 100 |
| Farmers Boy Limited | Manufacturer and distributor of fresh food products | 100 |
| Farock Insurance Company Limited | Captive insurer | 100 |
| Neerock Limited | Fresh meat processor | 100 |
| Wm Morrison Produce Limited | Produce packer | 100 |
| Safeway Limited | Holding company | 100 |
| Rathbone Kear Limited | Baker | 100 |
| Optimisation Developments Limited | Property development | 100 |
| Optimisation Investments Limited | Property investment | 100 |
| **Subsidiaries of other Group companies** | | 100 |
| Safeway Overseas Limited | Grocery retailer | 100 |
| Safeway Stores Limited | Grocery retailer | 100 |
| Farmers Boy (Deeside) Limited | Manufacturer and distributor of fresh food products | 51 |
| Simply Fresh Foods Limited | Producer of prepared fresh vegetable products | 100 |

All of 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.

The Group currently owns 51% of the share capital of Farmers Boy (Deeside) Limited. However, due to the nature of options in place to purchase the remaining 49% share capital in 2013, the subsidiary has been treated as if it were already 100% owned for accounting purposes.

The Company is also part of a Joint Venture, with The Great Steward of Scotland Dumfries House Trust, to form The Morrisons Farm at Dumfries House Limited, whose principal activity is to farm 859 acres of agricultural land located on the Dumfries House Estate near Cumnock in Ayrshire, Scotland. This has been accounted for as a Joint Venture in accordance with IFRS, however, as the results are not material to the Group, no further disclosure has been made of the accounting policies within the consolidated financial statements.

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

52 weeks ended 30 January 2011 under UK GAAP


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## Company accounting policies

### Basis of preparation

These separate financial statements of Wm Morrison Supermarkets PLC (the Company) have been prepared on a going concern basis under the historic cost convention, 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 and in accordance with applicable accounting standards under UK GAAP and the Companies Act 2006.

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 buildings | 2.5% |
| Leasehold improvements | Over the shorter of lease period and 2.5% |
| Plant, equipment, fixtures and vehicles | 10–33% |
| 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.

### Financial instruments

Financial assets and liabilities are recognised on the Company's balance sheet when the Company 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 Company will not be able to recover balances in full, with the charge being recognised in the profit and loss account. Balances are written off when the probability of recovery is assessed as being remote.

ii) Cash: Cash 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

Trade and other creditors: Trade and other creditors are stated at cost.

#### c) Derivative financial instruments

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

Cash flow hedges

Derivative financial instruments are classified as cash flow hedges when they hedge the Company'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 forecast transaction.

To minimise the risk from potential movements in energy prices, the Company has energy price contracts which are designated as cash flow hedges.

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 movement in fair value of the derivative financial instrument is recognised directly in equity through the statement of total recognised gains and losses (STRGL).

The gain or loss on any ineffective part of the hedge is immediately recognised in the profit and loss account within cost of sales. 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 profit and loss account when the transaction occurs.

### Capital management

The capital management policy of the Company is consistent with that of the Group set out in note 18.

# Wm Morrison Supermarkets PLC
## Company accounting policies – continued
52 weeks ended 30 January 2011 under UK GAAP

### 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 and other qualifying assets which are capitalised and included within the initial cost of the asset. Capitalisation of interest ceases when the asset is ready for use.

### Pension costs
The Company operates defined benefit and defined contribution schemes. 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 date of retirement, years of service and a formula using either the employee's compensation package or career average revalued earnings.

The Company operates a defined benefit retirement scheme which is funded by contributions from the Company and members. The defined benefit scheme is 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 41. The operating and financing costs of the scheme are recognised separately 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 STRGL.

The Company has a right to recognise an asset, should one arise, in respect of the Company's net obligations to the pension schemes. Therefore either an asset or a liability is recognised in the balance sheet, and is stated net of deferred tax.

A liability or asset is recognised in the balance sheet in respect of the Company's net obligations to the scheme and is stated net of deferred tax.

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

### 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 profit and loss account for the period.

### 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.

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 Company's best estimate of the likely committed outflow to the Company. Where material, these estimated outflows are discounted to net present value.

### 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. The Company has no 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.

### Deferred and current taxation
Current tax payable is based on the taxable profit for the year using tax rates enacted at the balance sheet 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 which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise, based on tax rates enacted or substantively enacted at the balance sheet date. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in different periods from those in which they are included in the financial statements.

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 on a weighted average basis and comprises purchase price, import duties and other non-recoverable taxes less rebates. Stocks represent 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 option pricing 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 cost of the share-based award relating to each subsidiary is calculated based on an appropriate apportionment, and recharged between the parent company and the subsidiary.

### 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.

### Share capital
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where the Company has purchased its own equity share capital, the consideration paid, including directly attributable incremental costs, is deducted from retained earnings until the shares are cancelled. On cancellation, the nominal value of the shares is deducted from share capital and the amount is transferred to the capital redemption reserve.

### Exemptions
The Company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1 *Cash Flow Statement* and exemption from the disclosure requirements of FRS 29 *Financial instruments: disclosures*. The cash flows of the Company and financial instruments disclosures 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 wholly owned entities that are part of the Wm Morrison Supermarkets PLC Group.

The Company has taken advantage of the exemption available under section 408 of the Companies Act 2006 and not presented a profit and loss account for the Company.

# Wm Morrison Supermarkets PLC
# Company balance sheet
30 January 2011

| | Note | 2011 £m | 2010 £m |
|---|---|---|---|
| **Fixed assets** | | | |
| Tangible assets | 34 | **3,086** | 2,975 |
| Derivative financial assets | 35 | **3** | – |
| Investments | 36 | **3,366** | 3,366 |
| | | **6,455** | 6,341 |
| **Current assets** | | | |
| Stocks – goods for resale | | **400** | 350 |
| Derivative financial assets | 35 | **4** | – |
| Debtors – amounts falling due within one year | 37 | **514** | 395 |
| Cash-in-hand | | **69** | 151 |
| | | **987** | 896 |
| **Creditors – amounts falling due within one year** | 38 | **(3,032)** | (2,766) |
| **Net current liabilities** | | **(2,045)** | (1,870) |
| **Total assets less current liabilities** | | **4,410** | 4,471 |
| **Creditors – amounts falling due after more than one year** | 39 | **(475)** | (455) |
| **Provisions for liabilities** | 40 | **(96)** | (90) |
| **Net assets – excluding pension asset** | | **3,839** | 3,926 |
| Net pension asset | 41 | **12** | 16 |
| **Net assets – including pension asset** | | **3,851** | 3,942 |
| **Capital and reserves** | | | |
| Called-up share capital | 43 | **266** | 265 |
| Share premium | 44 | **107** | 92 |
| Capital redemption reserve | 44 | **6** | 6 |
| Merger reserve | 44 | **2,578** | 2,578 |
| Profit and loss account and hedging reserve | 44 | **894** | 1,001 |
| **Equity shareholders' funds** | | **3,851** | 3,942 |

The accounting policies on pages 89 to 91 and notes on pages 93 to 101 form part of these financial statements.

The financial statements on pages 89 to 101 were approved by the Board of Directors on 9 March 2011 and signed on its behalf by:

**Dalton Philips**
Chief Executive

**Richard Pennycook**
Group Finance Director

# Notes to the Company financial statements

52 weeks ended 30 January 2011



| | | | |
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## 32 Profit and loss account

The profit for the Company for the 52 week period was £91m (2010: £83m).

## 33 Employees and Directors

| | 2011 £m | 2010 £m |
|---|---|---|
| **Employee benefit expense for the Company during the period** | | |
| Wages and salaries | **805** | 817 |
| Social security costs | **64** | 62 |
| Share-based payments (note 45) | **11** | 9 |
| Pension costs | **18** | 16 |
| Pensions credit (note 41) | **–** | (39) |
| Other staff costs | **1** | – |
| | **899** | 865 |

| | 2011 No. | 2010 No. |
|---|---|---|
| **Average monthly number of people employed** | **61,759** | 62,588 |

In the prior year, key management comprised Executive and Non-Executive Directors. Following the internal reorganisation of the senior management structure leading to the foundation of the Management Board, the Group also considers members of the Management Board to be key management.

The aggregate remuneration paid to or accrued for the key management for services in all capacities during the period is the same as the Group and is shown in note 4.

## 34 Tangible fixed assets

| | Land and buildings | | | |
|---|---|---|---|---|
| | Freehold £m | Leasehold £m | Plant, equipment, fixtures & vehicles £m | Total £m |
| **Cost** | | | | |
| At 31 January 2010 | 2,567 | 497 | 1,132 | **4,196** |
| Additions at cost | 70 | 24 | 170 | **264** |
| Interest capitalised | 1 | – | 6 | **7** |
| Transfer to subsidiaries | 14 | – | (9) | **5** |
| Disposals | (1) | (2) | (24) | **(27)** |
| **At 30 January 2011** | 2,651 | 519 | 1,275 | **4,445** |
| **Accumulated depreciation** | | | | |
| At 31 January 2010 | 517 | 67 | 637 | **1,221** |
| Charged in the period | 52 | 9 | 101 | **162** |
| Transfer to subsidiaries | 6 | – | (3) | **3** |
| Disposals | (1) | (2) | (24) | **(27)** |
| **At 30 January 2011** | 574 | 74 | 711 | **1,359** |
| **Net book value** | | | | |
| **At 30 January 2011** | 2,077 | 445 | 564 | **3,086** |
| At 31 January 2010 | 2,050 | 430 | 495 | **2,975** |
| **Assets under construction included above** | | | | |
| **At 30 January 2011** | 1 | 1 | 130 | **132** |
| At 31 January 2010 | 24 | 2 | 151 | **177** |

## 34 Tangible fixed assets – continued

Included above is an amount of £712m (2010: £706m) relating to non-depreciable land. The cost of property assets held as lessor included in the above figures is £227m at 30 January 2011 (2010: £217m). The related accumulated depreciation is £47m (2010: £42m).

Since 3 February 1985, the cost of financing property developments prior to their opening date has been included in the cost of the project. The cumulative amount of interest capitalised in the total cost above amounts to £102m (2010: £95m).

## 35 Derivative financial assets

| | 2011 £m | 2010 £m |
|---|---|---|
| **Fixed assets** | | |
| Energy price contracts | **3** | – |
| **Current assets** | | |
| Energy price contracts | **4** | – |

## 36 Investments

| | Investment in subsidiary undertakings £m |
|---|---|
| **Cost** | |
| **At 31 January 2010 and 30 January 2011** | **3,367** |
| **Provision for impairment** | |
| **At 31 January 2010 and 30 January 2011** | **(1)** |
| **Net book value** | |
| **At 31 January 2010 and 30 January 2011** | **3,366** |

A list of the Company's principal subsidiaries is shown in note 31.

## 37 Debtors – amounts falling due within one year

| | 2011 £m | 2010 £m |
|---|---|---|
| Trade debtors | **156** | 121 |
| Amounts owed by subsidiary undertakings | **290** | 237 |
| Other debtors | **8** | 9 |
| Prepayments | **60** | 28 |
| | **514** | 395 |

Prepayments includes £30m (2010: £nil) relating to amounts falling due after more than one year.

## 38 Creditors – amounts falling due within one year

| | 2011 £m | 2010 £m |
|---|---|---|
| Trade creditors | **1,349** | 1,252 |
| Amounts owed to subsidiary undertakings | **1,392** | 1,155 |
| Other taxes | **37** | 32 |
| Other creditors | **57** | 147 |
| Energy price contracts | **–** | 14 |
| Accruals and deferred income | **197** | 166 |
| | **3,032** | 2,766 |

## 39 Creditors – amounts falling due after more than one year

| | 2011 £m | 2010 £m |
|---|---|---|
| Revolving credit facility – 1.13% (2010: 0.81%) | **475** | 450 |
| Energy price contracts | **–** | 5 |
| | **475** | 455 |

| | | | |
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## 40 Provisions for liabilities

| | Deferred taxation £m | Property provisions £m | Total £m |
|---|---|---|---|
| At 31 January 2010 | 80 | 10 | **90** |
| Charge recognised in profit and loss | 2 | 2 | **4** |
| Charge recognised directly in the STRGL | 1 | – | **1** |
| Unwinding of discount | – | 1 | **1** |
| **At 30 January 2011** | 83 | 13 | **96** |

Further details of the property provisions are provided in note 21.

The potential deferred taxation on timing differences, calculated at 28% (2010: 28%), is set out below and has been provided for in full.

| | 2011 £m | 2010 £m |
|---|---|---|
| Excess of capital allowances over depreciation | **115** | 123 |
| Provisions and short-term timing differences | **(30)** | (40) |
| Share-based payments | **(2)** | (3) |
| Provision at the year excluding deferred tax on pension asset | **83** | 80 |
| Deferred tax liability on pension asset (note 41) | **4** | 6 |
| Provision at the year end including deferred tax on pension asset | **87** | 86 |

The deferred tax liability of £4m (2010: £6m) relating to the pension asset has been deducted in arriving at the net pension asset on the balance sheet.

## 41 Pensions

### a) Defined benefit pension scheme

The Company operates a pension scheme providing benefits 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 revalued earnings (CARE). The assets of the scheme are held in a separate trustee administered fund. The latest full actuarial valuations were carried out at 6 April 2010 and were updated for FRS 17 *Retirement benefits* purposes for the period to 30 January 2011 by a qualified independent actuary.

During the prior year, the pension scheme moved from a final salary basis to career average revalued earnings representing an accounting curtailment of certain pension liabilities. In accordance with FRS 17, the defined pension scheme's obligations were revalued by the scheme's actuaries immediately prior to the change and assumptions reviewed at that date. As a result a pensions credit of £39m was recognised in the profit and loss account during the prior year.

On 8 July 2010 the Government announced that the Consumer Price Index (CPI) rather than the Retail Price Index (RPI) will be used as the basis for inflationary increases to pensions in its next update of the statutory requirement. Following this, the Accounting Standards Board has issued UITF 48 *Accounting implications of the replacement of the retail prices index with the consumer prices index for retirement benefits* clarifying the required accounting treatment and indicating the use of CPI rather than RPI where the scheme rules allow. The Company has consulted with its advisors and based on review of certain clauses in the scheme's trust deeds has concluded that this change is applicable to certain deferred members within the Company's defined benefit scheme. The trust deeds state that, for those members affected, a statutory index should be used and therefore the actuarial assumptions applied within this financial report have been updated accordingly. This has resulted in a credit of £8m recognised in the STRGL within actuarial gains/(losses) during the year.

The current best estimate of employer contributions to be paid for the year commencing 31 January 2011 is £22m (2010: £22m).

### b) Assumptions

The major assumptions used in this valuation to determine the present value of the scheme's defined benefit obligation are shown below. The assumptions used at the valuation date of 2 July 2009, used in calculating the pensions credit recognised in the year to 31 January 2010 of £39m, remained the same as the previous year end (1 February 2009) apart from the discount rate, which reduced from 6.25% to 6.0%.

#### i) Financial

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| Rate of increases in salaries | **5.05%** | 4.85–5.85% | 4.75–5.75% |
| Rate of increase in pensions in payment and deferred pensions | **3.30%–3.80%** | 3.60% | 3.50% |
| Discount rate applied to scheme liabilities | **5.60%** | 5.65% | 6.25% |
| Inflation assumption | **3.80%** | 3.60% | 3.50% |

## 41 Pensions – continued

### b) Assumptions – continued

#### 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:

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| Male | **24.2** | 23.5 | 23.5 |
| Female | **25.1** | 25.8 | 25.8 |

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

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| Male | **21.8** | 22.2 | 22.2 |
| Female | **22.8** | 24.7 | 24.7 |

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 S1PMA/S1PFA-Heavy YOB (2010 and 2009: PNX00 YOB LC).

#### iii) Expected return on assets

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

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| Long term rate of return on: | | | |
| Equities | **7.45%** | 7.25% | 7.00% |
| Bonds | **5.60%** | 5.65% | 6.00% |
| Gilts | **4.44%** | 4.35% | 4.25–4.50% |
| Property | **–** | 5.65% | 6.00% |
| Cash | **1.50%** | 1.50% | 2.50% |

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 value 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:

| | 2011 £m | 2010 £m | 2009 £m |
|---|---|---|---|
| Equities | **234** | 158 | 127 |
| Bonds | **172** | 162 | 125 |
| Gilts | **146** | 142 | 119 |
| Property | **–** | 26 | 25 |
| Cash | **1** | 2 | 1 |
| Total market value of assets | **553** | 490 | 397 |
| Present value of scheme liabilities | **(537)** | (468) | (400) |
| Surplus/(deficit) in the scheme – pension asset/(liability) | **16** | 22 | (3) |
| Related deferred tax (liability)/asset | **(4)** | (6) | 1 |
| **Net pension asset/(liability) in the balance sheet** | **12** | 16 | (2) |

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## 41 Pensions – continued

### c) Valuations – continued

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

| | 2011 £m | 2010 £m | 2009 £m |
|---|---|---|---|
| Fair value of scheme assets at start of period | **490** | 397 | 407 |
| Expected return on scheme assets | **31** | 26 | 29 |
| Actuarial gain/(loss) | **13** | 48 | (85) |
| Employer contributions | **22** | 22 | 47 |
| Employee contributions | **5** | 5 | 5 |
| Benefits paid | **(8)** | (8) | (6) |
| **Fair value of scheme assets at end of period** | **553** | 490 | 397 |

The above pension scheme assets do not include any investments in the 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:

| | 2011 £m | 2010 £m | 2009 £m |
|---|---|---|---|
| Defined benefit obligation at the beginning of the period | **(468)** | (400) | (438) |
| Current service cost | **(14)** | (14) | (19) |
| Employee contributions | **(5)** | (5) | (5) |
| Other finance income | **(26)** | (24) | (26) |
| Actuarial (loss)/gain | **(32)** | (72) | 82 |
| Benefits paid | **8** | 8 | 6 |
| Pensions credit | **–** | 39 | – |
| **Defined benefit obligation at the end of the period** | **(537)** | (468) | (400) |

### d) Sensitivities

Below is listed the impact on the liabilities at 30 January 2011 of changing key assumptions whilst holding other assumptions constant:

| | | |
|---|---|---|
| Discount factor | +/– 0.1% | £14m |
| Longevity | +/– 1 year | £15m |

### e) Profit and loss account impact

The following amounts have been (charged)/credited in arriving at operating profit in respect of pension costs:

| | 2011 £m | 2010 £m | 2009 £m |
|---|---|---|---|
| Current service cost | **(14)** | (14) | (19) |
| Pensions credit | **–** | 39 | – |
| | **(14)** | 25 | (19) |

The amounts for current service cost and pensions credit have been (charged)/credited in the following profit and loss account lines:

| | 2011 £m | 2010 £m | 2009 £m |
|---|---|---|---|
| Cost of sales | **(11)** | (11) | (15) |
| Administrative expenses | **(3)** | 36 | (4) |
| | **(14)** | 25 | (19) |

The following amounts have been included in other finance income:

| | 2011 £m | 2010 £m | 2009 £m |
|---|---|---|---|
| Expected return on pension scheme assets | **31** | 26 | 29 |
| Interest on pension scheme liabilities | **(26)** | (24) | (26) |
| | **5** | 2 | 3 |

# Notes to the Company financial statements – continued
52 weeks ended 30 January 2011

## 41 Pensions – continued

### f) Amounts recognised in statement of total recognised gains and losses

The amounts included in the statement of total recognised gains and losses (STRGL) were:

| | 2011 £m | 2010 £m | 2009 £m |
|---|---|---|---|
| Actual return less expected return on scheme assets | **13** | 48 | (85) |
| Experience gains and losses arising on scheme liabilities | **(52)** | – | – |
| Changes in assumptions underlying the present value of scheme liabilities | **20** | (72) | 82 |
| Actuarial loss recognised in the STRGL | **(19)** | (24) | (3) |

| | 2011 £m | 2010 £m | 2009 £m |
|---|---|---|---|
| Cumulative gross actuarial movement recognised in the STRGL | **(143)** | (124) | (100) |
| Taxation on cumulative actuarial movement recognised in the STRGL | **39** | 35 | 29 |
| Cumulative net actuarial movement recognised in the STRGL | **(104)** | (89) | (71) |

The actual return on the scheme's assets can therefore be summarised as follows:

| | 2011 £m | 2010 £m | 2009 £m |
|---|---|---|---|
| Expected return on scheme's assets | **31** | 26 | 29 |
| Actuarial movement recognised in the STRGL reflecting the difference between expected and actual return on assets | **13** | 48 | (85) |
| Actual return on scheme's assets | **44** | 74 | (56) |

The expected return on scheme's 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.

### g) History of experience gains and losses

| | 2011 £m | 2010 £m | 2009 £m | 2008 £m | 2007 £m |
|---|---|---|---|---|---|
| Difference between the expected and actual return on scheme assets: | | | | | |
| Amount | **13** | 48 | (85) | (32) | 16 |
| Percentage of scheme assets | **2.4%** | 9.8% | (21.4%) | (7.9%) | 4.4% |
| Experience gains and losses arising on scheme liabilities: | | | | | |
| Amount | **(52)** | – | – | 12 | 6 |
| Percentage of present value of scheme liabilities | **(9.7%)** | – | – | 2.9% | 1.6% |
| Effects of changes in the demographic and financial assumptions underlying the present value of the scheme liabilities: | | | | | |
| Amount | **20** | (72) | 82 | (6) | 12 |
| Percentage of present value of scheme liabilities | **3.7%** | (15.4%) | 20.5% | (1.4%) | 2.9% |
| Total amount recognised in statement of total recognised gains and losses | | | | | |
| Amount | **(19)** | (24) | (3) | (26) | 34 |
| Percentage of present value of scheme liabilities | **(3.5%)** | (5.1%) | (0.8%) | (5.9%) | 8.4% |
| Total value of scheme's assets | **553** | 490 | 397 | 407 | 368 |
| Present value of defined benefit obligation | **(537)** | (468) | (400) | (438) | (406) |
| Pension asset/(liability) – surplus/(deficit) in the scheme | **16** | 22 | (3) | (31) | (38) |

| | | | |
|---|---|---|---|
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## 41 Pensions – continued

### 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:

| | 2011 £m | 2010 £m | 2009 £m |
|---|---|---|---|
| Stakeholder pension scheme | **(3)** | (2) | (2) |
| Life assurance scheme | **(1)** | (1) | (1) |
| Total costs | **(4)** | (3) | (3) |

## 42 Reconciliation of movements in equity shareholders' funds

| | 2011 £m | 2010 £m |
|---|---|---|
| Profit for the financial period | **91** | 83 |
| Dividends (note 8) | **(220)** | (159) |
| Retained loss for the financial period | **(129)** | (76) |
| Share-based payment (note 45) | **17** | 17 |
| Cash flow hedging movement | **26** | (19) |
| Tax relating to cash flow hedging movement | **(6)** | 4 |
| Actuarial loss on pension scheme | **(19)** | (24) |
| Tax relating to pension scheme | **4** | 7 |
| Share options exercised | **16** | 34 |
| Net reduction in equity shareholders' funds | **(91)** | (57) |
| **Opening shareholders' funds** | **3,942** | 3,999 |
| **Closing equity shareholders' funds** | **3,851** | 3,942 |

## 43 Share capital

### a) Equity

| | 2011 £m | 2010 £m |
|---|---|---|
| **Authorised** | | |
| Equity share capital | | |
| 4,000,000,000 ordinary shares of 10p each (2010: 4,000,000,000) | **400** | 400 |
| **Issued and fully paid** | | |
| Equity share capital | | |
| 2,657,766,671 ordinary shares of 10p each (2010: 2,651,100,378) | **266** | 265 |

### Ordinary shares

| | 2011 £m | 2010 £m |
|---|---|---|
| At start of period | **265** | 263 |
| Shares options exercised | **1** | 2 |
| At end of period | **266** | 265 |

# Notes to the Company financial statements – continued

52 weeks ended 30 January 2011

## 43 Share capital – continued

### b) Non-equity

The authorised and issued preference share capital of the Company is as follows:

| | 2011 £m | 2010 £m |
|---|---|---|
| **5.25% cumulative redeemable non-convertible preference shares of £1 each** | | |
| Authorised 50,000,000 (2010: 50,000,000) | **50** | 50 |
| Issued and fully paid none (2010: none) | **–** | – |

## 44 Reserves

| | Share premium account £m | Capital redemption reserve £m | Merger reserve £m | Hedging reserve £m | Profit and loss account £m |
|---|---|---|---|---|---|
| At start of period | 92 | 6 | 2,578 | (15) | 1,016 |
| Retained in the period | – | – | – | – | (129) |
| Share options exercised | 15 | – | – | – | – |
| Share-based payments | – | – | – | – | 17 |
| Cash flow hedging movement | – | – | – | 26 | – |
| Tax arising on cash flow hedging movement | – | – | – | (6) | – |
| Actuarial loss recognised | – | – | – | – | (19) |
| Tax arising on actuarial loss | – | – | – | – | 4 |
| **At end of period** | **107** | **6** | **2,578** | **5** | **889** |
| Net pension asset | | | | | 12 |
| Profit and loss account excluding pension asset | | | | | 901 |

### a) Capital redemption reserve

The Company purchased 57,788,600 of its own shares in the open market for cancellation between 31 March 2008 and 21 November 2008 at a cost of £146m. The shares repurchased represented 2.15% of the ordinary share capital of the Company at 3 February 2008.

### b) Merger reserve

The merger reserve represents the reserve arising on the acquisition in 2004 of Safeway Limited. In the opinion of the Directors, this reserve is not distributable and accordingly it will be carried forward as a capital reserve.

### c) Hedging reserve

This represents the gains and losses arising on cash flow hedges from the Company's energy price contracts and forward exchange contracts.

## 45 Share-based payments

The disclosure requirements for FRS 20 *Share-based payment* are identical to that of IFRS 2 *Share-based payment*. Full IFRS 2 disclosures are provided in note 26.

## 46 Capital commitments

| | 2011 £m | 2010 £m |
|---|---|---|
| Contracts placed for future capital expenditure not provided in the financial statements | **75** | 93 |

## 47 Operating lease commitments

Annual commitments under non-cancellable operating leases:

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | 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 | – | – |
| Expiring within two to five years inclusive | 2 | 8 | 1 | 7 |
| Expiring over five years | 22 | – | 9 | – |
| | 24 | 9 | 10 | 7 |

## 48 Contingent liabilities

The Company has given an unlimited guarantee in respect of the overdraft of all the subsidiary undertakings. At 30 January 2011, there was a credit balance of £35.6m including uncleared banking items (2010: £nil).

The Company has also provided a guarantee in respect of Sterling and Euro Bonds, amounting to £621m (2010: £818m) in respect of a subsidiary undertaking.

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.

In April 2010, the Office of Fair Trading (OFT) confirmed that it has dropped all allegations against Morrisons in relation to is ongoing Dairy Products investigation. Morrisons had always believed strongly that it had no case to answer, and therefore the OFT's decision to drop all allegations against Morrisons was a welcome vindication of Morrisons position.

Additionally, the OFT issued a decision, alleging that the Company was engaged in unlawful practices in relation to retail prices for tobacco products in the UK. The Board considers the OFT's stance to be illogical and without foundation and expects that when the case is considered with proper judicial scrutiny by the Competition Appeals Tribunal, it will be overturned. The Board has not made a provision for such a liability.

## 49 Related party transactions

The Company has taken the exemption available in FRS 8 *Related parties* from disclosing related party transactions with wholly owned entities that are part of the Wm Morrison Supermarkets PLC Group.

The Company has provided services to Farmers Boy (Deeside) Limited, a non-wholly owned subsidiary within the Group, as it has paid for goods on behalf of Farmers Boy (Deeside) Limited totalling cash payments of £7m and has provided additional cash advances of £5m. In addition, Farmers Boy (Deeside) Limited has sold goods to the Company totalling £20m. At the year end the amount due to the Company from Farmers Boy (Deeside) Limited is £8m.

## 50 Post balance sheet events

### a) Borrowings

On 4 March 2011, the Company concluded a renewal of its revolving finance facility. The new facility will be provided by a syndicate of 8 banks, and will give the Company access to funding of £1,200m for a period of 5 years from the date of signing.

### b) Final dividend

The Directors are proposing a final dividend in respect of the financial period ending 30 January 2011 of 8.37p per share which will absorb an estimated £222m of shareholders' funds. Subject to approval at the AGM, it will be paid on 15 June 2011 to shareholders who are on the register of members on 13 May 2011.

A dividend reinvestment plan is available in respect of the final dividend.

### c) Company investment

On 9 March 2011, the Group made a £32m investment to acquire a c10% stake in FreshDirect, an internet grocer serving the New York market.

# Five year summary of results

52 weeks ended 30 January 2011

## Consolidated statement of comprehensive income

| | 2011 £m | 2010 £m | 2009 £m | 2008 £m | 2007[1] £m |
|---|---|---|---|---|---|
| **Turnover** | **16,479** | 15,410 | 14,528 | 12,969 | 12,462 |
| Cost of sales | **(15,331)** | (14,348) | (13,615) | (12,151) | (11,826) |
| **Gross profit** | **1,148** | 1,062 | 913 | 818 | 636 |
| Other operating income | **80** | 65 | 37 | 30 | 21 |
| Administrative expenses | **(323)** | (315) | (281) | (268) | (272) |
| (Losses)/profits arising on property transactions | **(1)** | 4 | 2 | 32 | 38 |
| **Operating profit before pensions credit** | **904** | 816 | 671 | 612 | 423 |
| Pensions credit | **–** | 91 | – | – | – |
| **Operating profit** | **904** | 907 | 671 | 612 | 423 |
| Net finance costs | **(30)** | (49) | (16) | – | (54) |
| **Profit before taxation** | **874** | 858 | 655 | 612 | 369 |
| Taxation | **(242)** | (260) | (195) | (58) | (121) |
| **Profit for the period attributable to the owners of the Company** | **632** | 598 | 460 | 554 | 248 |
| Earnings per share (pence) | | | | | |
| – basic | **23.93** | 22.80 | 17.39 | 20.79 | 9.32 |
| – diluted | **23.43** | 22.37 | 17.16 | 20.67 | 9.31 |
| – underlying | **23.03** | 20.47 | 16.67 | 14.38 | 8.28 |
| Dividend per ordinary share (pence) | **9.60** | 8.20 | 5.80 | 4.80 | 4.00 |

[1] 53 weeks.

## Consolidated balance sheet

| | 2011 £m | Restated[2] 2010 £m | Restated[2] 2009 £m | Restated[2] 2008 £m | Restated[2] 2007[1] £m |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Intangible assets | **184** | – | – | – | – |
| Property, plant and equipment | **7,557** | 7,439 | 6,838 | 6,445 | 6,346 |
| Investment property | **229** | 229 | 242 | 239 | 241 |
| Net pension asset | **38** | – | – | – | – |
| Other financial assets | **3** | – | 81 | 43 | 19 |
| **Non-current assets** | **8,011** | 7,668 | 7,161 | 6,727 | 6,606 |
| **Current assets** | **1,138** | 1,092 | 1,065 | 909 | 765 |
| **Liabilities** | | | | | |
| **Current liabilities** | **(2,086)** | (2,152) | (2,024) | (1,853) | (1,855) |
| Other financial liabilities | **(1,052)** | (1,027) | (1,049) | (774) | (769) |
| Deferred tax liabilities | **(499)** | (515) | (472) | (424) | (478) |
| Net pension liabilities | **–** | (17) | (49) | (68) | (198) |
| Provisions | **(92)** | (100) | (112) | (139) | (145) |
| **Non-current liabilities** | **(1,643)** | (1,659) | (1,682) | (1,405) | (1,589) |
| **Net assets** | **5,420** | **4,949** | **4,520** | **4,378** | **3,927** |
| **Shareholders' equity** | | | | | |
| Called-up share capital | **266** | 265 | 263 | 269 | 268 |
| Share premium | **107** | 92 | 60 | 57 | 42 |
| Capital redemption reserve | **6** | 6 | 6 | – | – |
| Merger reserve | **2,578** | 2,578 | 2,578 | 2,578 | 2,578 |
| Retained earnings and hedging reserves | **2,463** | 2,008 | 1,613 | 1,474 | 1,040 |
| **Total equity attributable to the owners of the Company** | **5,420** | **4,949** | **4,520** | **4,378** | **3,927** |

[1] 53 weeks.
[2] Restated for the amendment to IAS 17 *Leases*.

# Supplementary information

52 weeks ended 30 January 2011


| | | | |
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| | 2011 % | 2010 % | 2009 % | 2008 % | 2007[1] % |
|---|---|---|---|---|---|
| **Increase/(decrease) on previous year %** | | | | | |
| Turnover | **6.94** | 6.07 | 12.02 | 4.07 | 2.86 |
| Operating profit | **10.78** | 21.60[3] | 9.74 | 44.57 | 260.97 |
| Profit before taxation | **1.86** | 30.99 | 6.98 | 65.89 | 217.93 |
| Profit after taxation | **5.69** | 30.00 | (17.02) | 123.67 | 198.90 |
| Diluted earnings per share | **4.74** | 30.36 | (17.01) | 122.13 | 198.37 |
| Dividend per ordinary share | **17.07** | 41.38 | 20.83 | 20.00 | 8.11 |
| Shareholder funds | **9.91** | 9.41 | 3.24 | 11.49 | 7.63 |
| **% of turnover** | | | | | |
| Operating profit | **5.49** | 5.59 | 4.62 | 4.72 | 3.40 |
| Profit before taxation | **5.30** | 5.57 | 4.51 | 4.72 | 2.96 |
| Profit after taxation | **3.84** | 3.88 | 3.16 | 4.27 | 1.99 |
| **Retail portfolio** | | | | | |
| Size 000s sq ft (net sales area) | | | | | |
| 0–15 | **45** | 42 | 13 | 12 | 13 |
| 15–25 | **137** | 141 | 135 | 141 | 143 |
| 25–40 | **213** | 199 | 190 | 180 | 173 |
| 40+ | **44** | 43 | 44 | 42 | 39 |
| Total | **439** | 425 | 382 | 375 | 368 |
| Petrol filling stations | **296** | 293 | 287 | 284 | 278 |
| Total sales area (000s sq ft) | **12,261** | 11,867 | 11,131 | 10,837 | 10,505 |
| Average store size (000s sq ft) | **27.9** | 28.5 | 29.1 | 28.9 | 28.5 |
| Average sales area (000s sq ft)[2] | **11,959** | 11,452 | 11,061 | 10,675 | 10,762 |
| Total supermarket takings ex petrol (gross) £m | **13,916** | 13,241 | 12,180 | 11,238 | 10,841 |
| Average per sq ft per week (£) | **22.38** | 22.24 | 21.41 | 20.18 | 19.34 |
| Average per store per week | **624** | 632 | 617 | 576 | 541 |
| Average number of customers per store per week | **25,583** | 25,932 | 25,928 | 24,411 | 24,343 |
| Average take per customer (£) | **24.40** | 24.90 | 23.86 | 23.10 | 22.53 |
| **Employees** | | | | | |
| Full time | **58,287** | 55,703 | 50,934 | 50,018 | 51,502 |
| Part time | **73,787** | 78,041 | 73,596 | 67,436 | 66,302 |
| Total | **132,074** | 133,743 | 124,530 | 117,454 | 117,804 |
| Full time equivalent | **95,181** | 94,724 | 89,855 | 83,736 | 84,653 |
| Average per FTE employee: | | | | | |
| Turnover (£000s) | **173** | 163 | 162 | 155 | 147 |
| Operating profit before pensions credit (£) | **9,498** | 8,615 | 7,472 | 7,307 | 4,999 |
| Employee costs (£) | **19,311** | 18,021 | 17,996 | 17,973 | 17,787 |

[1] 53 weeks.
[2] Includes sales area of divested stores.
[3] Before pensions credit.

# Investor relations and financial calendar

## Financial calendar 2011/12

### Financial events and dividends

| | |
|---|---|
| Final dividend record date | 13 May 2011 |
| Annual General Meeting | 9 Jun 2011 |
| Final dividend payment date | 15 Jun 2011 |
| Half year end | 31 Jul 2011 |
| Interim results announcement | 8 Sep 2011 |
| Interim dividend record date | 30 Sep 2011 |
| Quarterly management statement | 30 Nov 2011 |
| Interim dividend payment date | 7 Nov 2011 |
| Financial year end | 29 Jan 2012 |
| Preliminary results announcement | 8 Mar 2012 |

### 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 Responsibility enquiries
Telephone: 0845 611 5000

### Annual General Meeting
The AGM will be held at 11.00 a.m. on Thursday 9 June 2011 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 Responsibility reports and other financial announcements. The 2011 Annual report is also available to view in HTML format at www.morrisons.co.uk/annualreport11

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 2011 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 or download on the Group's website, www.morrisons.co.uk, unless they have elected to receive a printed version of the results.

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 Responsibility report were designed and produced by Salterbaxter. Telephone: 020 7229 5720.

| Strategic review | 4 | — | 21 |
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**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
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

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

www.capitaregistrars.com

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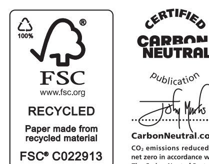


**Shareholder information**
The number of shareholders at 30 January 2011 was 48,371 (31 January 2010 was 46,959) and the number of shares in issue was 2,657,766,671 (31 January 2010: 2,651,100,378).

| Analysis by shareholder | Number of holders | % holders | Balances at 30 January 2011 | % capital |
|---|---|---|---|---|
| Private shareholder | 41,024 | 84.81 | 286,246,586 | 10.78 |
| Nominee companies | 6,566 | 13.57 | 2,308,383,880 | 86.85 |
| Deceased accounts | 322 | 0.67 | 710,856 | 0.02 |
| Limited companies | 234 | 0.48 | 9,192,741 | 0.35 |
| Other institutions | 86 | 0.18 | 3,920,963 | 0.15 |
| Bank & bank nominees | 73 | 0.15 | 44,079,781 | 1.66 |
| Investment trusts | 29 | 0.06 | 118,819 | 0.00 |
| Pension funds | 24 | 0.05 | 5,037,355 | 0.19 |
| Family interests | 8 | 0.02 | 10,622 | 0.00 |
| Insurance companies | 5 | 0.01 | 65,068 | 0.00 |

| Analysis by shareholder | Number of holders | % holders | Balances at 30 January 2011 | % capital |
|---|---|---|---|---|
| 1–1,000 | 25,527 | 52.80 | 11,452,824 | 0.43 |
| 1,001–10,000 | 20,084 | 41.50 | 58,347,097 | 2.20 |
| 10,001–1,000,000 | 1,939 | 4.01 | 53,036,698 | 2.00 |
| over 1,000,000 | 821 | 1.69 | 2,534,930,052 | 95.37 |

**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.

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

### Morrisons Magazine
The current and archived bi-monthly magazine is available to view online.

### Health and pharmacy
Handy health information for the whole family, from tots to grown-ups.

## 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 2011 on-screen, viewing only the parts you want to, www.morrisons.co.uk/annualreport11

#### Webcasts
Webcasts of the Directors delivering the preliminary results 2011 on 9 March 2011 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