MORRISONS

News Release

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PRELIMINARY RESULTS FOR THE YEAR ENDED 3 FEBRUARY 2008

Strong financial and operating performance

Morrisons has made real progress this year towards its aim of becoming the food specialist for everyone

Financial summary

- Turnover up 6.0% to £13.0bn (2007: £12.2bn for 52 weeks)
- Like for like sales (ex fuel) up 4.6% (2007: 5.2%)
- Profit before tax £612m (2007: £369m)
- Net debt reduced to £543m (2007: £772m)
- Underlying earnings per share of 14.4p (2007: 8.3p)
- Final dividend up 20% giving a total dividend for the year of 4.8p (2007: 4.0p)

Operating review

- Range expanded and revitalised.
- Store refresh programme on track to complete July 2008.
- Significant increase in customer numbers in the final quarter.
- Eight new stores opened.
- Grocery distribution facility opened in Swindon.

Balance Sheet Review

- Progressive dividend growth.
- Surplus capital of £1bn to be returned to shareholders.

Commenting on the results:

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

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

Chairman's statement

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

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

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

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

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

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

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

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

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

It seems a long time since I was demobilised from the army in 1952 and started to learn about how to run a retail grocery business. I believe that over the years I have learned one or two things and would set out what I consider to be the important aspects for my successor. I think it is important to assume a leading position and to never forget the business principles that we might be a large company and fairly

sophisticated but we do carry out a simple task – we buy things and sell them. Our task is to ensure that we always please the customer with the quality of what we offer for sale and that at all times we ensure outstanding value for money. This can only be achieved by strict control of all costs and remaining in touch with all aspects of what is a fascinating industry. The ownership of freehold property and the willingness to invest and re-invest in fixed assets has always kept the company in good heart. This can, of course, be achieved whilst also maintaining a prudent balance sheet.

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

I think the present economic climate provides a wonderful opportunity for the company to continue to prosper as long as it remains true to its founding principles. It has been great fun, and I am delighted that I enjoyed the confidence of shareholders, staff and customers alike. I have never forgotten that retailers are always on duty as we are in a dynamic business, 7 days a week, 52 weeks a year.

I am sure the new management team headed by our recently appointed non-executive Chairman, Sir Ian Gibson CBE, will spare no effort in further extending your company's run of success.

Thank you sincerely

Chief Executive's review

Strategy

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

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

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

The Group is securely financed and has a strong balance sheet. We are confident that our planned investment requirements over the next two years can be met from existing facilities. Our balance sheet strategy is based on a number of principles:

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

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

Operating review of the year

2007/8 was a strong year for Morrisons – we delivered good progress on our long term plans and continued the profit recovery momentum of the previous year. Our debt fell, despite investment for the future.

We opened 8 new stores in the year, at Johnstone, Speke, Erskine, Wednesbury, Dundee, Llanelli, York, and Bristol (Hartcliffe). The store in Erskine was a replacement for another store in the town, and at 25,000 square feet was the smallest new Morrisons opened for many years. We are pleased with its initial performance and will be looking for more such sites. Additionally, we carried out a number of extensions of stores, with 13 extensions of retail space and 18 extensions of warehousing space to cope with the growing volumes passing through the stores. We ended the year with 375 stores and a total of 10,835k square feet of retail space, growth of 3.0% on the start of the year.

Turnover grew by 4.1% to £13.0bn, a 6.0% increase after adjusting for the effect of a 53 week year in 2006/7. We were pleased that this growth was broad-based, across all regions. Like for like store sales, the measure of growth in existing stores, increased by 4.6% with both customer numbers and average basket spend increasing.

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

As in the previous year, the strongest sales growth was achieved in Scotland and the South of England, but it was pleasing also to see growth in the Group's traditional Northern heartland after two challenging years. Our health and beauty department, revamped in 146 stores in 2006/7, showed growth, but not as much as we had aimed for. We are trialling a new, revised format which we believe will yield more positive results. Our home and leisure department showed good growth, albeit this was from CDs and DVDs at low margin. New, broader ranges will be introduced in the coming year. We continued to see strong trends towards customers choosing higher quality, more healthy food – with sales of our Eat Smart range up 35%, the Best up 25% and Organics up 14%.

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

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

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

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

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

Optimisation Plan progress

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

"Food specialist"	We really understand food… …we know where it comes from …we pack it and make it in our factories …we make it in our stores …we employ craft skills in every store
"For everyone"	Great food which is also great value Great food which is for everyday, not just special days

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

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

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

Being the food specialist for everyone means not just providing great products but also great value, and that has always been a strength of Morrisons. UK grocery retailing is one of the most competitive retail sectors in the world, and the battle for customers in 2007, as the economy tightened, was hard fought. Morrisons delivers value through having highly competitive base prices and offering a broad range of attractive promotions. These are available all week, every week – never less than 1,000 promotions including 100 "buy one get one frees". The sector has also been increasing the number of "big event" promotions, where eye-catching deals are used to attract customers into store – examples in the year were the launch of the final Harry Potter book and the DVD of Casino Royale – where supermarket prices were very significantly below those of high street competitors. Morrisons played its full part in this activity – but for us the best way to provide our customers with value is to offer superb quality products, unique to Morrisons, at great prices. We had real success in the year – we were first to market with

Spring Lamb, a wonderful product, sourced from British farmers at fair market rates and offered to customers at a price over 20% below competitors. A number of our Christmas products were rated very highly – our Christmas cake outscored similar products from competitors in taste tests, but at half the price of some. Griffith Park sparkling rose, at £4.99, beat off many champagnes costing over £20 at the Effervescents du Monde awards in France. It was exclusive to Morrisons. This is what being the "food specialist for everyone" is all about – showing to our customers that great food does not have to be expensive food.

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

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

Our 117,000 people are also our customers, and we were delighted to introduce a discount scheme for them for the first time, in November 2007. Given that the weekly food bill represents a significant part of household budgets, this is a key benefit for our staff. Our stability index, a measure of the proportion of our colleagues who have been with us for over one year, improved from 71.3% to 75.7% in the year. This is not yet high enough, and we will continue to implement initiatives to encourage our best staff to stay longer with us. We wish to invest in skills, and take out work where we can be more efficient. Our trials of "self scan" checkouts were successful in the year, and we intend to roll these out to over 200 stores.

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

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

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

In outlining our Optimisation Plan last year, I highlighted a number of areas where our infrastructure required further investment, in distribution, manufacturing and in systems. In distribution, we successfully opened a new grocery depot in Swindon to serve stores in the South and West, relocating the activity from Tamworth. This saved 2.9m miles of transportation and allowed us to sell the surplus depot. We have agreed terms for the development of a new regional distribution centre at Sittingbourne, in Kent,

and expect this leasehold facility to open in 2010. In manufacturing, the development of our new abattoir in Spalding continued, and it will open fully in the second half of 2008 – by that stage all our fresh beef, pork and in-season lamb will not only be British but also will be processed through our own facilities.

We made progress in completing our chill chain through the manufacturing and distribution businesses, and all products that we wish to chill now arrive at the back door of our stores in chilled condition. In-store, we still have work to do to provide more chilled space and this programme will continue through 2008 and 2009. Our progress here was slower than we would have wished. Our programme to replace all the major systems in the business got underway in 2007. The first stages involved hardware and software selection and the overall design of the new systems. Hewlett Packard were selected to provide our core hardware and Oracle the software. The first major systems implementation will be a new Group HR and payroll system, which will go live in late 2008 and will be one of the largest and most advanced payrolls in the UK. Thereafter, the programme of systems renewal will run throughout 2009 and 2010.

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

Outlook

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

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

We expect to open eight new stores in the coming year, and to extend a further 19 stores with an additional 100,000 square feet of selling space. We are well placed to achieve our target of increasing selling space by 1m square feet over three years, and we expect to complete all our other, previously announced, investment programmes as planned.

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

Financial review

The Group’s sales and operating profit performance has been dealt with in the Operating Review above. This section deals with other aspects of the Group’s income statement and its balance sheet and cash flow.

Property

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

Finance income and costs

	2008 £m	2007 £m
Interest payable on short term loans and bank overdrafts	(1)	(5)
Interest payable on bonds	(53)	(60)
Interest capitalised	8	6
Total interest payable	**(46)**	**(59)**
Fair value movement of derivative instruments	(7)	(12)
Other finance costs	(7)	(11)
Finance costs	**(60)**	**(82)**
Bank interest received	28	8
Amortisation of bonds	8	8
Other finance income	7	5
Net pension interest income	17	7
Finance income	**60**	**28**
Net finance cost	**0**	**(54)**

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

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

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

Taxation

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

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

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

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

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

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

Underlying earnings

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

Balance sheet

Summary balance sheet	**03-Feb 2008 £m**	**04-Feb 2007 £m**	**Change £m**
Property assets	6,687	6,602	85
Current assets and liabilities (excluding debt)	(1,135)	(1,082)	(53)
Deferred tax	(424)	(478)	54
Net pension liabilities	(68)	(198)	130
Provisions	(139)	(145)	6
Total before net debt	4,921	4,699	222
Net debt	(543)	(772)	229
Net assets	4,378	3,927	451

Net debt

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

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

The Group entered into a new revolving credit facility in September 2007 with 8 banks providing committed facilities of £1.1bn for 5 years. At the balance sheet date the facility was undrawn. With this facility and the bonds the Group now has available committed facilities of £1,800m (2007 £1,450m) maturing between 2010 and 2018.

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

Pensions

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

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

- two additional contributions of £100m each (£75m Safeway and £25m Morrisons) to be made – one in 2007/08 and one intended to be made in 2008/09 to eliminate the IAS19 deficit.
- funding will be set on an IAS 19 basis.
- prudent longevity assumptions based on most recent actuarial evidence.
- over exposure to equity will be reduced and investment management fees reduced through moving to passive investment management.
- disposal of certain investments inconsistent with the Group's view of balance sheet risk.

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

Volatility in the capital markets caused changes to the IAS19 asset and liability measurements. The implied real discount rate (the difference between inflation and the discount rate) has increased by 20 basis points, reducing the liability by £122m. Offsetting this, the return on assets would normally more than cover the unwinding of interest in the present value calculation. This year, with the downturn of the equity markets at the end of 2007 and early 2008, any gains or returns on assets were eliminated, leaving a net interest cost of £95m.

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

The key financial risks to the pension schemes are:

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

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

Provisions

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

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

Cash flow

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

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

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

Disposals and divestment proceeds: Proceeds of £94m on disposal of properties were lower than in the previous year as the process of disposing of stores acquired with Safeway that did not fit Morrisons operating model largely completed in 2006/7. In the year under review the proceeds were realised from a surplus depot, surplus land and two replaced stores.

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

Consolidated income statement

52 weeks ended 3 February 2008

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

Consolidated statement of recognised income and expense

52 weeks ended 3 February 2008

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

Consolidated balance sheet

3 February 2008

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

Consolidated cash flow statement

52 weeks ended 3 February 2008

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

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

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

General information

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

Basis of preparation

The financial information set out herein does not constitute the company's statutory accounts for the periods ended 3 February 2008 or 4 February 2007 but is derived from those accounts. Statutory accounts for 2007 have been delivered to the registrar of companies, and those for 2008 will be delivered in due course. The auditors have reported on those accounts; their reports were (i) unqualified, (ii) did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their reports, and (iii) did not contain statements under section 237(2) or (3) of the Companies Act 1985.

Significant accounting policies

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

Revenue recognition

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

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

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

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

Other operating income

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

a) Rental income from investment property: Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease term.

Segmental reporting

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

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

Supplier income

Supplier incentives, rebates and discounts are collectively referred to as supplier income in the retail industry. Supplier income is recognised as a deduction from cost of sales on an accruals basis based on the expected entitlement which has been earned up to the balance sheet date for each relevant supplier

contract. The accrued incentives, rebates and discounts receivable at year end are included within prepayments and accrued income. Where amounts received are in the expectation of future business, these are recognised in line with that future business.

Property transactions

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

Borrowing costs

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

Deferred and current tax

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

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

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

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

Business combinations and goodwill

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

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

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

Property, plant and equipment

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

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

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

Impairment of non-financial assets

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

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

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

Stocks

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

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

Non-current assets classified as held for sale

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

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

Leases

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

Lessor accounting

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

b) Finance leases: The Group does not lease any assets on a finance lease basis.

Lessee accounting

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

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

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

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

Provisions

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

a) Property provisions: Provisions 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.

b) Restructuring provisions:

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

Foreign currencies

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

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

Retirement benefits

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

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

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

Share-based payments

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

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

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

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

Financial instruments

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

Financial assets

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

b) 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.

Financial liabilities

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

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

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.

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

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

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

Net debt

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

Investment property

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

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

Treasury shares

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

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

Use of critical accounting assumptions and estimates

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

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

a) Property provisions

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

b) Pension scheme assumptions and mortality table

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

c) Assumptions relating to tax computation

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

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

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

Notes to the financial statements
52 weeks ended 3 February 2008

1 Underlying earnings

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

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

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

2 Turnover (excluding VAT)

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

3 Employees and directors

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

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

4 Operating profit

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

Services provided by the Group's auditor

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

	2008 £m	2007 £m
Audit services		
- statutory group and company audit	**0.4**	0.6
- statutory audit of subsidiaries	**0.2**	0.2
- audit related regulatory reporting	**0.2**	0.2

Tax services		
- compliance services	**0.3**	1.1
- advisory services	**0.2**	-
Other		
- forecasting procedures review	**-**	0.2
	1.3	2.3

5 Finance costs and income

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

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

6 Taxation

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

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

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

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

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

7 Earnings per share

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

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

a) Basic and diluted earnings per share (unadjusted)

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

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

b) Adjusted earnings per share

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

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

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

c) Adjusted normalised earnings per share

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

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

8 Goodwill

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

9 Property, plant and equipment

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

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

	Land and buildings			Plant, equipment, fixtures & vehicles	Total
	Freehold	Long leasehold	Short leasehold		
	£m	£m	£m	£m	£m
Prior year					
Cost					
At 29 January 2006	6,079	379	14	816	7,288
Additions at cost	139	36	6	88	269
Interest capitalised	5	1	-	-	6
Transfer to assets held for sale	(21)	-	(6)	(4)	(31)
Transfer from assets held for sale	33	1	4	19	57
Transfer to investment properties	(17)	-	-	-	(17)
Disposals	(7)	-	-	-	(7)
At 4 February 2007	**6,211**	**417**	**18**	**919**	**7,565**

Accumulated depreciation and impairment					
At 29 January 2006	563	43	12	525	1,143
Charge for the period	122	3	2	151	278
Transfer to assets held for sale	-	-	-	(1)	(1)
Transfer from assets held for sale	15	1	3	18	37
Disposals	(4)	-	-	-	(4)
Impairment reversal	(5)	-	-	-	(5)
At 4 February 2007	**691**	**47**	**17**	**693**	**1,448**
Net book amount at 4 February 2007	**5,520**	**370**	**1**	**226**	**6,117**
Assets under construction included above	108	14	-	1	123

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

10 Lease prepayments

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

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

11 Investment property

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

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

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

12 Financial assets

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

a) Cross-currency interest swaps maturing 2010

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

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

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

b) Long term cash on deposit

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

13 Stocks

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

14 Debtors

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

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

The ageing analysis of trade debtors is as follows:

	2008	2007
	£m	£m
Neither past due nor impaired	**70**	53
Past due but not impaired:		
Not more than 3 months	**17**	24
Greater than 3 months	**5**	1
	92	78

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

The other classes of debtors do not contain impaired assets.

15 Cash and cash equivalents

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

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

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

16 Non-current assets classified as held for sale

	2008	2007
	£m	£m
Property	**4**	16

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

17 Creditors - current

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

18 Other financial liabilities

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

	2008 Coupon rate	2007 Coupon rate	**2008 £m**	2007 £m
Current				
Bank loans and overdrafts due within one year or on demand:				
£250m Sterling bonds August 2007	**-**	5.88%	**-**	251
Bank overdraft			**73**	-
Other loan notes	**4.19%**	-	**2**	-
Interest rate swaps	**-**	-	**-**	1
			75	252
Finance lease obligations	**-**	-	**2**	2
			77	254

	2008 Coupon rate	2007 Coupon rate	**2008 £m**	2007 £m
Non-current				
£150m Sterling bonds August 2014	**6.50%**	6.50%	**156**	157
£200m Sterling bonds January 2017	**6.00%**	6.00%	**203**	203
£200m Sterling bonds December 2018	**6.12%**	6.12%	**205**	205
€250m Euro bonds April 2010	**6.50%**	6.50%	**194**	183
Total non-current Sterling and Euro bonds			**758**	748
Other loan notes			**-**	2
Other Safeway loans	**9.38%**	9.38%	**15**	15
Finance lease obligations			**1**	3
			774	768

Borrowing facilities

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

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

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

	2008 £m	2007 £m
Undrawn facilities expiring:		
Between 1 and 2 years	**-**	500
Between 4 and 5 years	**1,100**	-

Finance lease obligations

Payments under finance lease obligations fall due as follows:

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

19 Financial instruments

a) Financial risk management

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

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

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

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

(i) Foreign currency risk

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

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

(ii) Liquidity risk

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

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

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

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

	2008 £m	2007 £m
1 to 2 years	**46**	49
2 to 3 years	**188**	46
3 to 4 years	**35**	188
4 to 5 years	**35**	35
5 + years	**703**	738

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

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

At 4 February 2007	**< 1 year**	**1 – 2 years**	**2 – 3 years**	**3 – 4 years**
Cross currency swap – cash flow hedges				
Outflow	(11)	(11)	(11)	(156)
Inflow	11	11	11	175

(iii) Credit risk

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

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

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

(iv) Other risk

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

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

(b) Capital management

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

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

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

(c) Fair values

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

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

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

(d) Hedging activities

(i) Cash flow hedge

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

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

(ii) Forward contracts

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

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

20 Deferred tax

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

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

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

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

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

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

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

21 Pension liabilities

Defined benefit pension scheme

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

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

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

Assumptions

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

Financial

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

Longevity

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

	2008	2007	2006
Male	**23.5**	19.9	19.9
Female	**25.8**	22.8	22.8

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

	2008	2007	2006
Male	**22.2**	19.9	19.9
Female	**24.7**	22.8	22.8

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

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

Expected return on assets

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

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

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescales covered, may not necessarily be borne out in practice. The

expected return on plan assets is based on market expectation at the beginning of the period for returns over the entire life of the benefit obligation.

Valuations

Assets of the schemes are held in order to generate cash to be used to satisfy the schemes' obligations, and are not necessarily intended to be realised in the short-term. The allocation of assets between category is governed by the Investment Principles of each scheme and is the responsibility of the trustees of each respective scheme. The trustees should take due consideration of the Group's views and a representative of the Group attends trustee investment committees. The fair 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, were as follows:

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

22 Provisions

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

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

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

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

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

23 Called up share capital

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

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

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

Potential issues of ordinary shares

Certain eligible employees hold options to subscribe for shares in the Company at prices ranging from 0p to 247p under the share option schemes approved by shareholders. Options on 9m shares (2007: 4m) were exercised in the current financial year.

Preference shares

The 51/4% cumulative 282,666 preference shares with nominal amount of £1, amounting to £0.3m have been classified as a current financial liability in accordance with IFRS 7 *Financial instruments: Disclosure*. These preference shares do not carry any voting rights.

24 Reconciliation of movements in capital and reserves

	Share capital £m	Share premium £m	Merger reserve £m	Hedging reserve £m	Retained earnings £m	Total £m
Current year						
At 4 February 2007	268	41	2,578	(1)	1,041	3,927
Total recognised income and expense	-	-	-	7	526	533
Share issues	1	16	-	-	-	17
Share option charge	-	-	-	-	9	9
Dividends	-	-	-	-	(108)	(108)
At 3 February 2008	**269**	**57**	**2,578**	**6**	**1,468**	**4,378**

	Share capital £m	Share premium £m	Merger reserve £m	Hedging reserve £m	Retained earnings £m	Total £m
Prior year						
At 29 January 2006	267	37	2,578	-	766	3,648
Total recognised income and expense	-	-	-	(1)	370	369
Share issues	1	4	-	-	-	5
Share option charge	-	-	-	-	3	3
Dividends	-	-	-	-	(98)	(98)
At 4 February 2007	**268**	**41**	**2,578**	**(1)**	**1,041**	**3,927**

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

25 Cash flow from operating activities

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

26 Analysis of net debt

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

27 Share-based payments

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

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

28 Operating lease arrangements

Lessee arrangements

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

	2008 Property £m	**2008 Vehicles, plant and equipment £m**	2007 Property £m	2007 Vehicles, plant and equipment £m
Within one year	**38**	**10**	27	12
More than one year and less than five years	**141**	**26**	110	15
After five years	**619**	**-**	448	3
	798	**36**	585	30

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

Lessor arrangements

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

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

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

29 Capital commitments

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

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

30 Contingent liabilities

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

31 Post balance sheet events

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

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

32 Investment in Rathbone Kear Limited

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