Wm MORRISON
SUPERMARKETS
PLC

Saxon Street, Denton

Report and financial statements 2005

Wm MORRISON SUPERMARKETS PLC

Report and financial statements for the 52 weeks ended 30 January

2005

Message to Shareholders

This is your company. The annual report and financial statements are designed to inform you of the performance of the company over the year and help you gauge its prospects in the future. The document contains the notice of, and the resolutions to be put to, the annual general meeting. Please exercise your right to vote either electronically or by using the accompanying form of proxy.

If you are in any doubt on how to interpret any part of this document or about the action you should take, you should immediately consult your stockbroker, bank manager, solicitor, accountant or other independent professional adviser authorised under the Financial Services and Markets Act 2000. If you have sold or transferred all of your registered holding of ordinary shares or convertible preference shares in the company, please pass this document and the accompanying form of proxy to the stockbroker, bank manager or other agent through whom the sale was effected for transmission to the purchaser or transferee.

Contents

Directors and advisers

Company number	358949
Registered office	Hilmore House, Thornton Road, Bradford BD8 9AX Tel: 01274 494166
Directors	**Executive chairman** Sir Kenneth Duncan Morrison CBE **Non-executive deputy chairman** David Jones CBE **Chief executive** Robert Winston Stott **Executive managing director, trading and marketing** Marie Margaret Melnyk **Executive directors** Martin Ackroyd FCT Mark Gunter David Robert Hutchinson Roger Anthony Owen FRICS, MCI.Arb
Secretary	J J Burke BA (Hons) ACMA, ACIS
Auditors	KPMG Audit Plc 1 The Embankment, Neville Street, Leeds LS1 4DW
Solicitors	Gordons, 14 Piccadilly, Bradford BD1 3LX Ashurst, Broadwalk House, 5 Appold Street, London EC2A 2HA Hammonds, 2 Park Lane, Leeds LS3 1ES
Bankers	HSBC Bank Plc, 47 Market Street, Bradford BD1 1LW ABN AMRO Corporate Finance Limited, 250 Bishopsgate, London EC2M 4AA
Brokers	Hoare Govett Limited 250 Bishopsgate, London EC2M 4AA
Registrars and transfer office	Capita Registrars Northern House, Woodsome Park, Fenay Bridge, Huddersfield HD8 0LA Tel: 0870 162 3131

Board of management

M Basey – supply chain director
M Bates – marketing services director
C J Blundell BA (Hons) MBA – corporate affairs director
J J Burke BA (Hons) ACMA, ACIS – company secretary
T Clements – regional director
P Croall – information technology projects director
B Danylczuk – group accountant
S R Davies – information technology director
A Downey – regional director
S Eastwood – regional director
C M Evenson BSc (Hons) FRICS – development director
M Fletcher – production director
K C J Foster – fresh and frozen foods director
D Gardner – regional director
I Grace – regional director
M I Greenwood FCIPD – personnel and training director
G Hall – public relations director
M D Harrison – stores director (north)
G Henley – specialist business director
K Jelf - regional director
K L Johnson – purchasing director
C M Jones – senior trading director
G K Judson – transport services director
A Lomax MBA – merchandising director
P Maud – petrol filling stations director
B Murrell – trading director
C E Noone – warehouse and distribution director
S L Patchett – transport director
A J Pleasance – home and leisure director
P J Pleasance – retail projects director
L Pope MBA, MRSC – services director
T Robinson – trades specialist director
J A Spurs – licensed trades director
C Taylor – stores director (south)
D N Wade MRICS – construction director
C Walker – produce and meat director
M J Zamiteas – regional director

Share information

Period end		Announcement date
52 weeks to 30 January 2005		23 March 2005
25 weeks to 24 July 2005		22 September 2005*
52 weeks to 29 January 2006		23 March 2006*
Dividends		
Ordinary shares		**Payment date**
2004 Final payment	2·70p	24 May 2004
2005 Interim payment	0·625p	6 December 2004
2005 Final payment	3·075p	31 May 2005*
2006 Interim payment		7 November 2005*
Convertible preference shares		
Half year to March	2·625p	15 March
Half year to September	2·625p	15 September
Next conversion date		30 June 2005

Low cost dealing service

Hoare Govett Limited, provide a low cost postal share dealing service for the company's shares. For details telephone 020 7678 8300. Hoare Govett Limited is authorised and regulated by the Financial Services Authority.

Payment of dividend

Dividends are normally paid by cheque and sent to the address of the first named holder of the shares. Shareholders wishing to be paid direct into their bank accounts should contact the registrars to arrange this.

Dividend reinvestment plan

Shareholders wishing to reinvest their dividend into additional shares of the company may do so through the dividend reinvestment plan. Details are available from the registrars.

Share history 1982 to date

	Ordinary dividend (net) (p per share) year to 31 January	Share price (p) on 5 April (reported closing mid price) Ordinary	Preference	Total market capitalisation £m
1982	1·40	166	—	77
1983	1·60	158	—	73
1984	1·80	210	—	97
1985	2·20	240	—	111
23 May 1985—Capitalisation issue of 1 ordinary share for each ordinary share held.				
1986	1·35	196	—	182
1987	1·60	242	—	225
18 September 1987—Rights issue of 1 5¼% cumulative redeemable convertible preference share of £1 for every 2 ordinary shares held.				
1988	2·00	239	95	268
1989	2·30	283	105	314
25 May 1989—Capitalisation issue of 1 ordinary share for each ordinary share held.				
1990	1·30	163	105	356
1991	1·55	252	155	549
29 November 1991—Rights issue of 1 ordinary share for every 5 ordinary shares and 14 ordinary shares for every 125 convertible preference shares held at 230p per share.				
1992	2·00	318	190	834
21 May 1992—Capitalisation issue of 2 ordinary shares for each ordinary share held.				
1993	0·80	157	264	1,228
1994	1·00	124	207	970
1995	1·20	138	233	1,082
1996	1·40	159	258	1,245
1997	1·70	153	256	1,201
1998	2·10	255	429	2,003
1999	2·45	310	517	2,437
13 May 1999—Capitalisation issue of 1 ordinary share for each ordinary share held.				
2000	1·50	137	446	2,153
2001	1·80	200	668	3,149
2002	2·20	216	722	3,405
2003	2·70	179	616	2,833
8 March 2004—Share issue in respect of acquisition of Safeway plc.				
2004	3·25	251	851	6,666
2005	3·70*	194	680	5,161

The 5¼% cumulative redeemable convertible preference shares can be converted in June each year up to and including 2006. The original basis for conversion was 28 ordinary shares for every £100 in nominal amount of convertible preference shares. This was subsequently amended on 25 May 1989 to 56 ordinary shares for every £100 nominal, on 21 May 1992 to 168 ordinary shares for every £100 nominal and on 13 May 1999 to 336 ordinary shares for every £100 nominal.

*subject to confirmation

Notice of meeting

THE SIXTY FIFTH ANNUAL GENERAL MEETING of the company will be held at the Cedar Court Hotel, Mayo Avenue, Bradford, West Yorkshire on Thursday 26 May 2005 at 11.00 am for the following purposes:

1 To receive and consider the directors' report and audited financial statements for the 52 weeks ended 30 January 2005.

2 To declare a final dividend of 3·075p per share payable on 31 May 2005 to ordinary shareholders on the register of members at the close of business on 29 April 2005.

3 To re-elect D R Hutchinson as a director.

4 To re-elect K D Morrison as a director.

5 To re-elect D Jones as a director.

6 To approve the directors' remuneration report for the 52 weeks ended 30 January 2005.

7 To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

To re-appoint KPMG Audit Plc as auditors of the company to hold office from the conclusion of this meeting until the conclusion of the next general meeting at which accounts are laid before the company at remuneration to be fixed by the directors.

8 To consider and, if thought fit, to pass the following resolution as a special resolution:

That the company be generally and unconditionally authorised to make market purchases (as defined in Section 163 (3) of the Companies Act 1985 (the "Act")) on the London Stock Exchange of ordinary shares of 10p each in the capital of the company ("ordinary shares") and/or 5¼% cumulative redeemable convertible preference shares of £1 each in the capital of the company ("convertible preference shares") where such purchase is, in the opinion of the directors, in the best interests of the company at the time of any purchase provided that:

(i) the maximum aggregate numbers of ordinary shares and convertible preference shares hereby authorised to be purchased are 151,900,000 ordinary shares and 50,379 convertible preference shares representing approximately 5·7% and 10% respectively of the issued share capital of each class of shares at the date of this notice;

(ii) the minimum prices which may be paid for the ordinary shares and the convertible preference shares are their respective par values from time to time and the maximum prices which may be paid for the ordinary shares and the convertible preference shares respectively are amounts equal to 5% above the average of the middle-market quotations for such shares as derived from the London Stock Exchange Daily Official List for the 5 business days before the purchase is made;

(iii) the authority hereby conferred shall expire at the conclusion of the next annual general meeting; and

(iv) the company may make a contract to purchase its own shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority and may make a purchase of its own shares in pursuance of such contract.

9 To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

That for the purposes of the authority conferred by Article 7(2) of the company's articles of association (authority to allot relevant securities) the prescribed period shall be from the date of passing of this resolution until 30 June 2006 or, if earlier, the expiry of the next annual general meeting of the company and the Section 80 amount shall be £80,000,000 (representing approximately 30.1% of the issued ordinary share capital of the company at 23 March 2005).

Notice of meeting continued

10 To consider and, if thought fit, to pass the following resolution as a special resolution:

That for the purposes of the power conferred by Article 7(3) of the company's articles of association (power to allot equity securities for cash) the prescribed period shall be from the date of passing of this resolution until 30 June 2006 or, if earlier, the expiry of the next annual general meeting of the company and the Section 89 amount shall be £13,292,227 (representing 5% of the issued ordinary share capital at 23 March 2005) and that the directors may in addition during the prescribed period allot equity securities for cash as if section 89(1) of the Act did not apply to such allotment up to the amount required in connection with the exercise of the rights of conversion attached to the convertible preference shares.

Registered Office
Hilmore House
Thornton Road
Bradford BD8 9AX

By order of the board
JONATHAN BURKE
Secretary
23 March 2005

Notes

1 If you are in any doubt about the action you should take, you should immediately consult your stockbroker, bank manager, solicitor, accountant or other independent professional adviser authorised under the Financial Services and Markets Act 2000. If you have sold or transferred all of your registered holding of ordinary shares or convertible preference shares in the company, please pass this document and the accompanying form of proxy to the stockbroker, bank manager or other agent through whom the sale was effected for transmission to the purchaser or transferee.

2 A member entitled to attend and vote is entitled to appoint a proxy or proxies to attend and vote instead of him. A proxy need not be a member of the company. To be valid the form of proxy must be completed and lodged with the registrars of the company not later than 11.00 am on 24 May 2005. A proxy should either be submitted by post on the enclosed form of proxy or via the internet at www.capitaregistrars.com where full instructions are given. If you choose to appoint a proxy electronically you will need your unique investor code which is printed on the form of proxy notes section.

3 CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic appointment service may do so for the annual general meeting and any adjournment(s) thereof by utilising the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (CREST proxy instruction) must be properly authenticated in accordance with CRESTCo's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instructions given to a previously appointed proxy, must, in order to be valid, be transmitted so as to be received by the issuer's agent Capita Registrars (ID RA10) by the latest time for receipt of proxy appointments specified in the notice of annual general meeting (Note 2). For this purpose, the time of receipt shall be taken as the time (as determined by the timestamp applied to the message by the CREST applications host) from which the company's agent (Capita Registrars) is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors or voting service providers should note that CRESTCo does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST proxy instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s) to procure his/her CREST sponsor or voting service provider(s) take(s)) such action as is necessary to ensure that a message is transmitted by means of the CREST system by a particular time. In this connection, CREST members and, where applicable, CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The company may treat as invalid a CREST proxy instruction in the circumstances set out in Regulation 35(5) of the Uncertified Securities Regulations 2001.

4 Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the company specifies that in order to have the right to attend and vote at the meeting (and also for the purpose of calculating how many votes a person entitled to attend and vote may cast), a person must be entered on the register of holders of the ordinary shares of the company by no later than 48 hours before the time appointed for the meeting. Changes to entries on the register after this time will be disregarded in determining the rights of any person to attend or vote at the meeting.

5 The total issued share capital of the company at the date of this notice was £265,844,550 in ordinary shares of 10p each and £503,797 in 5¼% cumulative redeemable convertible preference shares of £1 each.

6 Dividend warrants will be posted on 31 May 2005 to those ordinary shareholders registered at the close of business on 29 April 2005. Participants in the dividend reinvestment plan will receive their statements and if applicable share certificates by 15 June 2005.

7 Details of the directors' remuneration and other benefits are contained in the directors' remuneration report and financial statements. The register of directors' interests, a statement of all transactions of each director in the shares of the company during the previous twelve months, copies of the directors service contracts, appointment letters and the standard terms of employment will be available for inspection at the annual general meeting and at the registered office of the company during normal business hours.

Chairman's statement

Review of the 52 weeks ended 30 January 2005

The size of our company increased significantly with the acquisition of Safeway last year. Safeway made an 11 month contribution to the group figures and has significantly changed the shape and geographical reach of the company. At the year end we traded from 498 stores compared with 125 stores at 1 February 2004.

The task of converting Safeway stores into Morrisons has been challenging but I believe we have made good progress towards our objective of becoming one of the four major national food retailers and are on track to complete the programme well ahead of the original plan.

The year has been a very exacting one for all our staff. Extra work has been necessary in the planning and the execution of both the store conversion and disposal programmes. These tasks have been completed with enthusiasm and skill. We have in place a highly competent team of people. I must compliment them on what has already been achieved and express my personal thanks and confidence in them going forward. I am pleased to note that in the 27th year of our profit sharing scheme a sum of £19·7m will be distributed amongst all eligible employees.

There is no doubt that there is another year of hard work ahead taking us well down the road towards achieving our medium-term objectives.

I am confident that by the end of the current year we will be providing all our customers around the country with the quality and standards of service they have come to expect from Morrisons. I am also confident we will achieve a significant improvement in performance in 2006/7 given the extremely encouraging results from stores converted from Safeway to Morrisons.

Sales

Total takings through our stores were slightly in excess of £13bn. £5·9bn was from the core Morrison estate which represents an increase of 11·5% over last year, and is a like for like increase of 7·1%, or 4·6% if fuel sales are excluded. In addition, 57 stores were converted from Safeway to Morrisons progressively during the year which added a further £0·7bn to the Morrison total sales.

Sales in the Safeway branded stores were £6·4bn which represents a decrease of 6·8%, or 8·9% excluding fuel. Sales through Safeway included a contribution of £0·8bn from stores which were disposed of during the second half of the year.

Turnover

Having adjusted for VAT and other income, group turnover was £12·1bn for the year ended 30 January 2005, compared to £4·9bn in 2004. Other income includes almost £40m of rent received, up from £22·2m in the previous year.

Gross profit

The gross margin fell from 25·5% to 24·4% due to a number of factors. On the plus side were the initial synergies derived from combining the two businesses, but these were more than offset by the Safeway price cuts which we introduced immediately following the takeover and the re-alignment of Safeway's buying terms.

We had a number of problems with the Safeway accounting system in the early part of the year and amongst other reporting issues found it impossible to prove whether certain debit balances on supplier accounts arose pre or post acquisition. Due to this uncertainty it was felt that a specific provision of £40m should be made to the accounts for the year to 30 January 2005.

In total gross profit for the year was £2,954m.

Costs

Costs as a percentage of sales were higher than in previous years due to the conversion programme. This is due to the temporary but unavoidable running of two distribution, administration and IT functions which is a fundamental necessity until the completion of the conversion programme. Labour costs have risen from 11·5% to 13·1% of turnover, whilst other operating costs have increased from 5·2% to 6·0%.

Depreciation

Depreciation in the year was £265m representing 2·2% of turnover.

Profit

Operating profit before exceptional costs was £380·3m, representing 3·1% of turnover. Exceptional costs were £99·2m, mainly comprising redundancy payments to former Safeway staff of £23·8m and costs of £72·4m associated with the store conversion programme.

Net interest payable, after capitalising £6·4m, was £59·2m.

Operating profit pre-exceptionals less net interest payable was £321·1m.

Profit before tax was £297·1m compared to £319·9m the previous year.

Chairman's statement continued

Capital expenditure

Capital expenditure during the year was £423m. In the current financial year, this is expected to rise to approximately £650m reflecting our decision to accelerate the store conversion programme which will be largely complete by the end of the current financial year. Capital expenditure will fall substantially in the financial year 2006/7.

By the end of this year the majority of the conversion programme and supporting infrastructure will be in place. Over the three year period to January 2007, total capital expenditure will be comfortably within the £1·575bn that we announced at the time of the acquisition.

Pensions

On an FRS 17 basis the pensions' liability has increased to £263·5m from a combined Morrison/Safeway deficit last year of £208·2m. £81·8m less deferred tax of £24·5m of this increase was due to a change in actuarial assumptions.

In 2005 the net company contribution was £46·5m.

Balance sheet

Net borrowings at the year end were £1·171bn compared to net cash of £207m 12 months ago, or £1·077bn when opening Safeway debt is taken into account. Net borrowings represent 29·1% of shareholders funds of £4·0bn.

Performance of conversion stores

We converted 57 stores to the Morrison fascia during the year. We are finding that the Morrisons format is drawing customers back to a location that many had deserted and accordingly customer numbers are over 20% ahead of unconverted stores.

Although customer numbers have improved dramatically we have not yet managed to raise their average spend to the levels seen in the core Morrison stores. However sales per square foot are making good progress. Just one year into the three year target of £19·72 sales are already up from £14·82 to £17·80 per sq. ft in the first 6 weeks of this year.

We announced at the time of our interim results in October 2004 that we would increase the pace of the conversion process from three to four stores per week. Much of the necessary planning work has already been completed to convert around 170 Safeway stores during the course of this year. This includes the completion of major extensions to stores at Thamesmead, Nottingham, Coventry and Hinckley, prior to conversion.

Many store conversions are in areas where Morrisons has not previously traded and we are pleased with the positive response from customers. Our success is achieved by having the goods and services required by customers and the range of product available in our newly converted stores is being well-received.

Unconverted Safeway stores

Substantial price reductions were made in the continuing Safeway stores reducing the cost of shopping by some 12-14% as we rapidly moved to replace the Safeway flyer which had encouraged 'cherry picking' with the strong Morrisons promotional offer. Whilst sales volumes responded positively, these were insufficient to offset fully the price reductions.

Customer numbers are showing an encouraging increase, particularly post Christmas, rewarding the fact that we served customers well during this crucial shopping period.

Update on disposals

In total 112 stores were divested during the financial year raising £903m which was £360m more than the original book value. The fair value adjustment was £342m, leaving £17·9m in the profit and loss account.

A further 52, predominantly small leasehold stores, have been sold since the year end for approximately £80m.

Of the remaining stores, those not in this year's conversion programme, some are already subject to offers from competitors and the others are being held for future conversion, development or sale.

By the end of this year we expect to be operating approximately 360 Morrisons stores with an average size of 28,500 sq.ft., representing a significant presence in the retail food market and backed by the vertical integration which has always served us well.

Infrastructure

We are investing significantly in improving and expanding the company infrastructure to ensure our continued prosperity and future growth.

Chairman's statement continued

The new head office in Bradford will allow us to centralise administration from January 2006. This will enable us to vacate and dispose of the office accommodation in Hayes by the end of 2005 and to dispose of a number of office buildings in Yorkshire.

Distribution is being brought in line with our reshaped business and the completion of our new regional distribution depot at Kettering is on programme for late autumn.

Plans are well advanced to adapt the distribution centres at Bellshill and Bristol to the Morrisons footprint through the acquisition of additional space. A 100 acre site has been bought in Corby and part of this land has planning permission for a frozen food distribution centre, which should come on stream in 2006.

Produce packing has already been augmented by the purchase and extension of facilities at Thrapston and production is now in full swing. Work has commenced on the adaptation of an existing building in Rushden in order to give additional capacity to our vegetable processing facilities. We still need other similar facilities before this work is completed. Our new packing and distribution centre at the Hook of Holland is fully operational and is proving beneficial, particularly in the area of European produce and flowers.

Meat production has been strengthened by the purchase of an existing abattoir and packing facility at Turriff, Aberdeenshire. Agreement has been reached to purchase a further abattoir in the near future.

We are currently receiving very good support from suppliers who believe that a strong fourth retail food company is needed to ensure that the shopping public continues to enjoy an acceptable amount of choice. Our support for British farmers and producers has been maintained although we work hard to ensure that our competitive position is not compromised. Our larger share of the UK food market means that we will be subject to the Buying Code of Practice on which the OFT reported on 22 March. We do not expect any difficulties in complying with this. Good supplier relationships are just as vital to our business as loyal customers.

Store development programme

During the period under review new Morrisons stores were opened at Kilmarnock, Wetherby, Hartlepool, Falkirk, Knottingley, Swansea and Denton. Initial customer reaction has been favourable and good early sales levels have been achieved.

Our planned improvement of existing stores was maintained and in addition to the high standards of routine maintenance, major extensions and refurbishments were carried out at Harrogate and Boroughbridge stores.

Our plans for new store openings in 2005 are proceeding well and comprise Hamilton (which opens in May), Auchinlea Park, Easterhouse (June) and Cardonald (August) both in Glasgow, Paisley (September), Livingston (October), Strood (October), and Gloucester (November). Five of these stores replace former Safeway stores.

Our new store development programme for 2006 is taking shape with contracts exchanged and planning consent granted for new stores at Bristol, Leyland, Liverpool, Swadlincote, Wednesbury, Whitefield and York. The existing store at Crowborough will be demolished and redeveloped, as will our store in Rothwell. This represents a good base going forward and I have no doubt further new sites will be forthcoming in due course.

Board changes

On 21 May 2004 the company appointed David Jones, Chairman of Next Plc, and Duncan Davidson, Chairman of Persimmon Plc as non-executive directors. Both have offered valuable advice during a difficult period. Duncan has found that the time required to support us properly had impacted on his other duties and therefore he resigned from the Board on 23 March 2005. I would like to express my appreciation for the help he gave us during his directorship.

I am pleased to report that David has agreed to become non-executive Deputy Chairman and will head up the nomination, remuneration and audit committees.

On 23 March 2005 Bob Stott was appointed as Chief Executive with Marie Melnyk becoming Managing Director with responsibility for trading and marketing.

Whilst the accounting problems at Safeway were not of his making, Martin Ackroyd has accepted full responsibility for the failure to keep full control during the year. He offered to resign from the Board on 22 March due to unfounded press criticism which he believed was damaging the reputation of the company. It was with deep regret that I accepted this request and have made it clear we would like him to remain with the company once his term of office runs out at the annual general meeting on 26 May 2005.

Chairman's statement continued

His stewardship of our accounts has been unblemished during his 31 years with the company, the last 18 as Financial Director and whatever his decision I would like to recognise his achievements and thank him for his contribution to our undoubted success over that period.

Current trading

In the 6 weeks ending 13 March, like for like sales increase in the core Morrisons estate was 2·7% in total but down 1·2% excluding fuel. This figure reflects the impact of divested stores and the inevitable effect on sales at existing Morrisons stores as poorly performing Safeway stores convert to the successful Morrisons format. By comparison, the 63 stores that were unaffected by adjacent conversion or divestment achieved a total like for like sales growth of 5·9% and 1·9% excluding fuel.

During the same period, it is pleasing to report that unconverted Safeway stores are, for the first time under our ownership, now showing an overall growth of 1·2%, although excluding fuel this is still a decline of 0·5%.

Moving on to the 80 converted Safeway stores sales excluding fuel are 11·3% above last year with a 21·8% increase in customer numbers. Average sales per sq. ft. have increased from £14·82 to £17·80. Total sales including fuel are 13% higher than last year.

Taken together, total group sales in the first six weeks of the current financial year are up 4·1% or 1·2% excluding fuel.

Outlook

For the current financial year we are budgeting to maintain our turnover at around £12·3bn as the conversion programme moves forward, despite the full year impact of stores already divested.

Our first priority remains the protection of volume by ensuring a competitive basket for our customers. In the near term improvement in gross margins will be constrained by industry conditions. However, improved buying terms along with the investments in vertical integration are starting to come through to the benefit of gross margin.

In terms of operating costs, we will continue to incur dual running costs for distribution, administration and IT functions for much of the year. Labour costs are also expected to remain high as a percentage of sales until the conversion stores reach maturity and are likely to increase near term. Likewise, depreciation will also increase reflecting capital expenditure.

Overall we expect operating margins to show some improvement in the current year, albeit modest and not apparent until the second half of the year. Exceptional costs will reflect the increased rate of conversions and are expected to be significantly higher than the previous year.

2005/6 is the second and busiest year of the conversion programme. By the end of the current year we will have in place the stores and most of the infrastructure to deliver Morrisons quality, value and service nationwide. Based on the encouraging results which we have seen in the converted stores to date we remain confident of achieving a significant improvement in performance in 2006/7.

Dividend

The Directors are proposing a final ordinary dividend of 3·075p per ordinary share making a total of 3·7p per ordinary share (2004 3·25p), an increase of 13·8%. This will be paid on 31 May 2005 to those members registered in the books of the company on 29 April 2005.

Sir Kenneth Morrison CBE
Chairman
23 March 2005

Directors' report
52 weeks ended 30 January 2005

The directors have pleasure in presenting their report and the group's audited financial statements for the 52 weeks ended 30 January 2005.

Principal activity
The principal activity of the group is the retail distribution of goods, through the medium of supermarkets.

Review of the period
On 8 March 2004 the company completed the acquisition of Safeway Ltd (formerly Safeway plc). This increased the number of stores operated by the group by 479 although at least 52 of these were required to be divested due to conditions imposed by the Office of Fair Trading. The acquisition was satisfied by the issue of approximately 1,077m new ordinary shares (each valued at 249p) plus £665m cash including fees giving total consideration of £3,346m. See note 48 on page 52 and 53 for details of the acquisition.

Further details of the development of the group are contained in the chairman's statement on page 6 and financial review on page 55.

Result and dividend
The profit for the period attributable to ordinary shareholders, after taxation of £91·4m amounted to £205·7m. The directors recommend that a final equity dividend of 3·075p per share be paid. An interim dividend of 0·625p per share was paid on 6 December 2004. The total dividend of 3·70p per ordinary share represents an increase of 13·8% over the 3·25p per ordinary share paid last year and the total net equity distribution amounts to £98·1m, leaving profit retained of £107·6m. The record date for the final dividend is 29 April 2005 and dividend warrants will be posted on 31 May 2005.

Dividend policy
The directors believe that results achieved from investment in new stores and the refurbishment of older premises continue to outweigh perceived benefits from excessive increases in dividend. Reasonable annual increases in dividend per share have been and will be made when considered prudent.

Employment policies
The group's comprehensive employment policies cover recruitment, selection, retention, pay and benefits, learning and development and equality.

Employee involvement
It is the group's policy that employees should be kept as fully informed as possible about the activities of the group. This is achieved through internal communications such as our staff publication "Team News at M", notice boards, briefings and local, regional and national consultative committees.

The group recognises a number of trade unions and has a partnership agreement with the majority trade union. We maintain positive working relationships with the unions at local and national levels.

The group encourages employee involvement in the financial performance of the business through its profit related pay scheme and savings related share option schemes.

Equal opportunities
It is the group's policy to offer equal opportunities to all, regardless of race, colour, nationality, ethnic origin, sex, marital status, sexual orientation, disability or age. All applicants and employees are treated equally in respect of recruitment, promotion, training, pay and other employment policies and practices. All decisions are based on merit. Reasonable adjustments will be made to accommodate those with special needs. Under no circumstances will discrimination against any individual or group be tolerated. All employees have access to confidential counselling provided by trained counsellors as part of our special complaints procedure. Full details on all such facilities are contained in the staff handbook.

The group is conscious of its responsibility to society and to the local community in particular. Management is required to apply all of the group's policies fully and diligently to ensure that our high standards are maintained in respect of our operations.

Disability
The group gives full and fair consideration to applications for employment made by people with disabilities. Where an employee becomes disabled whilst in employment, every effort will be made to look at appropriate and reasonable adjustments and to offer suitable employment together with assistance in retraining.

Auditors
In accordance with Sections 385 and 390A of the Companies Act 1985, a resolution to re-appoint KPMG Audit Plc as auditors and to authorise the directors to fix their remuneration is to be proposed at the forthcoming annual general meeting.

Borrowing powers
The articles of association of the company restrict the borrowings of the company and its subsidiary undertakings to a maximum amount equal to twice the share capital and consolidated reserves.

Directors' report continued

Annual general meeting

Eight ordinary and two special resolutions will be proposed at the annual general meeting. Details of these resolutions are set out in the notice of meeting on pages 4 and 5 of this report. The directors believe each of these resolutions is in the best interests of the company and recommend shareholders to vote in favour of all of them as they intend to do in respect of their personal beneficial holdings of 111,277,791 ordinary shares of the company.

Share capital

The following resolutions will be proposed at the annual general meeting:

1 Resolution 8 (a special resolution) to renew until the close of the next annual general meeting the authority given at the annual general meeting held on 20 May 2004 for the company to buy its ordinary and convertible preference shares on the London Stock Exchange up to a maximum of 151,900,000 ordinary shares of 10p each ("ordinary shares") and 50,379 5¼% cumulative redeemable convertible preference shares of £1 each ("convertible preference shares") representing approximately 5·7% and 10% respectively of the issued share capital in each class of shares.

2 Resolutions 9 (an ordinary resolution) and 10 (a special resolution) to enable directors to continue to exercise existing powers to allot unissued shares and to allot shares for cash otherwise than to existing shareholders pro rata to their holdings. These resolutions replace the resolutions passed at the annual general meeting of the company held on 20 May 2004 and will run until the close of the next annual general meeting. The intention is to renew and roll them forward by one year at each future annual general meeting. Under resolution 9 the directors will be authorised to allot the unissued ordinary share capital of the company (representing approximately 30·1% of the issued ordinary share capital). Resolution 10 authorises the directors to allot equity shares for cash otherwise than pro rata to ordinary shareholders. They may do so only in respect of shares representing up to 5% of the issued ordinary share capital, in connection with the conversion of the convertible preference shares or to facilitate rights issues of ordinary shares.

Save for the issues of shares under the share option schemes or on conversion of the convertible preference shares, there is no present intention to make use of either authority and the resolutions are being proposed only to ensure that the directors are able to act in the best interests of the company should a requirement arise. Any shares purchased pursuant to the authority contained in resolution 8 will be cancelled or held in treasury.

Regulations introduced in 2003 enable listed companies to hold their own shares, once purchased, in treasury, as an alternative to cancelling them. Shares held in treasury may be cancelled, sold for cash or used to satisfy share options and share awards under employee share schemes. The company is not entitled to exercise any rights, including the right to attend and vote at meetings in respect of the shares and no dividend or other distribution may be made in respect of the shares. It may be appropriate for the company to hold its own ordinary shares in treasury, rather than cancelling them if the directors exercise the authority conferred by resolution 8. Your board will have regard to any guidelines which may be published by investor groups in considering any purchase, holding or resale of treasury shares.

The approval of the holders of the convertible preference shares to the purchases of shares pursuant to the authority contained in resolution 8, and any renewal of further grant of that authority on like terms, was given at a separate meeting held on 13 May 1999.

Under the provisions of the company's articles of association, the holders of convertible preference shares in the company have the right to convert such shares during June in each year up to 2006 into ordinary shares. The convertible preference shareholders will shortly receive a letter regarding their rights of conversion in 2005.

During the period, a total of 940,979 convertible preference shares were converted into 3,161,689 ordinary shares on the basis of 336 ordinary shares for every £100 nominal amount of convertible preference shares in accordance with the terms of issue of the convertible preference shares. In addition, 2,441,810 ordinary shares were issued to employees exercising share options. In the period 31 January 2005 to 23 March 2005 options in respect of 154,425 ordinary shares were exercised. On 8 March 2004 approximately 1,077m ordinary shares were issued on the acquisition of Safeway plc becoming effective.

At the annual general meeting of the company held in 2004, a special resolution was passed to authorise the purchase by the company of up to 151,900,000 ordinary shares and 470,236 convertible preference shares representing approximately 5·7% and 10% of the issued share capital of each class of shares respectively at that time. This authority remained valid on 30 January 2005. The company has not purchased any of its own shares pursuant to that authority which will expire at the close of the 2005 annual general meeting.

At 23 March 2005 options to subscribe for shares in respect of 39,996,977 ordinary shares of 10p each in the company were outstanding, representing 1.5% of the issued ordinary share capital at that date and 1.6% of the issued ordinary share capital assuming exercise in full by the company of its authority (both current and that being sought at the annual general meeting) to purchase its own shares and cancellation of such shares on purchase.

Directors' report continued

Substantial shareholdings

As at 23 March 2005 the company was aware that the following shareholders (excluding directors) had interests in 3% or more of the issued share capital of the company:

Ordinary shares
Mr & Mrs N G Pritchard 79,717,453 (3·0%), The Bank of New York (Nominees) Limited 102,645,622 (3·9%), Chase Nominees Limited 96,376,111 (3·6%), Littledown Nominees Limited 84,317,022 (3·2%), Nortrust Nominees Limited 106,548,706 (4·0%) and State Street Nominees Limited 91,385,287 (3·4%).

In addition, Mr A R Wilson has an interest in 235,310,022 ordinary shares (8·9%) of which he has a beneficial interest in 25,839 ordinary shares. His interest in the remaining 235,284,183 ordinary shares is purely as a trustee and includes 11,992,302 ordinary shares shown under the beneficial holding of K D Morrison and 37,773,306 ordinary shares shown under the beneficial holding of Mr & Mrs N G Pritchard.

K D Morrison is interested as a trustee in 159,109,829 of the ordinary shares held by Mr A R Wilson as a trustee.

Directors and their interests

The executive and non-executive directors of the company during the period were:

Sir Kenneth Duncan Morrison CBE (b 20.10.1931) Executive chairman
Has been with the company, which bears the name of his father, since finishing national service in 1952 and was chairman and managing director from 1956 to 1997 at which time he relinquished the managing director's role. During his period in charge the company has grown from a small market trader to one of the leading superstore operators in the country. Sir Kenneth was awarded the CBE in 1990 and knighted in the 2000 new year's honours list for services to the food retailing industry.

Robert Winston Stott (b 22.3.1943) Chief executive
Originally joined the company in 1973 after 10 years with Pedigree Petfoods. He was appointed to the main board in 1977 and became deputy managing director in 1983. In 1987 he left to become managing director at Geest Wholesale Services and later Geest UK Banana Division before returning to the company in 1996. He was re-appointed to the main board in 1997 as buying director, became joint managing director in March 2002 and chief executive in March 2005.

Marie Margaret Melnyk (b 10.6.1958) Executive managing director, trading and marketing
Joined the company in 1975 and became produce director when appointed to the board of management in 1987. Marie was closely involved with the setting up of the central grocery facility at Wakefield becoming trading director in 1988 and was appointed to the main board in 1993 being responsible for buying and marketing. She was appointed deputy managing director in 1997, became joint managing director in March 2002 and sole managing director in March 2005 continuing with her responsibility for trading and marketing.

Martin Ackroyd FCT (b 15.6.1951) Finance director
Joined the company in 1974 and became a member of the board of management in 1983. Two years later he became company secretary, a position he relinquished in 2001, and in 1987 was appointed to the main board. He is responsible for the financial sections of the business along with investor relations.

Mark Gunter (b 1.7.1958) Stores operations director
Mark joined the company in 1986 after gaining wide experience in UK food retailing, including working for Iceland, Fine Fare, Tesco and Argyll Foods. He moved into superstore management at Asda, before joining Morrisons as a store general manager and progressing to district manager.

In 1993 he was appointed regional director and subsequently stores director in 1999. Mark was appointed to the main board of the company in 2000 as store operations director with additional responsibility for retail operations, retail projects and company wide security.

David Robert Hutchinson (b 24.12.1948) Production director
Joined the company in 1986 and spent 7 years helping to build up the produce business at Cutler Heights. In 1993 he was appointed to the board of management in charge of all manufacturing and pack house activities. He was appointed to the main board of the company in 2002 adding warehouse and distribution functions to his responsibilities.

Roger Anthony Owen FRICS, MCI.Arb (b 21.10.1948) Property director
Has been with the company since 1975 and was appointed to the board of management in 1979 as building and services director. Joined the main board in 1987 as property director and has full responsibility for site acquisition, construction and estate management.

David Jones CBE (b 2.2.1943) Non-executive deputy chairman
Joined the group as a non-executive director on 21 May 2004 and was appointed non-executive deputy chairman in March 2005. He was appointed chief executive of Next Plc in 1988, becoming deputy chairman in 2001 and chairman in 2002. His previous experience includes 20 years with Great Universal Stores and 5 years as chief executive of Grattan Plc. He was a non-executive director of Aggregate Industries Plc until 21 March 2005 and remains a non executive director of Leicester Football Club plc. He is also President of Yorkshire County Cricket Club.

Duncan Davidson (b 29.3.1941) Non-executive director
Joined the group as a non-executive director on 21 May 2004. He founded Persimmon Plc in 1972 leading its development from a small local housebuilder to a large and successful group. He was chief executive and chairman from 1972 and 1993 respectively and continues in his role as chairman. He has over 40 years of experience in the building industry. He resigned from his position on 23 March 2005.

Directors' report continued

D R Hutchinson (age 56) and K D Morrison (age 73) retire by rotation and D Jones (age 62) retires at the first annual general meeting following his appointment. Each of them, being eligible, offers himself for re-election at the annual general meeting. M Ackroyd (age 53) retires by rotation and is not seeking re-election at the annual general meeting.

The interests of the directors and their families in the shares of the company (% holding if over 3%) were as follows:

	30 January 2005			1 February 2004		
Beneficial	Ordinary shares		Options to purchase ordinary shares	Ordinary shares		Options to purchase ordinary shares
M Ackroyd	159,756		644,300	138,160		794,300
M Gunter	12,200		914,300	12,200		694,300
D R Hutchinson	85,512		694,300	85,512		474,300
M M Melnyk	494,414		1,294,300	494,414		994,300
K D Morrison	109,723,887	(4·1%)	1,110,000	109,224,850	(6.9%)	610,000
R A Owen	582,178		880,000	532,178		780,000
R W Stott	174,844		724,300	154,302		624,300
D Jones (appointed 21.05.04)	45,000		—	—		—
D Davidson (appointed 21.05.04– resigned 23.03.05)	—		—	—		—
Non-beneficial						
K D Morrison	159,109,829	(6·0%)		159,487,397	(10·1%)	

There were no changes in the above interests in the period from 31 January 2005 to 23 March 2005.

Political and charitable donations

During the period the group made charitable donations amounting to £153,000. In addition the group sponsored various charities and in the year over £4·1m was raised by customers and staff. No political donations were made.

Future developments

The group continues to expand into new areas of merchandise where considered appropriate and plans to continue physical expansion of retail stores as and when opportunities arise. Further details of current and future developments are set out in the chairman's statement on page 6.

Accounting practices

Following the acquisition of Safeway the group has harmonised its accounting practices. The accounting policies of the two companies were broadly the same such that the policies of Morrisons remain unchanged. The way those policies were applied however, differed.

As detailed on pages 26 and 27, the accounting estimation technique for supplier income has been refined resulting in a net benefit to the profit and loss account in the period of £47m. Further revisions to previous accounting practices have been made in order to establish the most appropriate practices for the new enlarged group. As a consequence of these revisions, profits for the period have benefited by £42m.

Depreciation rates have also been harmonised as discussed in the accounting policies. Had the previous rates been applied, the depreciation charge for the current period would have been £35m higher.

As announced on 17 March 2005 a specific provision of £40m has been made within these accounts due to the uncertainty over the recoverability of certain debit balances within the Safeway purchase ledger.

Going concern

After making enquiries the directors have a reasonable belief that the group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Payment to creditors

Supplier credit is an important factor in the success of the business. Following the acquisition of Safeway Limited the company will, as previously acknowledged, work within the spirit and letter of the supermarkets' code of practice. The company will continue with its policy to ensure all payments are made within mutually agreed credit terms. Where disputes arise the company attempts to sort these out promptly and amicably to ensure delays in payment are kept to a minimum. Creditor days outstanding for the company at 30 January 2005 were 39 (2004 38).

Directors' report continued

Health and Safety Policy

It is the group's intention as far as is reasonably practical to ensure the health, safety and welfare of all its employees, customers and visitors to its premises. In order to achieve this, the group has drawn up a comprehensive health and safety manual that contains policies and procedures detailing safe working systems and practices for all work-based activities.

The group's health and safety policy is fully mandated by the main board of directors. As an integral part of our commitment to achieving the highest standards of health and safety across all areas of our business we have adopted the national targets set by the Health and Safety Commission for the reduction of workplace accidents and work-related ill health. Health and safety performance is monitored to ensure continuous improvement in all areas.

The following work has been achieved to target within the last 12 months:

- the amalgamation of divisional health and safety teams to form a group health and safety team to ensure consistency of approach and flexibility of resource;
- health and safety arrangements are in place for all divisions;
- risk assessments and health and safety procedures are fully in place within the stores operation, manufacturing and distribution sites;
- health and safety training is provided to all managers and supervisors within each division;
- the group remains on course to meet or exceed the national reduction targets set by the Health and Safety Commission for workplace accidents and work-related ill health.

International Financial Reporting Standards

The group will be adopting International Financial Reporting Standards (IFRS) for its financial statements for the period ending 29 January 2006 and for its interim report to 24 July 2005 in line with the timetable set out in European Legislation. The trading results of the group as reported are not expected to be materially different under IFRS from UK GAAP. The main change in accounting treatment will be in respect of the acquisition of Safeway Limited (formerly Safeway plc). IFRS requires identification of more intangible assets and requires negative goodwill to be credited to the profit and loss account immediately on recognition.

Post balance sheet event

Subsequent to the year end the group has continued its divestment strategy with further disposals of stores owned by Safeway Limited (formerly Safeway plc) and its subsidiary companies. The group has received approximately £80m in consideration for these divestments.

Corporate governance

Statement of policy
The directors' statement on how the principles established in the revised combined code on corporate governance are applied appears below.

In previous years, the board have always considered their approach to corporate governance to be appropriate to the company's circumstances. The group has a relatively flat hierarchical structure led by a long serving board that has extensive knowledge of the business as a whole. Individual directors have particular depth of knowledge in their own areas. The board meets regularly and considers detailed operational matters. In addition, the group had grown organically over a long period of time, providing a steady state in which the detailed system of controls could operate effectively without the risks associated with change. This approach, together with inherent and embedded prudence, gave the directors confidence over the control environment.

Following the acquisition of Safeway, progress has been made in developing a more formal approach to corporate governance matters, including the appointment of non-executive directors and the establishment of an audit committee. These changes are considered in more detail below.

The board
Details of the executive and non-executive directors of the group are set out on page 12.

The directors represent shareholders' interests in maintaining and growing a successful business including optimising long-term returns. The directors are accountable for determining that the company, its subsidiaries and its interests in joint ventures are managed in such a way as to achieve this objective.

The board, in addition to meeting its obligations to improve shareholder value, has responsibility to the company's customers, employees and suppliers, and to the communities where it develops and invests.

Directors' report continued

The board sets the overall strategy of the group and delegates day to day operations to the board of management and other senior members of the management team. Matters regularly covered at main board meetings include reports from each of the main departments of the business – Store Operations, Trading, Estates & Property, Personnel, Information Technology, Finance and Legal as well as other business as it arose.

The main board and the operations meetings referred to above involve all the main departments of the business being covered. Subsidiary company board meetings are held frequently and attended by at least one member of the group main board. Detailed operational meetings are held by each member of the board with the relevant managers.

Board balance and independence
On 21 May 2004, David Jones and Duncan Davidson were appointed as non-executive directors. The board considers that they are independent in accordance with the principles of the combined code. Duncan Davidson stood down from the board on 23 March 2005 due to the increasing time requirements of the role.

David Jones has been appointed as senior independent non-executive director. He is available to discuss corporate matters with shareholders.

Board meetings
The directors attended the following number of the main board meetings during the period:

Number of board meetings attended	Note	
Sir Kenneth Duncan Morrison	1,2,3	16
David Jones	1,2,3	7*
Robert Winston Stott	1,2,3	16
Marie Margaret Melnyk	1,3	16
Martin Ackroyd	—	16
Mark Gunter	—	15
David Robert Hutchinson	—	16
Roger Antony Owen	—	17
Duncan Davidson	—	6*

Note
[1] Member of nomination committee

[2] Member of audit committee

[3] Member of the remuneration committee

* This is the number of board meetings attended since their appointment on 21 May 2004.

On 23 March 2005 Robert Stott was appointed chief executive of the company. Sir Kenneth Morrison remains executive chairman.

David Jones, the senior non-executive director, was appointed as non-executive deputy chairman on 23 March 2005 and will chair the recently established remuneration and audit committees, as well as the nomination committee. He will take primary responsibility for ensuring that good corporate governance is practised within the company. He will also work with the chairman and chief executive to ensure that succession plans are in place for all board positions and that additional non-executive directors are appointed.

An audit committee was formed during the period whose members are Sir Kenneth Morrison, David Jones (chairman of the committee) and Robert Stott. The committee does not yet have a formal constitution, nor does it comply with the combined code in that it does not include at least three non-executive directors.

The company has arranged insurance with Chubb Insurance Company of Europe SA in respect of any legal action against the directors.

The board monitors the non-audit services being provided by the external auditors to ensure that they do not impair their independence or objectivity.

Appointments to the board
The company's nomination committee is responsible for the appointment of executive and non-executive directors to the board. There are no formal terms of reference for the committee but appointments are made on the basis of selecting individuals of sufficient calibre, knowledge, and experience to fulfil the duties of a director.

The terms of appointment of the non-executive directors are available for inspection. The non-executive directors committed to set aside sufficient time to meet the requirements of their role.

Directors' report continued

The appointment of the non-executive directors was not conducted by an external agency or through open advertising. The process involved selecting suitably qualified individuals with relevant experience that could perform the role.

Information and professional development

Following appointment in 2004, the non-executive directors were provided with a comprehensive, formal and tailored induction. This included the provision of an information pack. They also attended meetings with members of senior and middle management and the group's auditors.

All directors receive appropriate information on a regular basis to assist them in fulfilling their duties and responsibilities.

The directors have access to the advice and services of the company secretary who is responsible for ensuring that applicable rules and regulations are applied. They may also take independent advice, if required in the furtherance of their duties, at the company's expense.

Performance evaluation

The performance of individual directors and the whole board is evaluated by the chairman on a continual, but informal, basis. The chairman has undertaken an informal performance evaluation of David Jones, in terms of his effectiveness and commitment to the role, and believes that he should be re-elected to the board.

Re-election

The board makes the initial appointment of directors who are then subject to re-election by the shareholders at the first annual general meeting following appointment and thereafter at three yearly intervals.

David Jones has been appointed for a three year period from 21 May 2004, unless otherwise terminated earlier by and at the discretion of either party upon one month's written notice.

Remuneration policy

The company's remuneration committee is chaired by David Jones and is responsible for setting the remuneration of the chairman and executive directors. The directors remuneration report is set out on pages 18 to 22, and this includes details concerning the directors' contracts and their compensation elements. The board agreed the remuneration of the non-executive directors.

Financial reporting

The statement of the directors' responsibilities in preparing the financial statements and the auditors reporting responsibilities are set out on page 25.

Internal control

The board is responsible for the group's system of internal control and for reviewing its effectiveness. The system is designed to reduce so far as possible the risk of failure to achieve business objectives and of material misstatement or loss.

The combined code has a requirement that the directors review the effectiveness of the group's system of internal controls. This includes internal financial controls and controls over operational, compliance, and risk management. The board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the group. This process has been in place for the year under review and up to the date of approval of the annual report and accounts, and is regularly reviewed by the board and accords with the guidance. The process is not formalised but is embedded within the operation of the board as a whole. The directors were satisfied that these procedures are adequate to minimise potential risks facing the business.

The considerable increase in the size of the group following the acquisition of Safeway, the added complexities associated with the acquisition, the need to standardise procedures, and the problems with the inherited Safeway accounting system, have together put significant strain on the existing financial resource and the control environment. This has had some impact during the period on the ability of the board to reliably forecast likely trends in profitability and to obtain a full understanding of some of the underlying trading balances.

These problems are being addressed through the establishment of a more formal approach to corporate governance matters as discussed within this report. In addition, a clear programme exists for completing the conversion of the Safeway legacy systems.

Directors' report continued

The company does not have an independent internal audit department capable of performing a full and regular monitoring role of the company's procedures. Notwithstanding the problems referred to above it is felt that the financial record keeping is robust and capable of highlighting significant departures in procedures. Other areas of risk review which may normally be carried out by an internal audit department are in the main covered by the board either as a whole or within the various operations and subsidiary meetings highlighted above.

Relations with shareholders
The company maintains regular contact with institutional shareholders throughout the year. In addition the annual general meeting provides a forum for communicating with private investors. The non-executive directors have developed an understanding of the views of the major shareholders from briefings provided by the chairman and executive directors at the board meetings.

Compliance statement
The company is required to report on compliance with the detailed requirements of the combined code throughout the 52 weeks ended 30 January 2005.

In relation to all provisions of the combined code other than those mentioned below, the company complied throughout the period under review. References are to the paragraphs of the combined code.

The board is free to make the selection of chairman and chief executive in the best interests of the company at the relevant time but in the past has been of the opinion that it was beneficial to the group to combine the roles. The roles of the chairman and the chief executive were not separate for the period under review (A.2.1), but have been subsequently separated.

The board appointed two non-executive directors on 21 May 2004. Following these appointments the board comprised nine directors of whom two were independent non-executive directors. At least half the board are not independent non-executive directors, and there were no non-executive directors on the board before 21 May 2004. There was not a senior independent director for the full period (A.3.2, A.3.3).

At this stage, the nomination committee does not contain a majority of independent non-executive directors (A.4.1). Terms of reference for the committee are currently being established.

A formal and rigorous annual review of the performance of the board, its committees and all directors does not take place (A.6.1). The board does however conduct rigorous assessments of the performance of individual directors on an informal and continuous basis. Due to the substantial challenges faced by the board in the light of the Safeway acquisition, it was not considered appropriate to undertake a formal appraisal of board or committee performance during the period. A full and rigorous evaluation of the performance of the board, committees and individual directors will be carried out in the forthcoming period.

The remuneration package of the executive directors does not comprise a significant proportion of performance related elements (B.1.1). In previous years this has been considered appropriate due to the consistent strong performance of the group. This will remain under constant review.

At this stage, the remuneration committee is not wholly comprised of independent non-executive directors. Terms of reference for the committee are currently being established.

At this stage, the audit committee is not wholly comprised of independent non-executive directors. Terms of reference for the committee are currently being established. The board as a whole regularly monitors internal controls and also ensures that an objective and professional relationship is maintained with the auditors (C.3.1, C.3.2, C.3.3, C.3.4, C.3.5).

The non-executive directors, including the senior non-executive director, are kept informed of the views of major shareholders at board meetings (D.1.1).

By order of the board
JONATHAN BURKE
Secretary

23 March 2005

Directors' remuneration report
52 weeks ended 30 January 2005

The company is required by the Companies Act 1985 to prepare a directors' remuneration report for the 52 weeks ended 30 January 2005 and to put that report to a shareholder vote. A resolution to approve this report will be proposed at the annual general meeting of the company to be held on 26 May 2005.

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

Unaudited information

Directors' remuneration

The pay and benefits for directors was determined by Sir Kenneth Morrison, Marie Melnyk and Robert Stott taking into account individual performance and market conditions. The remuneration committee will now be responsible for setting directors' remuneration.

The basic salaries of the directors are reviewed annually and when a change of responsibility occurs. Directors are entitled to participate in the profit related pay scheme which is open to all employees after a certain period of employment with the company.

In addition, directors are entitled to certain other benefits such as vehicle expenses, telephones and private health insurance consistent with the industry norm.

Details of entitlements to share options and pension arrangements are disclosed under the heading directors' emoluments and pension entitlements and directors' share options elsewhere in this report.

Policy on directors' remuneration

The policy on the board of directors' remuneration for current and future financial years is to provide remuneration packages for directors bearing the following in mind:

- the need to attract, retain and motivate directors of the quality required;
- what comparable companies are paying taking into account relative performance;
- pay and employment conditions elsewhere in the group;
- the use of performance related elements (for example through the adoption of share option schemes dependent upon the performance of the company) to align the interests of directors and shareholders.

The board has given full consideration to Schedule A of the combined code on directors' remuneration in framing its remuneration policy.

In addition to basic salary the directors receive other benefits, some of which are performance related. Those that are related to performance are entitlements under the company's profit sharing scheme applicable to all employees and entitlements to exercise any options granted under the Wm Morrison Supermarkets Executive Share Option Scheme 1995 ("the 1995 Scheme"). Those elements of the directors' remuneration and benefits that are not related to performance are health insurance, vehicle running costs, telephone expenses and pension entitlements. It is the board's view that those elements of remuneration and benefits that are profit related are in the case of each of the directors sufficiently important to incentivise the director concerned to improve the performance of the company.

Share options

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

It is presently the board's policy to leave the performance conditions relating to the exercise of options granted under the 1995 Scheme unchanged for the grant of options up and till the annual general meeting to be held on 26 May 2005 when powers to grant options under the scheme expire. The performance conditions are, in the board's view, appropriate to ensure that options may only be exercised where there is consistent underlying improvement in the financial position of the company judged by reference to operating profit.

Directors' remuneration report continued

Share options continued

The Wm Morrison Supermarkets plc Sharesave Scheme 2000 was approved by shareholders at the annual general meeting held on 18 May 2000. Options are offered at a discount of 20% to the mid-market closing price on the day prior to the offer and are exercisable for a period of 6 months commencing 5 years after the savings contract commencement date. All employees including directors are eligible to participate once they have met the necessary service requirements. In common with similar schemes, the exercise of options under this scheme is not subject to any performance conditions. The company has taken advantage of the exemption in UITF 17: Employee Share Schemes in accounting for the Sharesave Scheme.

Pension arrangements

Each director is entitled to a pension equal to 2/3rds of pensionable pay providing he or she has served on the main board of the company for at least 20 years at normal retirement date which in each case is on his or her 62nd birthday.

For periods of less than 20 years pension entitlement is accrued at the rate of 1/360th of pensionable pay for each month of service as a director. This is in addition to any entitlement built up prior to being appointed to the board up to a maximum of 2/3rds pensionable salary at age 62.

Pensionable pay is the director's annual salary as at 6 April each year plus the amount of profit related pay earned in the tax year just ended.

The accrued pension is that which would be paid annually on retirement at 62, based on service to 30 January 2005.

In the case of members joining the pension scheme prior to 1 June 1989 the pension payable is based on final pensionable pay calculated as the average of the highest 3 years pensionable pay in the director's last 10 years of employment. For members joining the scheme after 31 May 1989 final pensionable pay is the lower of the average of the highest 3 years pensionable pay in the director's last 10 years of employment and the maximum earnings limit which in 2004/05 is £102,000.

M M Melnyk, M Ackroyd, D R Hutchinson and R A Owen joined the scheme prior to 1 June 1989. M Gunter and R W Stott became members subsequent to that date. K D Morrison is in receipt of a pension from the scheme in addition to his total emoluments shown on page 21. The pension amounted to £165,000 in the period.

In the event of death in service a lump sum death benefit equal to three times the director's pensionable pay at the date of death is payable. In addition a spouse's pension equal to one quarter of the pensionable pay at the date of death will be paid. If a former director in receipt of a pension dies before the fifth anniversary of his retirement a lump sum equal to the payments he would have received over that period will be paid. If a former director who dies is survived by a spouse that spouse will continue to receive a pension equal to one half of the pension payable at the time of death.

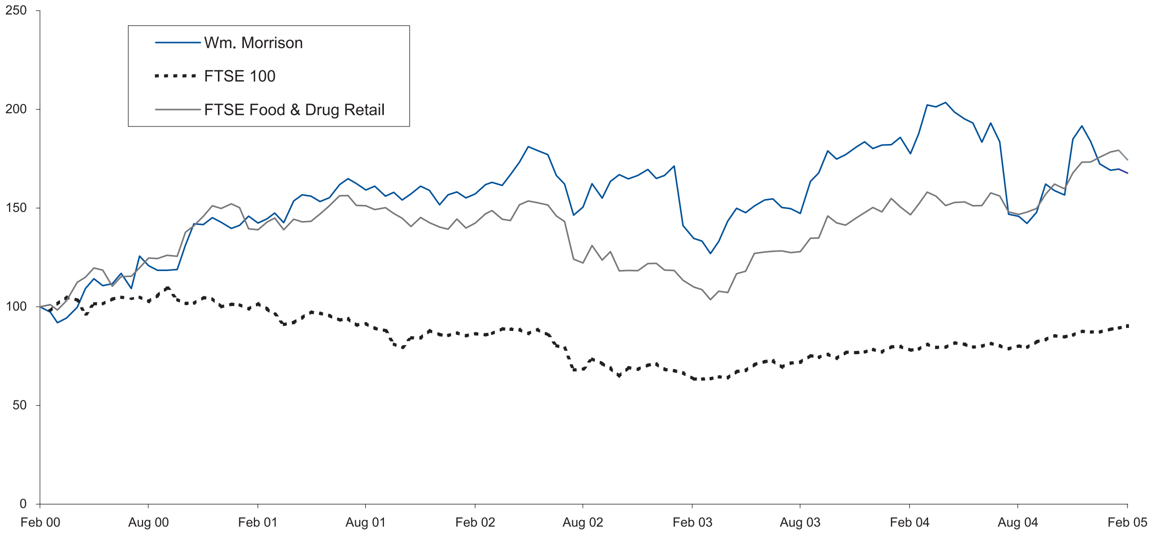
The pension arrangements for the directors ensure that benefits provided are consistent with those provided by other companies in the market place. The expected cost of providing retirement benefits to the directors is assessed in accordance with the advice of independent qualified actuaries. The pension arrangements include life assurance cover whilst in employment, an entitlement to a pension in the event of ill health or disability and a pension for the spouse and any dependant children on death. Profit related pay is included in the definition of pensionable pay for all members of the company's pension scheme. This element of the directors' remuneration is pensionable to ensure they receive the same benefits as other members of the scheme.

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

Directors' remuneration report continued

Performance graph

The following graph shows the company's performance measured by total shareholder return, compared with the performance of the FTSE 100 and FTSE Food & Drug Retailers indices, also measured by total shareholder return. These indices have been selected as being appropriate in giving a broad equity view and the company is a constituent of both indices.



Directors' contracts

Each of the executive directors has a service contract (dated 23 January 2003) which entitles him or her to 12 months notice. Similarly the company is entitled to 12 months notice should the director wish to terminate his or her employment.

Under the terms of his or her service contract each executive director is also entitled to a change of control payment equivalent to 12 months salary and other benefits if the service contract is terminated within 6 months of any change of control of the company.

It is the board's policy that the notice period applicable to termination of the employment of each executive director should be a 12 month period, whether notice is served by the company or by the director. This policy is formulated to provide sufficient security for the director without leaving the company with undue exposure in the event of the need to terminate the director's employment.

The non-executive directors have been appointed for a three year period from 21 May 2004, unless otherwise terminated earlier by and at the discretion of either party upon one month's written notice.

The board makes the initial appointment of directors who are then subject to re-election by the shareholders at the first annual general meeting following appointment and thereafter at three yearly intervals.

Audited information

Aggregate directors' remuneration

The total amounts for directors' remuneration were as follows:

	2005 £000's	2004 £000's
Emoluments	3,488	2,949
Gains on exercise of share options	404	683
	3,892	3,632

Directors' remuneration report continued

Directors' emoluments and pension entitlements

The emoluments and pension entitlements of the directors were as follows:

	Basic salary £000's	Taxable benefits £000's	Profit related pay £000's	Total emoluments 2005 £000's	Total emoluments 2004 £000's	Increase in accrued pension £000's	Total accrued pension £000's	Pension transfer value 30 Jan 05 £000's	Pension transfer value 1 Feb 04 £000's
M Ackroyd	389	31	19	439	377	43	227	2,068	1,484
M Gunter	389	34	19	442	385	3	31	272	222
D R Hutchinson	301	29	15	345	295	29	139	1,201	708
M M Melnyk	538	28	26	592	505	47	238	2,074	1,505
K D Morrison	568	40	27	635	548	—	—	—	—
R A Owen	389	32	19	440	378	46	243	2,691	1,938
R W Stott	487	28	24	539	461	4	30	545	411
D Davidson	28	—	—	28	—	—	—	—	—
D Jones	28	—	—	28	—	—	—	—	—
Aggregate emoluments	3,117	222	149	3,488	2,949	172	908		

Taxable benefits comprise vehicle running costs, health insurance and telephone expenses.

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

Directors' share options

Options granted to directors to purchase ordinary shares in the company which are still outstanding are as follows:

Date of grant	Number of options At 01.02.04	During the 52 weeks ended 30.01.05 Granted	Exercised	Lapsed	At 30.01.05	Exercise price	Market price on date of exercise	Gain on exercise £000's	Exercisable From	To
M Ackroyd										
16.04.99	120,000	—	120,000	—	—	148p	230p	98	16.04.02	16.04.09
31.03.00	50,000	—	50,000	—	—	123p	230p	54	31.03.03	31.03.10
28.06.00	14,300	—	—	—	14,300	118p	—	—	01.09.05	01.03.06
05.04.01	200,000	—	200,000	—	—	187p	230p	86	05.04.04	05.04.11
05.04.02	150,000	—	—	—	150,000	209p	—	—	05.04.05	05.04.12
02.04.03	260,000	—	—	—	260,000	175p	—	—	02.04.06	02.04.13
12.11.04	—	220,000	—	—	220,000	222p	—	—	12.11.07	12.11.14
	794,300	220,000	370,000	—	644,300			238		
M Gunter										
30.04.96	20,000	—	—	—	20,000	77·5p	—	—	30.04.99	30.04.06
31.03.00	50,000	—	—	—	50,000	123p	—	—	31.03.03	31.03.10
28.06.00	14,300	—	—	—	14,300	118p	—	—	01.09.05	01.03.06
05.04.01	200,000	—	—	—	200,000	187p	—	—	05.04.04	05.04.11
05.04.02	150,000	—	—	—	150,000	209p	—	—	05.04.05	05.04.12
02.04.03	260,000	—	—	—	260,000	175p	—	—	02.04.06	02.04.13
12.11.04	—	220,000	—	—	220,000	222p	—	—	12.11.07	12.11.14
	694,300	220,000	—	—	914,300			—		
D R Hutchinson										
28.06.00	14,300	—	—	—	14,300	118p	—	—	01.09.05	01.03.06
05.04.01	50,000	—	—	—	50,000	187p	—	—	05.04.04	05.04.11
05.04.02	150,000	—	—	—	150,000	209p	—	—	05.04.05	05.04.12
02.04.03	260,000	—	—	—	260,000	175p	—	—	02.04.06	02.04.13
12.11.04	—	220,000	—	—	220,000	222p	—	—	12.11.07	12.11.14
	474,300	220,000	—	—	694,300			—		

Directors' remuneration report continued

Date of grant	At 01.02.04	Granted	Exercised	Lapsed	At 30.01.05	Exercise price	Market price on date of exercise	Gain on exercise £000's	Exercisable From	To
	Number of options During the 52 weeks ended 30.01.05									
M M Melnyk										
30.04.96	160,000	—	—	—	160,000	77·5p	—	—	30.04.99	30.04.06
16.04.99	160,000	—	—	—	160,000	148p	—	—	16.04.02	16.04.09
31.03.00	50,000	—	—	—	50,000	123p	—	—	31.03.03	31.03.10
28.06.00	14,300	—	—	—	14,300	118p	—	—	01.09.05	01.03.06
05.04.01	200,000	—	—	—	200,000	187p	—	—	05.04.04	05.04.11
05.04.02	150,000	—	—	—	150,000	209p	—	—	05.04.05	05.04.12
02.04.03	260,000	—	—	—	260,000	175p	—	—	02.04.06	02.04.13
12.11.04	—	300,000	—	—	300,000	222p	—	—	12.11.07	12.11.14
	994,300	300,000	—	—	1,294,300			—		
K D Morrison										
05.04.01	200,000	—	—	—	200,000	187p	—	—	05.04.04	05.04.11
05.04.02	150,000	—	—	—	150,000	209p	—	—	05.04.05	05.04.12
02.04.03	260,000	—	—	—	260,000	175p	—	—	02.04.06	02.04.13
12.11.04	—	500,000	—	—	500,000	222p	—	—	12.11.07	12.11.14
	610,000	500,000	—	—	1,110,000			—		
R A Owen										
16.04.99	120,000	—	120,000	—	—	148p	230p	98	16.04.02	16.04.09
31.03.00	50,000	—	—	—	50,000	123p	—	—	31.03.03	31.03.10
05.04.01	200,000	—	—	—	200,000	187p	—	—	05.04.04	05.04.11
05.04.02	150,000	—	—	—	150,000	209p	—	—	05.04.05	05.04.12
02.04.03	260,000	—	—	—	260,000	175p	—	—	02.04.06	02.04.13
12.11.04	—	220,000	—	—	220,000	222p	—	—	12.11.07	12.11.14
	780,000	220,000	120,000	—	880,000			98		
R W Stott										
28.06.00	14,300	—	—	—	14,300	118p	—	—	01.09.05	01.03.06
05.04.01	200,000	—	200,000	—	—	187p	221p	68	05.04.04	05.04.11
05.04.02	150,000	—	—	—	150,000	209p	—	—	05.04.05	05.04.12
02.04.03	260,000	—	—	—	260,000	175p	—	—	02.04.06	02.04.13
12.11.04	—	300,000	—	—	300,000	222p	—	—	12.11.07	12.11.14
	624,300	300,000	200,000	—	724,300			68		

The ordinary share mid market price ranged from 171p to 256p and averaged 217p during the period. The price on 30 January 2005 was 203p compared to 222p on 1 February 2004.

Approval
This report was approved by the board of directors on 23 March 2005 and signed on its behalf by

JONATHAN BURKE
Secretary

Corporate social responsibility

We view Corporate Social Responsibility (CSR) as being about understanding and managing the relationship between our trading operations and the economy, environment and communities within which we operate.

Following the takeover of Safeway we have undertaken a review of CSR priorities, systems and procedures in order to ensure that we continue to demonstrate responsible business behaviour, with CSR activities incorporated into "business as usual" across the enlarged group.

There follows an outline of how we aim to address social, environmental and ethical matters and engage our stakeholders, including customers, employees, suppliers, shareholders and the communities we serve.

Corporate social responsibility management

Through our Business Ethics Working Group we take regular account of the significance of social, environmental and ethical matters in relation to our operations. The group's role is to oversee, review, monitor and advise on CSR matters and ensure that they are addressed in line with company policies and procedures.

As CSR is a Main Board level responsibility, the Business Ethics Working Group reports directly into the board. The group is comprised of senior directors and managers and its CSR remit covers the key business divisions including Trading, Store Operations, Personnel, Technical Services, Manufacturing and Transport and Distribution.

A CSR manager is to be appointed and will be responsible for co-ordinating group-wide CSR strategy through the Working Group, implementing activities and policies and overseeing delivery through line management in each of the business divisions.

Corporate social responsibility vision

To be recognised as a business that balances social, environmental and economic priorities with long term national brand development and commercial success.

Corporate social responsibility strategy

Our focus is on managing the social, ethical and environmental issues that are material to our commercial performance, through a programme of continuous improvement. Our CSR strategy aims to add value to our business by helping us to manage costs, minimise risks and enhance our commercial operations.

Priorities for corporate social responsibility programme

Having taken account of legislative, financial, operational and reputational risks, we have identified the following as material to our business:

Business Ethics	Product	Environment	Employment
Community	Market Place	Working Conditions	

The priorities for our corporate social responsibility programme are therefore:

Product Integrity
- Safety & quality
- Dietary health & nutrition
- Sustainability and responsibility

Supply Chain Management & Labour Standards
- Fostering fair and ethical trade
- Engendering positive supplier relationships
- Sustainability of supplies and resources

Operational Environmental Management
- Avoiding waste
- Saving energy
- Preventing pollution
- Conserving natural resources
- Sustainable sourcing

Community Investment
- Looking after our customers
- Being good neighbours
- Charitable support

Employment Policies
- Health, safety and welfare

For those requiring more information on how we are meeting our corporate social responsibilities, together with details on our company policies, a further report is currently under development. This will be published on our web site www.morrisons.co.uk in a newly established CSR section, when complete.

Corporate social responsibility continued

Work during the past year has included:

- The on-going review of CSR and environmental management systems, policies and procedures for the newly enlarged group, including revised terms of reference for our Business Ethics Working Group.
- Process of recruitment for a CSR manager to take responsibility for the group-wide co-ordination of CSR strategy, implementing our key performance indicators, reviewing our current stakeholder engagement processes and improving the quality of the information we provide in support of our CSR activity.
- An active salt reduction programme covering a wide range of products, with priority being given to the nine product groups highlighted by the Food Standards Agency. We have also extended the availability of the 'Eat Smart' range of salt, calorie, fat and sugar controlled ready meals, meal accompaniments, snacks and desserts to all Morrisons stores.
- 'Eat Smart' is complemented by our 'Better Because It's…' range, which is being phased in to ensure we continue to meet a wide range of dietary and nutritional needs.
- Generally the full nutritional information is now included on own brand products covering energy, protein, carbohydrates, sugar, fat, saturated fat, fibre, sodium and salt.
- Continuing to minimise waste and maximise cost effective recovery while ensuring the remainder is disposed of responsibly. In Morrisons stores, the volume of polythene and cardboard returned for recycling increased by 8.13% during the year to 62,570 tonnes. In Safeway 73,100 tonnes were returned.
- We will be working with WRAP (Waste and Resources Action Programme) to support the shared objectives set out in the Courtauld Commitment. These are to:
  - Deliver absolute reductions in packaging waste by March 2010
  - Identify ways to design-out packaging waste growth by 2008
  - Tackle the problem of food waste
- Actively controlling energy use and helping to minimise greenhouse gas emissions through our building management systems and in-house monitoring of measures designed to reduce energy consumption.
- The on-going implementation of rigorous maintenance schedules, new engineering developments and fuel efficiency programmes and the recycling of consumables to help reduce the environmental impact of our transport fleet.
- Practical implementation of our Ethical Trading Code focused on worker welfare and labour conditions within the supply chain. Most recently we supported the introduction of the new 'Gangmaster Licensing' arrangements. The use of seasonal labour is an integral part of the UK fresh food industry and we are keen to ensure that proper practices are put in place to support the law abiding practices of responsible 'Gangmasters'. We therefore signed up to the government's Code of Practice for Labour Providers.
- Good supplier relationships are just as vital to our business as loyal customers and our larger share of the UK food market means that we are also now subject to the Supermarkets Code of Practice.
- Key action plans for health and safety are focusing on risk reduction, training and support needs. We have adopted the national targets set by the Health & Safety Commission for the reduction of workplace accidents and work-related ill health, with health and safety performance being monitored to ensure continuous improvement in all areas.
- Donations to national and local causes totalled over £150,000, not including numerous gifts in kind. In addition, fundraising by our staff, together with the generous support of our shoppers, raised £318,000 for Children in Need, £3 million to the Disaster Emergency Committee for the Tsunami Appeal and over £780,000 to our Charity of the Year, Diabetes UK. This year we will be fundraising for Breast Cancer Research.

Report of the independent auditors

KPMG Audit Plc

Report of the independent auditors to the members of Wm MORRISON SUPERMARKETS PLC

We have audited the financial statements on pages 26 to 54. We have also audited the information in the directors' remuneration report that is described as having been audited.

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

Respective responsibilities of directors and auditors

The directors are responsible for preparing the annual report and the directors' remuneration report. As described below, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the group is not disclosed.

We review whether the corporate governance statement on pages 14 to 17 reflects the company's compliance with the nine provisions of the 2003 FRC Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the annual report, including the corporate governance statement and the unaudited part of the directors' remuneration report, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

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

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

Opinion

In our opinion:
the financial statements give a true and fair view of the state of affairs of the company and the group as at 30 January 2005 and of the profit of the group for the 52 week period then ended; and

the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
Leeds
Chartered Accountants
Registered Auditor

23 March 2005

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and group and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

(i) select suitable accounting policies and then apply them consistently;
(ii) make judgements and estimates that are reasonable and prudent;
(iii) state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
(iv) prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

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

Accounting policies

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

Accounting policies
The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the group's financial statements. The estimation techniques relating to depreciation and supplier income have been revised as detailed below. Further revisions to various, individually immaterial, accounting practices have been made in order to establish the most appropriate practices in the circumstances of the enlarged group; as a consequence of these further revisions profits for the period have benefited by £42m.

Basis of preparation
The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards. The consolidated financial statements of the company and its subsidiary undertakings include all results for the period attributable to members of the company. The financial periods of all the undertakings in the group are co-terminus.

Basis of consolidation
The consolidated financial statements include the financial statements of the company and its subsidiary undertakings made up to 30 January 2005. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

A joint venture is an undertaking in which the group has a long term interest and over which it exercises joint control. The group's share of the profits less losses of joint ventures is included in the consolidated profit and loss account and its interest in their net assets is included in investments in the consolidated balance sheet.

In the company's financial statements, investments in subsidiary undertakings are stated at cost less amounts written off.

Turnover
Turnover represents gross takings from ordinary activities excluding value added tax and intra group transactions net of staff discounts, coupons and the free element of multi-save transactions.

Depreciation
The policy of the group is to provide depreciation at rates which are calculated to write off the cost less residual value of tangible fixed assets by equal annual instalments. Following the acquisition of Safeway Limited (formerly Safeway plc), the group has harmonised its depreciation rates resulting in the following changes:

	New rate	Previous rate	
	Group	Morrisons	Safeway
Freehold land	0%	0%	0%
Freehold and long lease buildings	2·5%	2% - 10%	2·5%
Short lease land and buildings	Over lease period	Over lease period	Over lease period
Plant, equipment and vehicles	15% - 33%	15% - 33%	12·5% - 25%

Had the group's previous rates been applied the depreciation charge in the current period would have been £35m higher, and the net book value of fixed assets an equivalent amount lower.

In addition to the systematic depreciation, fixed assets are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable.

Capitalisation of interest
The cost of financing property developments prior to their opening date is included in the cost of the project.

Leased assets
(i) As lessee
Tangible fixed assets operated under the terms of finance leases are capitalised at the net present value of the minimum lease payments and depreciated in the same manner as owned assets or over the term of the lease if shorter. Finance charges are charged to the profit and loss account over the period of the lease. Payments made under operating leases are charged to the profit and loss account on a straight line basis over the period of the lease.

(ii) As lessor
Assets held for use in operating leases are recorded as fixed assets and depreciated over their useful lives. Rental income from operating leases is credited to the profit and loss account on a straight line basis over the life of the lease.

Accounting policies continued

Goodwill and negative goodwill
Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on consolidation is capitalised. Positive goodwill is amortised to nil over its estimated useful life.

Negative goodwill arising on consolidation in respect of acquisitions since 1 January 1998 is included in fixed assets and released to the profit and loss account in the periods in which the fair values of the non-monetary assets purchased in the same acquisitions are recovered, whether through depreciation or sale.

On the subsequent disposal or termination of a business, the profit or loss on disposal or termination is calculated after charging the unamortised amount of any related goodwill.

Income from suppliers
Supplier incentives, rebates and discounts are recognised when all performance criteria have been met. All such payments are offset against cost of goods sold.

Following the renegotiation of the majority of the supply contracts in the current period, the group has revised its practice with regard to the interpretation of performance criteria, principally associated with the expectation of achieving volume targets for incomplete deals.

The accounting estimation revision has resulted in some acceleration in the recognition of supplier income giving a benefit to operating profit of £47m in the current year.

Stocks
Stocks are valued at the lower of cost and net realisable value and comprise goods for resale.

Pension costs
Retirement benefits to eligible employees are provided by a defined benefit scheme which is funded by contributions from the group and employees and its assets are held in a separate trustee administered fund. Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. The pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full. The movement in the surplus or deficit is split between operating charges, finance items and, in the statement of total recognised gains and losses, actuarial gains and losses.

Contributions in respect of the stakeholder pension scheme are charged to the profit and loss account as they arise.

Net debt/funds
Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.

Overdrafts are stated net of uncleared banking items (mainly cheques in the course of clearing).

Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market. Liquid resources comprise term deposits of less than one year (other than cash) and investments in money market managed funds.

Deferred taxation
Full provision is made without discounting for deferred taxation, except as otherwise required by FRS 19.

Own shares held
Own shares held are valued at cost and are deducted from equity. Any profit or loss on disposal is taken directly to reserves. The shares do not participate in distributions.

Financial instruments
The derivative financial instruments used by the group are interest rate swaps and cross currency swaps. Interest payments or receipts arising from derivative instruments are included within net interest payable. Any premium or discount is amortised over the life of the instrument.

Consolidated profit and loss account
52 weeks ended 30 January 2005

	Notes	Continuing operations £m	Acquisitions £m	2005 Total £m	2004 £m
Group and share of joint venture		5,500·8	6,795·3	12,296·1	4,944·1
Less: share of joint venture		—	(180·0)	(180·0)	—
Group turnover	1	5,500·8	6,615·3	12,116·1	4,944·1
Increase in stocks				11·7	13·9
Other operating income	2			5·9	0·8
				12,133·7	4,958·8
Raw materials and consumables				(9,179·7)	(3,695·6)
Group gross operating profit				2,954·0	1,263·2
Staff costs	3			(1,607·0)	(570·7)
Depreciation	14			(279·8)	(120·4)
Other operating charges				(786·1)	(267·0)
Group operating profit/(loss) before exceptional operating costs		429·8	(49·5)	380·3	316·0
Exceptional costs	4	(0·3)	(98·9)	(99·2)	(10·9)
Group operating profit/(loss)	5	429·5	(148·4)	281·1	305·1
Share of joint venture operating profit				3·6	—
Total operating profit				284·7	305·1
Profit on divestment of assets	6			17·9	0·8
Amortisation of negative goodwill	13			58·2	—
Net interest (payable)/receivable	7			(59·2)	14·1
Other finance costs	8			(4·5)	(0·1)
Profit before taxation				297·1	319·9
Taxation	9			(91·4)	(122·3)
Profit for the financial period				205·7	197·6
Dividends	11			(98·1)	(80·3)
Profit retained	23			107·6	117·3
Dividend per ordinary share	11			3·70p	3·25p
Basic earnings per share	12			8·10p	12·59p
Diluted earnings per share	12			8·07p	12·48p

During the period a number of acquired Safeway stores have been rebranded as Morrisons stores. In line with the requirements of accounting standards, for the purposes of the analysis above these stores are included in the acquisitions column.

The profit before taxation is the historical cost profit.

The accounting policies and notes form part of these financial statements.

Consolidated balance sheet
at 30 January 2005

	Notes	2005 £m	2005 £m	2004 £m	2004 £m
Fixed assets					
Intangible assets—negative goodwill	13		(262·9)		—
Tangible assets	14		6,824·0		1,738·7
			6,561·1		1,738·7
Investment in BP joint venture	15				
Share of gross assets		89·8		—	
Share of gross liabilities		(22·4)		—	
			67·4		—
			6,628·5		1,738·7
Current assets					
Stocks—goods for resale		424·6		150·3	
Debtors	16	222·6		26·2	
Deposits—overnight		73·1		85·9	
—longer term		—		220·7	
Cash in hand		20·4		8·8	
		740·7		491·9	
Creditors—amounts falling due within one year	17	(1,811·8)		(814·2)	
Net current liabilities			(1,071·1)		(322·3)
Total assets less current liabilities			5,557·4		1,416·4
Creditors—amounts falling due after more than one year	18		(989·9)		—
Provisions for liabilities and charges	19		(286·5)		(51·5)
Net assets—excluding pension liability			4,281·0		1,364·9
Pension liability	21		(263·5)		(47·5)
Net assets—including pension liability			4,017·5		1,317·4
Capital and reserves					
Called up share capital	22				
Equity share capital		265·8		157·4	
Non-equity share capital		0·5		1·4	
			266·3		158·8
Share premium account	22		20·1		15·9
Merger reserve	22		2,578·3		—
Investment in own shares	22		(40·7)		—
Profit and loss account	23		1,193·5		1,142·7
Shareholders' funds	24				
Equity		4,017·0		1,316·0	
Non-equity		0·5		1·4	
			4,017·5		1,317·4

The accounting policies and notes form part of these financial statements.

The financial statements on pages 26 to 54 were approved by the board of directors on 23 March 2005 and signed on its behalf by:

SIR KENNETH MORRISON CBE
ROBERT STOTT } *Directors*

Consolidated cash flow statement
52 weeks ended 30 January 2005

	Notes	2005 £m	2004 £m
Cash inflow from operating activities	27	442·9	436·2
Returns on investments and servicing of finance	28	(75·8)	8·9
Taxation	29	(171·5)	(109·3)
Capital expenditure and financial investment	30	474·7	(251·9)
Acquisitions and disposals	31	(831·4)	—
Equity dividends paid	32	(87·7)	(44·0)
Cash (outflow)/inflow before use of liquid resources and financing		(248·8)	39·9
Management of liquid resources	33	220·7	(47·2)
Financing	34	(136·4)	1·0
Decrease in cash in the period	35	(164·5)	(6·3)

Reconciliation of net cash flow to movement in net (debt)/funds in the period

	Notes	2005 £m	2004 £m
Decrease in cash in the period	35	(164·5)	(6·3)
Cash outflow from decrease in debt and lease financing		157·3	—
Cash (inflow)/outflow from decrease/increase in liquid resources		(220·7)	47·2
Change in net (debt)/funds resulting from cash flows	35	(227·9)	40·9
Loans and finance leases acquired with subsidiary		(1,149·8)	—
Opening net funds		206·6	165·7
Closing net (debt)/funds	35	(1,171·1)	206·6

The accounting policies and notes form part of these financial statements.

Consolidated statement of total recognised gains and losses
52 weeks ended 30 January 2005

	2005 £m	2004 £m
Profit for the financial period	205·7	197·6
Actuarial loss recognised in the pension scheme (see note 21)	(81·8)	(49·1)
Current tax thereon	1·0	3·0
Deferred tax thereon	23·5	11·8
Total recognised gains and losses relating to the financial period	148·4	163·3
Prior year adjustment	—	(20·1)
Total recognised gains and losses since last annual report	148·4	143·2

The accounting policies and notes form part of these financial statements.

The prior period adjustment in 2004 relates to the first time adoption of FRS 17 'Retirement Benefits'

Holding company balance sheet
at 30 January 2005

	Notes	2005 £m	2005 £m	2004 £m	2004 £m
Fixed assets					
Tangible assets	39	1,906·4		1,727·3	
Investments	40	3,360·2		4·9	
			5,266·6		1,732·2
Current assets					
Stocks—goods for resale		221·3		144·4	
Debtors	41	109·8		24·7	
Deposits—overnight		0·1		78·9	
—longer term		—		200·0	
Cash in hand		11·9		8·9	
		343·1		456·9	
Creditors—amounts falling due within one year	42	(1,356·0)		(826·2)	
Net current liabilities			(1,012·9)		(369·3)
Total assets less current liabilities			4,253·7		1,362·9
Provisions for liabilities and charges	43		(66·8)		(54·9)
Net assets—excluding pension liability			4,186·9		1,308·0
Pension liability	21		(50·4)		(47·5)
Net assets—including pension liability			4,136·5		1,260·5
Capital and reserves					
Called up share capital	22				
Equity share capital		265·8		157·4	
Non-equity share capital		0·5		1·4	
			266·3		158·8
Share premium account	22		20·1		15·9
Merger reserve	22		2,578·3		—
Profit and loss account	23		1,271·8		1,085·8
Shareholders' funds	44				
Equity		4,136·0		1,259·1	
Non-equity		0·5		1·4	
			4,136·5		1,260·5

The accounting policies and notes form part of these financial statements.

The financial statements on pages 26 to 54 were approved by the board of directors on 23 March 2005 and signed on its behalf by:

SIR KENNETH MORRISON CBE
ROBERT STOTT
Directors

Notes on the financial statements

1 Group turnover

	Continuing operations £m	Acquisitions £m	2005 Total £m	2004 £m
Supermarket takings	5,907·3	7,121·8	13,029·1	5,299·7
VAT	(455·4)	(548·2)	(1,003·6)	(397·9)
Other turnover and adjustments	48·9	41·7	90·6	42·3
Turnover	5,500·8	6,615·3	12,116·1	4,944·1
Other turnover and adjustments:				
Income from tenants	22·7	17·3	40·0	22·2
Dry cleaning	1·6	12·4	14·0	—
Photo processing	0·5	5·7	6·2	—
Coin operation receipts	16·0	9·6	25·6	13·5
Commission income	6·7	8·6	15·3	5·5
Third party sales by subsidiaries				
– UK	47·0	—	47·0	37·7
– export	0·8	—	0·8	0·7
Sundry	2·5	9·9	12·4	1·3
Goods for own use	(33·0)	—	(33·0)	(28·3)
Self financed coupons	(15·7)	(12·6)	(28·3)	(10·2)
Staff discount	(0·2)	(9·2)	(9·4)	(0·1)
	48·9	41·7	90·6	42·3

All exports were to countries within the European Union.

2 Other operating income

	Continuing operations £m	Acquisitions £m	2005 Total £m	2004 £m
Profit on sale of tangible fixed assets	—	—	—	0·1
Sundry income	0·5	5·4	5·9	0·7
	0·5	5·4	5·9	0·8

3 Staff costs

	Continuing operations £m	Acquisitions £m	2005 Total £m	2004 £m
Staff costs, including those of the directors were as follows:				
Wages and salaries	571·0	859·4	1,430·4	503·5
Profit related pay	17·5	2·2	19·7	16·0
Social security costs	37·7	45·8	83·5	31·5
Share option costs	4·6	—	4·6	0·5
Pension costs	21·1	36·5	57·6	18·3
Other staff costs	0·8	10·4	11·2	0·9
	652·7	954·3	1,607·0	570·7

Particulars of staff

The average weekly number of persons employed by the group was as follows:	2005 No.	2004 No.
Full time	56,005	23,296
Part time	72,447	19,308
Casual	12,449	9,780
	140,901	52,384

Directors' remuneration

Details of emoluments, share options and pension entitlements are given in the directors' remuneration report.

Notes on the financial statements continued

3 Staff costs continued

Pension costs

Employees joining the company after September 2000 are no longer eligible to gain automatic entry into the final salary pension scheme. In June 2001 the company established a stakeholder pension scheme, open to all employees, to which the company makes matching contributions of a maximum of 5% of eligible earnings.

Pension costs comprise of:

	Continuing operations £m	Acquisitions £m	2005 Total £m	2004 £m
Pension schemes	19·6	36·5	56·1	17·1
Stakeholder pension scheme	1·0	—	1·0	0·8
Life assurance scheme	0·5	—	0·5	0·4
	21·1	36·5	57·6	18·3

Profit related pay

All permanent employees including directors are eligible for profit related pay after a qualifying period. The payment to each eligible employee is an equal percentage of their eligible earnings calculated by reference to the total earnings of all eligible employees and the following eligible profit figure:

	2005 £m	2004 £m
Eligible profit	394·0	319·8
5% of eligible profit	19·7	16·0

The group has guaranteed that the profit related pay percentage of annual earnings as achieved in 2004 will be maintained as a minimum for 2005 to protect qualifying employees against fall in distribution following the acquisition of Safeway.

4 Exceptional costs

	Continuing operations £m	Acquisitions £m	2005 Total £m	2004 £m
Acquisition costs	0·3	—	0·3	10·9
Redundancy costs	—	23·8	23·8	—
Divestment costs	—	2·7	2·7	—
Store conversion costs	—	57·5	57·5	—
Provision for fixtures written off on conversion	—	14·9	14·9	—
	0·3	98·9	99·2	10·9

With the exception of the acquisition and divestment costs, the above costs have been incurred in the integration and conversion of Safeway Limited (formerly Safeway plc).

5 Group operating profit

Group operating profit is stated after charging/(crediting):	2005 £m	2004 £m
Auditors' remuneration—group	0·7	0·1
Fees paid to auditors in respect of other services	3·2	1·2
Depreciation —owned assets	262·8	120·4
—leased assets	2·1	—
Provision for fixtures written off on conversion	14·9	—
Operating leases—property	55·3	1·5
—plant, machinery and vehicles	38·5	2·3
Accounting estimation technique revisions	(89·0)	—

The accounting estimation technique revisions relate to supplier income and various other individually immaterial accounting practices and are explained in further detail in the accounting policies on pages 26 and 27.

Of the additional fees paid to the auditors, £nil (2004 £1·1m) relates to advisory fees in connection with the acquisition of Safeway. The remainder relates to tax compliance and other advisory work.

Included in the group audit fee is an amount of £0·2m (2004 £0·1m) in respect of the company audit.

Notes on the financial statements continued

6 Profit on divestment of assets

	2005 £m	2004 £m
Proceeds from asset sales	903·0	1·6
Written down value of assets sold	(543·4)	(0·8)
Profit on original book value	359·6	0·8
Fair value adjustment of divested assets	(341·7)	—
	17·9	0·8

The fair value adjustment reflects the fact that the profit on disposal of Safeway stores is measured by reference to fair value rather than the acquired book value. The net profit on disposal therefore relates to Morrisons assets only.

7 Net interest (payable)/receivable

	2005 £m	2004 £m
Interest payable on short term loans and bank overdrafts	(33·4)	(5·9)
Interest payable on bonds	(52·8)	—
Lease finance interest	(0·5)	—
Interest capitalised	6·4	5·4
	(80·3)	(0·5)
Interest receivable on short term deposits	21·1	14·6
	(59·2)	14·1

Interest is capitalised at the rate incurred which depends upon the prevailing base rate. Tax relief is obtained and the benefit taken in the tax charge.

8 Other finance costs

	2005 £m	2004 £m
Expected return on pension scheme assets	64·1	8·9
Interest on pension scheme liabilities	(68·6)	(9·0)
	(4·5)	(0·1)

9 Taxation

	2005 £m	2005 £m	2004 £m	2004 £m
Corporation tax at 30%				
Current period	112·7		118·9	
Prior periods	4·8		0·5	
		117·5		119·4
Deferred tax at 30%				
Current period	(26·8)		1·5	
Prior periods	(3·3)		0·6	
		(30·1)		2·1
UK taxation		87·4		121·5
Overseas taxation				
Current period	4·0		0·7	
Prior periods	—		0·1	
		4·0		0·8
Taxation charge		91·4		122·3

Notes on the financial statements continued

9 Taxation continued

The taxation charge exceeds the standard rate of UK corporation tax due to the following factors:

	2005			2004		
	£m	£m	% of PBT	£m	£m	% of PBT
Profit before taxation		297·1			319·9	
Tax on profit before taxation at 30%		89·1	30·0		96·0	30·0
Current period adjustments						
Expenses not deductible for tax purposes	16·5		5·5	5·2		1·6
Non-qualifying depreciation	26·2		8·8	21·6		6·8
Capitalised interest deductible for tax purposes	(1·9)		(0·6)	(1·6)		(0·5)
Divestment profits covered by tax relief	(23·5)		(7·9)	—		—
Amortisation of negative goodwill	(17·5)		(5·9)	—		—
Overseas tax in excess of UK rate	2·0		0·7	0·1		—
Timing differences – fixed assets	(4·0)		(1·3)	(5·8)		(1·8)
– other	30·8		10·3	4·2		1·3
Current tax on pension scheme	(1·0)		(0·3)	(3·0)		(0·9)
Total		27·6	9·3		20·7	6·5
Current period corporation tax (including overseas)		116·7	39·3		116·7	36·5
Deferred tax		(26·8)	(9·0)		4·5	1·4
Current period taxation		89·9	30·3		121·2	37·9
Prior period adjustments		1·5	0·5		1·1	0·3
Taxation charge		91·4	30·8		122·3	38·2

10 Profit for the financial period

As permitted by Section 230(2) of the Companies Act 1985 the holding company profit and loss account has not been presented. The profit for the financial period includes a total of £289·0m (2004 £178·5m) dealt with in the financial statements of the holding company.

11 Dividends

	2005 £m	2004 £m
Non-equity dividends	—	0·1
Equity dividends	98·1	80·2
	98·1	80·3

Non-equity dividends
5¼% cumulative redeemable convertible preference shares.

	2005	2004
Dividend payable in half yearly instalments on 15 March and 15 September each year.	—	0·1

Equity dividends	2005			2004		
	No. of shares	p per share	£m	No. of shares	p per share	£m
Interim dividend	2,656,999,030	0·625	16·6	1,573,905,630	0·55	8·7
Final dividend (proposed)	2,658,445,504	3·075	81·5	2,651,065,199	2·70	71·6
Total dividend		3·70	98·1		3·25	80·3

The interim dividend was paid on 6 December 2004 and, subject to approval at the annual general meeting, the final dividend will be paid on 31 May 2005.

Notes on the financial statements continued

12 Basic earnings per share

The calculation of basic earnings per share is based on a total of 2,538·1m (2004 1,569·2m) ordinary shares (being the weighted average number in issue during the period) and the following adjusted earnings.

	2005 £m	2005 EPS (p)	2004 £m	2004 EPS (p)
Profit for the financial period	205·7	8·10	197·6	12·59
Preference dividends	—	—	(0·1)	—
Profit attributable to ordinary shareholders	205·7	8·10	197·5	12·59

Diluted earnings per share

The calculation of diluted earnings per share is based on the profit for the financial period of £205·7m (2004 £197·6m) and the following number of ordinary shares.

	2005 m	2004 m
Weighted average number of ordinary shares in issue	2,538·1	1,569·2
Ordinary shares created by full conversion of preference shares	1·7	4·9
Average ordinary shares on option throughout the period	35·2	31·3
Number of shares which would have been issued at fair value	(24·6)	(21·8)
Adjusted number of ordinary shares in issue	2,550·4	1,583·6
Diluted earnings per share	8·07p	12·48p

13 Negative goodwill (group)

	£m
Cost	
At 1 February 2004	—
Additions	321·1
At 30 January 2005	321·1
Amortisation	
At 1 February 2004	—
Credited in the year	(58·2)
At 30 January 2005	(58·2)
Net book value	
At 1 February 2004	—
At 30 January 2005	262·9

Negative goodwill is being released to the profit and loss account commensurately with the recovery of the non-monetary assets acquired, whether through depreciation or sale.

14 Tangible fixed assets (group)

	Land and buildings Freehold £m	Land and buildings Long lease £m	Land and buildings Short lease £m	Plant, equipment & vehicles £m	Total £m
Tangible fixed assets not in use					
At 1 February 2004	96·5	26·3	—	—	122·8
Additions at cost	299·2	32·6	0·4	90·7	422·9
Interest capitalised	4·8	1·6	—	—	6·4
Brought into use	(270·4)	(60·5)	(0·4)	(90·7)	(422·0)
At 30 January 2005	130·1	—	—	—	130·1
Tangible fixed assets in use					
At 1 February 2004	1,741·4	204·0	3·0	365·9	2,314·3
Additions on acquisition of Safeway	4,743·0	523·5	255·5	284·0	5,806·0
Brought into use	270·4	60·5	0·4	90·7	422·0
Disposals	(656·2)	(38·9)	(128·3)	(79·5)	(902·9)
At 30 January 2005	6,098·6	749·1	130·6	661·1	7,639·4
Total at cost					
At 1 February 2004	1,837·9	230·3	3·0	365·9	2,437·1
At 30 January 2005	6,228·7	749·1	130·6	661·1	7,769·5

Notes on the financial statements continued

14 Tangible fixed assets (group) continued

Depreciation

	2005 £m	2004 £m
Charged on tangible fixed assets during the period	264·9	120·3
Provision against equity investment	—	0·1
Provision for fixtures written off on conversion	14·9	—
	279·8	120·4

	Land and buildings Freehold £m	Long lease £m	Short lease £m	Plant, equipment & vehicles £m	Total £m
Accumulated depreciation					
At 1 February 2004	383·7	27·2	3·0	284·5	698·4
Disposals	(12·6)	(2·0)	—	(3·2)	(17·8)
Charged during the period	98·6	20·5	4·8	141·0	264·9
At 30 January 2005	469·7	45·7	7·8	422·3	945·5
Net book value					
At 1 February 2004	1,454·2	203·1	—	81·4	1,738·7
At 30 January 2005	5,759·0	703·4	122·8	238·8	6,824·0

Included above is an amount of £2,415·3m relating to non depreciable land (2004 £494·1m).

The cost of property assets held for use in operating leases included in the above figures is £143·7m at 30 January 2005 (2004 £139·2m). The related accumulated depreciation is £24·5m (2004 £21·6m).

Since 3 February 1985 the cost of financing property developments prior to their opening date has been included in the cost of the project. Accumulated interest capitalised is £214·4m (2004 £59·6m).

The net book value of assets held on finance leases was £7·7m (2004 nil). The depreciation on these assets was £2·1m (2004 nil).

15 Investment in BP joint venture (group)

The total of the group's profit from interests in joint ventures was £3·6m (2004: £nil).

	2005 £m	2004 £m
Share of assets		
Share of fixed assets	22·7	—
Share of interest in land	24·3	—
Share of current assets	42·8	—
	89·8	—
Share of liabilities		
Due within one year	(22·4)	—
Share of net assets	67·4	—

16 Debtors—due within one year (group)

	2005 £m	2004 £m
Trade debtors	68·8	7·4
Prepayments	94·5	18·8
Other taxes	8·1	—
Other debtors	51·2	—
	222·6	26·2

Notes on the financial statements continued

17 Creditors—amounts falling due within one year (group)

	2005		2004	
	£m	£m	£m	£m
Bank overdrafts	159·4		—	
Uncleared banking items	112·7		108·8	
		272·1		108·8
Trade creditors	1,123·3		515·0	
Accruals and deferred income	69·7		28·9	
Other taxes	60·0		29·2	
Other creditors	168·6		—	
Operating creditors		1,421·6		573·1
Lease finance		2·6		—
Corporation tax		0·5		53·3
Fixed asset creditors		15·9		7·4
Interest creditor		17·1		—
Proposed equity dividend		82·0		71·6
		1,811·8		814·2

18 Creditors—amounts falling due after more than one year (group)

	2005	2004
	£m	£m
Bonds	978·2	—
Lease finance	8·1	—
Loan notes	3·6	—
	989·9	—
Analysis of total debt of the group		
Debt can be analysed as falling due:		
In one year or less, or on demand	274·7	108·8
Between one and two years	2·4	—
Between two and five years	262·0	—
In five years or more	725·5	—
	1,264·6	108·8
The maturity of obligations under lease finance arrangements is as follows:		
Within one year	3·1	—
Within two and five years inclusive	7·4	—
Over five years	1·5	—
	12·0	—
Less future finance charges	(1·3)	—
	10·7	—

The repayment dates and the interest rates of the above debt are set out in note 38.

Notes on the financial statements continued

19 Provisions for liabilities and charges (group)

	Deferred taxation £m	Other £m	Total £m
At 1 February 2004	38·9	12·6	51·5
Acquired at fair value	197·5	75·2	272·7
Utilisation of provisions	—	(5·9)	(5·9)
Charge for the period	(30·1)	(1·7)	(31·8)
At 30 January 2005	206·3	80·2	286·5

	2005 £m	2004 £m
Analysis of other provisions		
Petrol filling station decommissioning reserve	21·4	7·8
Onerous contracts re leases	58·8	4·8
	80·2	12·6

The potential deferred taxation on timing differences calculated at 30%, is set out below and has been provided for in full.

	2005 £m	2004 £m
Excess of capital allowances over depreciation	297·3	58·1
Other timing differences	(91·0)	(19·3)
Deferred tax liability	206·3	38·8
Deferred tax asset on pension scheme liability (see note 21)	(112·9)	(20·4)
	93·4	18·4

The movements in deferred taxation balance were as follows:

	2005 £m	2004 £m
At 1 February 2004	18·4	28·1
Acquired at fair value	128·6	—
Amount (credited)/charged in the profit and loss account	(30·1)	2·1
Amount credited in the statement of total recognised gains and losses	(23·5)	(11·8)
At 30 January 2005	93·4	18·4

It is considered that as realised capital gains will be rolled over they do not constitute timing differences and therefore the potential liability is not disclosed.

20 Post balance sheet event (group)

Subsequent to the year end the group has continued its divestment strategy with further disposals of stores owned by Safeway Limited (formerly Safeway plc) and its subsidiary companies. The group has received approximately £80m in consideration for these divestments.

21 Pension liability (group and company)

The group operates two pension schemes providing benefits based on final pensionable pay. The assets of the schemes are held in separate trustee administered funds. The latest full actuarial valuations were carried out at 1 April 2004 and 6 April 2004 and were updated for FRS 17 purposes for the periods to 30 January 2005 and 1 February 2004 by a qualified independent actuary.

It has been agreed that a joint employer/employee contribution rate of 14–16·8% of pensionable pay will apply in future years. As these schemes are closed to new entrants, the current service cost as a percentage of pensionable payroll is likely to increase as the membership ages, although it will be applied to a decreasing pensionable payroll.

Group and company

The major assumptions used in this valuation were:

	2005	2004	2003
Rate of increase in salaries	4·25–5·25%	4·25–5·25%	3·75–4·75%
Rate of increase in pensions in payment and deferred pensions	3·00%	3·00%	2·50%
Discount rate applied to scheme liabilities	5·25%	5·50%	5·75%
Inflation assumption	3·00%	3·00%	2·50%

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

The fair value of the group and company schemes assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were

Scheme assets			
Long term rate of return	2005	2004	2003
Equities	7·00%	7·00%	7·00%
Bonds	5·00%	5·25%	5·25%
Property	7·00%	—	—
Cash	4·75%	4·00%	3·75%

Notes on the financial statements continued

21 Pension liability (group and company) continued

Group

	Gross £m	Deferred tax £m	2005 Net £m	2004 Net £m
Balance brought forward	(67·9)	20·4	(47·5)	(20·1)
Acquired at fair value	(229·6)	68·9	(160·7)	—
Movement in the period	(78·9)	23·6	(55·3)	(27·4)
	(376·4)	112·9	(263·5)	(47·5)

	2005 £m	2004 £m	2003 £m
Equities	959·3	163·9	103·0
Bonds	163·9	11·4	10·5
Property	12·5	—	—
Cash	82·6	3·5	4·4
Total market value of assets	1,218·3	178·8	117·9
Present value of scheme liabilities	(1,594·7)	(246·7)	(146·6)
Deficit in the schemes—pension liability	(376·4)	(67·9)	(28·7)
Related deferred tax asset	112·9	20·4	8·6
Net pension liability	(263·5)	(47·5)	(20·1)
Movement in (deficit)/surplus during the period			
(Deficit)/surplus in the scheme at beginning of period	(67·9)	(28·7)	6·8
Acquired at fair value	(229·6)	—	—
Current service cost	(54·7)	(13·6)	(13·3)
Past service costs	(1·3)	—	—
Contributions	63·4	23·6	17·2
Other finance (costs)/income	(4·5)	(0·1)	2·0
Actuarial loss	(81·8)	(49·1)	(41·4)
Deficit in the scheme at the end of the period	(376·4)	(67·9)	(28·7)

	2005 £m	2004 £m
Analysis of other pension costs charged in arriving at operating profit		
Current service cost	54·7	13·6
Past service cost	1·3	—
	56·0	13·6
Analysis of amounts included in other finance income		
Expected return on pension scheme assets	64·1	8·9
Interest on pension scheme liabilities	(68·6)	(9·0)
	(4·5)	(0·1)
Analysis of amounts recognised in statement of total recognised gains and losses		
Actual return less expected return on scheme assets	59·9	24·9
Experience gains and losses arising on scheme liabilities	(36·3)	(3·4)
Changes in assumptions underlying the present value of scheme liabilities	(105·4)	(70·6)
Actuarial loss recognised in statement of total recognised gains and losses	(81·8)	(49·1)

Notes on the financial statements continued

21 Pension liability (group and company) continued

History of experience gains and losses	2005 £m	2004 £m	2003 £m	2002 £m
Difference between the expected and actual return on scheme assets				
Amount	59·9	24·9	(44·0)	(29·4)
Percentage of scheme assets	4·9%	13·9%	(37·3%)	(21·8%)
Experience gains and losses on scheme liabilities				
Amount	(36·3)	(3·4)	2·6	(2·4)
Percentage of present value of scheme liabilities	(2·3%)	(1·4%)	1·8%	(1·9%)
Effects to changes in the demographic and financial assumptions underlying the present value of the scheme liabilities				
Amount	(105·4)	(70·6)	—	4·4
Percentage of present value of scheme liabilities	(6·6%)	(28·6%)	—	3·4%
Total amount recognised in statement of total recognised gains and losses				
Amount	(81·8)	(49·1)	(41·4)	(27·4)
Percentage of present value of scheme liabilities	(5·1%)	(19·9%)	(28·3%)	(21·5%)

Company

	Gross £m	Deferred tax £m	2005 Net £m	2004 Net £m
Balance brought forward	(67·9)	20·4	(47·5)	(20·1)
Movement in the period	(4·1)	1·2	(2·9)	(27·4)
	(72·0)	21·6	(50·4)	(47·5)

Movement in (deficit)/surplus during the period	2005 £m	2004 £m	2003 £m
(Deficit)/surplus in the scheme at beginning of the period	(67·9)	(28·7)	6·8
Current service cost	(19·5)	(13·6)	(13·3)
Contributions	24·1	23·6	17·2
Other finance (costs)/income	(1·1)	(0·1)	2·0
Actuarial loss	(7·6)	(49·1)	(41·4)
Deficit in the scheme at the end of the period	(72·0)	(67·9)	(28·7)

The company's fair value of its scheme's assets and liabilities, were:

	2005 £m	2004 £m	2003 £m
Equities	205·2	163·9	103·0
Bonds	11·5	11·4	10·5
Cash	10·9	3·5	4·4
Total market value of assets	227·6	178·8	117·9
Present value of scheme liabilities	(299·6)	(246·7)	(146·6)
Deficit in scheme — pension liability	(72·0)	(67·9)	(28·7)
Related deferred tax	21·6	20·4	8·6
Net pension liability	(50·4)	(47·5)	(20·1)

Notes on the financial statements continued

22 Share capital and other reserves (group and company)

	2005 £m	2004 £m
Authorised		
Equity share capital		
4,000,000,000 ordinary shares of 10p each (2004 2,000,000,000)	400·0	200·0
Non-equity share capital		
50,000,000 5¼% cumulative redeemable convertible preference shares of £1 each (2004 50,000,000)	50·0	50·0
	450·0	250·0
Issued and fully paid		
Equity share capital		
2,658,291,079 ordinary shares of 10p each (2004 1,573,919,745)	265·8	157·4
Non-equity share capital		
503,797 5¼% cumulative redeemable convertible preference shares of £1 each (2004 1,444,776)	0·5	1·4
	266·3	158·8

Movement in period	Ordinary shares £m	5¼% crc pref. shares £m	Share premium account £m	Merger reserve £m	Investment in own shares £m
At 1 February 2004	157·4	1·4	15·9	—	—
Acquired in period	—	—	—	—	(52·7)
Shares issued in the year	108·1	—	3·6	2,578·3	—
Movement in period	—	—	—	—	12·0
Preference shares converted	0·3	(0·9)	0·6	—	—
At 30 January 2005	265·8	0·5	20·1	2,578·3	(40·7)

During the year approximately 1,077m ordinary shares were issued for a consideration of £2·49 per share as part of the consideration to acquire Safeway Ltd as set out in note 48.

The holders of the 5¼% cumulative redeemable convertible preference shares (''preference shares'') are not entitled to attend or vote at general meetings of the company unless a dividend on those shares is six months in arrears, or any resolution is proposed either to vary the rights attaching to those shares or to wind up the company, in which event the said holder shall have one vote for each ordinary share into which the preference shares held would at that time be converted.

On a return of capital upon the liquidation of the company or otherwise the assets of the company available for distribution among the members shall be applied in repaying to the holders of the preference shares the amount paid up or credited as paid up thereon with an amount equal to any arrears and accruals of the fixed cumulative dividend to be calculated down to and including the date of commencement of the winding up whether or not such dividend has been declared or earned. Preference shares shall not entitle the holders thereof to any further or other right of participation in the assets of the company.

The preference shares can be converted at the option of the holder on the basis of 336 ordinary shares for every £100 in nominal amount of preference shares in the month of June in each year up to 2006. As over 75% of the preference shares originally issued have now been converted the remaining preference shares can be converted at the option of the company on the same basis within three months of the end of each conversion period. The company may redeem at par value preference shares at any time from 1 January 2007 and shall redeem at par value on 31 December 2009 the preference shares in issue on that date.

Share options
Options outstanding (including those held by directors) are listed below:

Executive Share Option Schemes

Date of grant	At 01.02.04	Granted	Exercised	Lapsed	At 30.01.05	Exercise price	Exercisable From	To
	Number of options During the 52 weeks ended 30.01.05							
27.04.94	252,492	—	252,492	—	—	61p	27.04.97	27.04.04
30.04.96	365,000	—	5,000	—	360,000	77·5p	30.04.99	30.04.06
16.04.99	400,000	—	240,000	—	160,000	148p	16.04.02	16.04.09
31.03.00	200,000	—	50,000	—	150,000	123p	31.03.03	31.03.10
05.04.01	2,400,000	—	415,000	—	1,985,000	187p	05.04.04	05.04.11
05.04.02	1,050,000	—	—	—	1,050,000	209p	05.04.05	05.04.12
02.04.03	3,570,000	—	—	—	3,570,000	175p	02.04.06	02.04.13
12.11.04	—	1,980,000	—	—	1,980,000	222p	12.11.07	12.11.14
	8,237,492	1,980,000	962,492	—	9,255,000			

Notes on the financial statements continued

22 Share capital and other reserves (group and company) continued

Share options continued

Options prior to 1995 were granted under the Senior Executive Share Option Scheme 1985. Those over shares in the company granted after 1995 are granted under the Executive Share Option Scheme 1995.

Sharesave Schemes

Date of grant	Number of options During the 52 weeks ended 30.01.05					Exercise	Exercisable	
	At 01.02.04	At 08.03.04	Exercised	Lapsed	At 30.01.05	price	From	To
23.06.99	—	1,810,183*	1,182,399	399	627,385	164·9p	01.09.04	28.02.05
28.06.00	—	2,433,375*	73,186	643,240	1,716,949	159·3p	01.09.05	28.02.06
28.06.00	14,695,281	—	42,850	782,897	13,869,534	118p	01.09.05	01.03.06
27.06.01	—	3,593,712*	58,136	328,682	3,206,894	239·3p	01.09.06	28.02.07
28.05.02	8,955,908	—	9,835	1,149,010	7,797,063	173p	01.07.07	31.12.07
26.06.02	—	5,446,193*	112,912	1,407,808	3,925,473	179·5p	01.09.07	29.02.08
	23,651,189	13,283,463	1,479,318	4,312,036	31,143,298			

* Options granted by Safeway plc under the Safeway Sharesave Scheme and rolled over into ordinary shares of 10p each in the company following the acquisition of Safeway plc by the company.

246,896 options under the Sharesave schemes lapsed between 31 January 2005 and 23 March 2005. A total of 30,741,977 options under the Sharesave schemes were outstanding on 23 March 2005.

Other options are granted under the Wm Morrison Supermarkets Plc Sharesave Scheme.

The aggregate nominal value of shares allotted on exercise of options during the period was £244,181 and the consideration received by the company for the allotment was £3,775,432.

In the period 31 January 2005 to 23 March 2005 no further options were granted and a total of 154,425 options were exercised.

In addition to the options referred to above, awards under the Safeway Customer Care Performance Share Ownership Plan ("CCPSOP") were made as set out below in 1997, 1998 and 1999, Options granted to employees under the plan are exercisable normally between 3 and 6½ years after the date of grant. Following the acquisition of Safeway plc by the company, options under CCPSOP were rolled over into options over shares in the company.

Safeway CCPSOP

Date of grant	Exercise price	At 08.03.04	At 30.01.05	Last date of exercise
25.11.97	269·21p	3,844,899	—	—
02.12.98	239·30p	7,116,428	5,419,058	01.06.05
16.12.99	165·73p	1,682,729	827,783	15.06.06
		12,644,056	6,246,841	

An independent trustee based in Jersey holds a sufficient number of shares in the company to meet the future anticipated obligations of the CCPSOP, funded by an interest free loan from the company.

Notes on the financial statements continued

23 Profit and loss account (group and company)

	Group £m	Company £m
At 1 February 2004	1,142·7	1,085·8
Retained in the period	107·6	190·9
Share option cost	0·5	0·5
Actuarial loss recognised	(81·8)	(7·6)
Tax arising on actuarial loss	24·5	2·2
At 30 January 2005	1,193·5	1,271·8

	Group 2005 £m	Group 2004 £m	Company 2005 £m	Company 2004 £m
Profit and loss account excluding pension liability	1,457·0	1,190·2	1,322·2	1,133·3
Pension liability	(263·5)	(47·5)	(50·4)	(47·5)
Profit and loss account including pension liability	1,193·5	1,142·7	1,271·8	1,085·8

24 Reconciliation of movements in shareholders' funds (group)

	2005 £m	2004 £m
Profit for the financial period	205·7	197·6
Dividends payable	(98·1)	(80·3)
Retained profit for the financial period	107·6	117·3
Share option reserve	0·5	0·5
Other recognised gains and losses for the financial period	(57·3)	(34·3)
Investment in own shares	(40·7)	—
New share capital subscribed	2,690·0	1·0
Net addition to shareholders' funds	2,700·1	84·5
Opening shareholders' funds	1,317·4	1,232·9
Closing shareholders' funds	4,017·5	1,317·4

25 Capital commitments (group)

	2005 £m	2004 £m
Amounts contracted for	36·5	38·2

26 Lease commitments (group)

At 30 January 2005 the group had annual commitments under operating leases as follows:

	2005 Land and buildings £m	2005 Plant, equipment and vehicles £m	2004 Land and buildings £m	2004 Plant, equipment and vehicles £m
Expiring within one year	8·2	15·4	—	0·7
Expiring within two and five years inclusive	2·8	21·4	—	1·1
Expiring over five years	36·3	—	2·1	—
	47·3	36·8	2·1	1·8

Notes on the financial statements continued

27 Cash inflow from operating activities

	Opening £m	Acquired £m	Closing £m	2005 £m	2004 £m
Increase in stock	150·3	262·6	(424·6)	(11·7)	(13·9)
Increase in debtors	26·2	115·3	(222·6)	(81·1)	(3·7)
Increase/(decrease) in creditors	(573·1)	(844·5)	1,421·6	4·0	37·5
Increase/(decrease) in operating provisions	(12·6)	(75·2)	80·3	(7·5)	0·4
	(409·2)	(541·8)	854·7	(96·3)	20·3
Group operating profit				281·1	305·1
Depreciation				264·9	120·4
Share option reserve				0·5	0·5
Profit on divestment of assets				—	(0·1)
Excess of contributions over pension service cost				(7·3)	(10·0)
				442·9	436·2

The subsidiary undertaking acquired during the period resulted in a cash outflow of £280·6m which includes £58·8m in respect of net returns on investments and servicing of finance, £58·6m in respect of taxation and £135·1m for capital expenditure.

28 Returns on investments and servicing of finance

	Opening £m	Acquired £m	Closing £m	2005 £m	2004 £m
Interest creditor	—	27·3	17·1	(10·2)	0·1
Interest paid				(86·7)	(5·8)
Interest received				21·1	14·6
				(75·8)	8·9

29 Taxation

	Opening £m	Acquired £m	Closing £m	2005 £m	2004 £m
Corporation tax	(53·5)	2·0	0·5		
Deferred tax	(38·9)	(197·5)	206·3		
	(92·4)	(195·5)	206·8	(81·1)	13·0
Charged in period				(91·4)	(122·3)
Current tax on pension liability				1·0	—
				(171·5)	(109·3)

30 Capital expenditure and financial investment

	Opening £m	Acquired £m	Closing £m	2005 £m	2004 £m
Fixed asset creditor	(7·5)	(13·8)	15·9	(5·4)	(7·8)
Purchase of tangible fixed assets				(422·9)	(244·1)
				(428·3)	(251·9)
Divestment proceeds				903·0	—
				474·7	(251·9)

Notes on the financial statements continued

31 Acquisition and disposals

	2005 £m	2004 £m
Purchase of subsidiary (see note 48)	(665·2)	—
Net overdrafts acquired with subsidiary undertaking	(166·2)	—
	(831·4)	—

32 Equity dividends paid

	Opening £m	Acquired £m	Closing £m	2005 £m	2004 £m
Dividend creditor	(71·6)	—	82·0	10·4	36·3
Equity dividend				(98·1)	(80·3)
				(87·7)	(44·0)

33 Management of liquid resources

	Opening £m	Acquired £m	Closing £m	2005 £m	2004 £m
Decrease/(increase) in longer term deposits	220·7	—	—	220·7	(47·2)

34 Financing

	2005 £m	2004 £m
New share capital subscribed	2,690·0	1·0
Less issued to acquire Safeway	(2,681·1)	—
	8·9	1·0
Disposal of own shares	12·0	—
Repayment of debt	(157·3)	—
	(136·4)	1·0

35 Analysis of net funds/debt

	At 1 February 2004 £m	Cashflow £m	Acquisition (excluding cash and overdrafts) £m	At 30 January 2005 £m
Bank overdrafts and uncleared items	(108·8)	(163·3)	—	(272·1)
Cash in hand	8·8	11·6	—	20·4
Overnight deposits	85·9	(12·8)	—	73·1
	(14·1)	(164·5)	—	(178·6)
Longer term deposits	220·7	(220·7)	—	—
Debt	—	157·3	(1,149·8)	(992·5)
	206·6	(227·9)	(1,149·8)	(1,171·1)

36 Movement in debt

	Opening £m	Acquired £m	Closing £m	2005 £m	2004 £m
Bonds	—	(1,132·0)	978·2	(153·8)	—
Lease finance	—	(14·1)	10·7	(3·4)	—
Loan notes	—	(3·7)	3·6	(0·1)	—
	—	(1,149·8)	992·5	(157·3)	—

37 Major non-cash transactions (group)

Part of the consideration for the purchase of Safeway Limited (formerly Safeway plc) that occurred during the year comprised shares as set out in note 48.

Notes on the financial statements continued

38 Financial instruments (group)

The group's financial instruments comprise borrowings, cash and liquid resources. The main purpose of these financial instruments is to provide finance for the group's operations.

Throughout the period under review, the group has not traded in financial instruments.

The main risks arising from the group's financial instruments are interest rate risk, liquidity risk and a small amount of foreign currency risk.

Interest rate risk

The group finances its operations through a mixture of retained profits and bank borrowings at variable and fixed rates.

Liquidity risk

The group's policy is that, to ensure continuity of funding, its borrowings are split between short-term overdraft facilities, deposits made overnight and longer term loans. Short-term flexibility is achieved using overdraft facilities.

Foreign currency risk

The group has various subsidiaries overseas but due to their size there is no material currency risk. Goods purchased in foreign currencies are paid for at the exchange rate ruling at the time of payment although from time to time this may be fixed in advance by forward contract. There continues to be a small amount of exports by the group but there is no material exchange rate risk associated with this.

Financial assets and liabilities

The numerical disclosures below deal with financial assets and financial liabilities as defined in FRS13 – Derivatives and Other Financial Instruments. As permitted by FRS13, short term debtors and creditors have been excluded from the disclosures, other than those relating to currency exposures.

Financial assets

The group and the company hold the following investments in financial assets:

	Group		Company	
	2005	2004	2005	2004
	£m	£m	£m	£m
Cash at bank and in hand	20·4	8·8	11·9	8·9
Overnight deposits	73·1	85·9	0·1	78·9
Longer term deposits	—	220·7	—	200·0
	93.5	315·4	12·0	287·8

In relation to cash balances held by group companies, there is a right of set-off where balances are held with the same bank.

Interest received on overnight and longer term deposits is calculated at the prevailing interest rate on the date of deposit. Cash at bank and in hand represents cash in transit or amounts held at stores on which no interest is earned.

Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.

Financial liabilities

The group and company borrowings comprise:

		Group		Company	
	Interest Rate	2005	2004	2005	2004
Unsecured overdrafts:	%	£m	£m	£m	£m
2004	Floating	—	108·8	—	106·8
2005	Floating	272·1	—	268·0	—
		272·1	108·8	268·0	106·8
Debenture and other loans:					
Sterling bonds 2007	Fixed / 5·875%	253·0	—	—	—
Sterling bonds 2014	Fixed / 6·5%	157·9	—	—	—
Sterling bonds 2017	Fixed / 6·0%	203·1	—	—	—
Sterling bonds 2018	Fixed / 6·125%	205·6	—	—	—
Euro bonds 2010	Fixed / 7·36%	183·8	—	—	—
Lease loan capital	Fixed / 10·7%	10·7	—	—	—
Other loan notes	Floating / 3·33%	3·6	—	—	—
Interest and currency rate swaps		(25·2)	—	—	—
		992·5	—	—	—
Total financial liabilities		1,264·6	108·8	268·0	106·8
Less: Amount repayable within one year		(274·7)	(108·8)	(268·0)	(106·8)
Amount due after one year		(989·9)	—	—	—

38 Financial instruments (group) continued

At period end the group had swapped £150 million of fixed rate debt into floating rate based on LIBOR, subject to a minimum of 4% and maturing in 2008 and, in addition, £200 million of Sterling bonds 2007 had been swapped into floating rate debt based on LIBOR. The proceeds of the Euro bonds (Euro 250 million) had been swapped into fixed rate Sterling on receipt in April 2000.

At period end, the weighted average interest rate of fixed rate borrowings, after taking into account of interest rate swaps, was 6·3% (2004 – nil%). The weighted average period for which these borrowings are fixed is 8 years (2004 – nil).

The floating rate borrowings bear interest at rates based on the London Interbank Offered Rate ("LIBOR").

Maturity profile of financial liabilities

Borrowings are repayable as follows:	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
Due within one year:				
Bank	272·1	108·8	268·0	106·8
Lease	2·6	—	—	—
Due within one to two years:				
Lease	2·4	—	—	—
Due within two to five years:				
Lease	5·4	—	—	—
Sterling bonds	253·0	—	—	—
Other	3.6	—	—	—
Due after five years:				
Lease	0·3	—	—	—
Sterling bonds	566·6	—	—	—
Euro bonds	183·8	—	—	—
Interest and currency rate swaps	(25·2)	—	—	—
	1,264·6	108·8	268·0	106·8

Currency exposures
At 30 January 2005 the group had no material currency exposures.

Borrowing facilities
The group has the following undrawn committed facilities available at the period end in respect of which all conditions precedent have been met at that date.

	Group	
	2005 £m	2004 £m
Expiring within one year	—	750·0
Expiring between one and two years	—	—
Expiring in more than two years	850·0	1,000·0
	850·0	1,750·0

There are also various uncommitted facilities available which are used for working capital purposes.

Fair values of financial assets and financial liabilities
The book values of the financial assets and financial liabilities are not materially different to the fair values as at 30 January 2005.

Notes on the financial statements continued

39 Tangible fixed assets (company)

	Land and buildings Freehold £m	Long lease £m	Short lease £m	Plant, equipment & vehicles £m	Total £m
Tangible fixed assets not in use					
At 1 February 2004	96·5	26·3	—	—	122·8
Additions at cost	204·3	31·1	—	29·1	264·5
Interest capitalised	4·2	1·6	—	—	5·8
Brought into use	(174·9)	(59·0)	—	(29·1)	(263·0)
At 30 January 2005	130·1	—	—	—	130·1
Tangible fixed assets in use					
At 1 February 2004	1,735·9	204·0	3·0	318·8	2,261·7
Brought into use	174·9	59·0	—	29·1	263·0
Disposals	(13·8)	(1·2)	—	(4·6)	(19·6)
At 30 January 2005	1,897·0	261·8	3·0	343·3	2,505·1
Total cost					
At 1 February 2004	1,832·4	230·3	3·0	318·8	2,384·5
At 30 January 2005	2,027·1	261·8	3·0	343·3	2,635·2

	2005 £m	2004 £m
Depreciation		
Charged on tangible fixed assets during the period	78·1	115·9

	Land and buildings Freehold £m	Long lease £m	Short lease £m	Plant, equipment & vehicles £m	Total £m
Accumulated depreciation					
At 1 February 2004	380·8	27·2	3·0	246·2	657·2
Disposals	(1·9)	(0·6)	—	(4·0)	(6·5)
Charged during the period	34·0	7·1	—	37·0	78·1
At 30 January 2005	412·9	33·7	3·0	279·2	728·8
Net book value					
At 1 February 2004	1,451·6	203·1	—	72·6	1,727·3
At 30 January 2005	1,614·2	228·1	—	64·1	1,906·4

Included above is an amount of £564·3m relating to non depreciable land (2004 £492·3m).

The cost of property assets held for use in operating leases included in the above figures is £143·7m at 30 January 2005 (2004 £139·2m). The related accumulated depreciation is £24·5m (2004 £21·6m).

Since 3 February 1985 the cost of financing property developments prior to their opening date has been included in the cost of the project. Accumulated interest capitalised is £65·9m (2004 £59·6m).

Notes on the financial statements continued

40 Fixed asset investments

	Group	Company		
	Equity investments £m	Equity investments £m	Investment in subsidiary undertakings £m	Total £m
Cost				
As at 1 February 2004	0·2	0·1	6·2	6·3
Additions	—	—	3,355·3	3,355·3
As at 30 January 2005	0·2	0·1	3,361·5	3,361·6
Provision				
As at 1 February 2004	(0·2)	(0·1)	(1·3)	(1·4)
Charged during the period	—	—	—	—
As at 30 January 2005	(0·2)	(0·1)	(1·3)	(1·4)
Net book value				
As at 1 February 2004	—	—	4·9	4·9
At 30 January 2005	—	—	3,360·2	3,360·2

Additions in the year relate to the acquisition of Safeway Ltd and the issue of new share capital by another subsidiary.

41 Debtors—due within one year (company)

	2005 £m	2004 £m
Trade debtors	37·4	6·1
Prepayments	64·3	18·6
Other taxes	7·3	—
Other debtors	0·8	—
	109·8	24·7

42 Creditors—amounts falling due within one year (company)

	2005 £m	2005 £m	2004 £m	2004 £m
Bank overdrafts	152·6		1·0	
Uncleared banking items	115·4		105·8	
		268·0		106·8
Trade creditors	698·0		480·1	
Accruals and deferred income	35·7		20·1	
Other taxes	10·3		29·8	
Amounts owed to subsidiary undertakings	234·6		64·6	
Operating creditors		978·6		594·6
Corporation tax		12·5		45·8
Fixed asset creditors		14·9		7·4
Proposed equity dividend		82·0		71·6
		1,356·0		826·2

Notes on the financial statements continued

43 Provisions for liabilities and charges (company)

	Deferred taxation £m	Other £m	Total £m
At 1 February 2004	42·3	12·6	54·9
Utilisation of provisions	—	(0·4)	(0·4)
Charge for the period	7·3	3·4	10·7
Prior year adjustment	1·6	—	1·6
At 30 January 2005	51·2	15·6	66·8

Analysis of other provisions	2005 £m	2004 £m
Petrol filling station decommissioning reserve	11·2	7·8
Onerous contracts re leases	4·4	4·8
	15·6	12·6

The potential deferred taxation on timing differences, calculated at 30%, is set out below and has been provided for in full.

	2005 £m	2004 £m
Excess of capital allowances over depreciation	65·0	60·3
Other timing differences	(13·8)	(18·0)
	51·2	42·3

It is considered that as realised capital gains will be rolled over they do not constitute timing differences and therefore the potential liability is not disclosed.

44 Reconciliation of movements in shareholders' funds (company)

	2005 £m	2004 £m
Profit before intra group dividends	257·5	165·3
Intra group dividends received	31·5	13·2
Profit for the financial period	289·0	178·5
Dividends payable	(98·1)	(80·3)
Retained profit for the financial period	190·9	98·2
Share option reserve	0·5	0·5
Other recognised gains and losses for the financial period	(5·4)	(34·3)
New share capital subscribed	2,690·0	1·0
Net addition to shareholders' funds	2,876·0	65·4
Opening shareholders' funds	1,260·5	1,195·1
Closing shareholders' funds	4,136·5	1,260·5

45 Capital commitments (company)

	2005 £m	2004 £m
Amounts contracted for	36·5	38·2

46 Lease commitments (company)

At 30 January 2005 the holding company had annual commitments under operating leases as follows:

	2005		2004	
	Land and buildings £m	Plant, equipment and vehicles £m	Land and buildings £m	Plant, equipment and vehicles £m
Expiring within one year	—	0·8	—	0·7
Expiring within two and five years inclusive	—	1·0	—	1·1
Expiring over five years	1·8	—	1·8	—
	1·8	1·8	1·8	1·8

47 Contingent liability (company)

The company has given an unlimited guarantee in respect of the overdraft of all the subsidiary undertakings which at 30 January 2005 amounted to £8·5m including uncleared banking items (2004 £3·0m).

The company has also provided a guarantee in respect of Sterling and Euro Bonds, amounting to £1,003·4m (2004 £nil) in respect of a subsidiary undertaking.

48 Acquisitions

On 8 March 2004, the group acquired the entire issued share capital of Safeway Limited (formerly Safeway plc) for a total consideration of £3,346·3m, comprising £665·2m cash and the issue of approximately 1,077m ordinary shares at a fair value of £2,681·1m.

This acquisition has been accounted for using the acquisition method of accounting. After the alignment of accounting policies and other adjustments to the valuation of assets and liabilities to reflect their fair value, the provisional fair value of assets acquired is £3,667·4m. Negative goodwill of £321·1m has therefore arisen, and in accordance with Financial Reporting Standard 10 has been shown adjacent to fixed assets within the balance sheet.

This negative goodwill is being recognised in the profit and loss account in the periods in which the non-monetary assets to which it related are being recovered. These are primarily the tangible fixed assets acquired.

Exceptional costs amounting to £98·9m include acquisition, redundancy and reorganisation costs which are all associated with the acquisition and integration of the Safeway business.

Fair value adjustments and net assets acquired	On acquisition £m	Accounting policy alignment £m	Revaluation adjustment £m	Total £m
Fixed assets acquired at written down value	3,969·0	—	1,837·0	5,806·0
Investments	74·8	—	(11·0)	63·8
Investment in own shares	52·7	—	—	52·7
Stock	312·6	(50·0)	—	262·6
Debtors	115·3	—	—	115·3
Corporation tax	2·0	—	—	2·0
Capital creditors	(13·8)	—	—	(13·8)
Trade creditors & accruals	(844·5)	—	—	(844·5)
Interest payable	(27·3)	—	—	(27·3)
Deferred tax	(211·5)	32·0	(18·0)	(197·5)
Provision for liabilities and charges	(18·2)	(57·0)	—	(75·2)
Pension liability	(160·7)	—	—	(160·7)
Net assets acquired (non cash)	3,250·4	(75·0)	1,808·0	4,983·4
Debt acquired				
Cash and deposits	(105·0)	—	—	(105·0)
Bank loans and overdrafts	271·2	—	—	271·2
Short term debt	166·2	—	—	166·2
Loan notes	3·7	—	—	3·7
Bonds	1,100·0	—	32·0	1,132·0
Lease finance	14·1	—	—	14·1
Debt acquired	1,284·0	—	32·0	1,316·0
Net assets acquired	1,966·4	(75·0)	1,776·0	3,667·4

	£m
Satisfied by	
Cash paid to shareholders	647·3
Associated fees	17·9
Monetary consideration	665·2
Share issue	2,681·1
Total consideration	3,346·3
Provisional negative goodwill created	321·1
Short term debt acquired	166·2
Monetary consideration	665·2
Cash outflow	831·4

Notes on the financial statements continued

48 Acquisitions continued

Fair value adjustments
All assets and liabilities have initially been recognised in the group accounts at their fair value. Fair value is defined as the amount at which an asset or liability could be exchanged in an arm's length transaction between informed and willing parties, other than in a forced or liquidation sale.

The reasons for the fair value adjustments above are as follows:

Fixed assets have been valued to their open market value using external and internal valuations.

Investments have been valued at their open market value.

Stock has been written down to its net realisable value given its condition at the date of acquisition.

The bonds were restated to their fair value.

The provisions for liabilities adjustment was to recognise an onerous lease provision.

The deferred taxation adjustment is the tax effect of the fair value adjustments.

Pre-acquisition results of Safeway Limited
In the 49 week period from 30 March 2003 to 7 March 2004 the results for Safeway Limited were:

	Before exceptional items £m	Exceptional items £m	After exceptional items £m
Group and share of BP joint venture sales	8,522·0	—	8,522·0
Less: VAT	(660·1)	—	(660·1)
Group and share of BP joint venture sales excluding VAT	7,861·9	—	7,861·9
Less: share of BP joint venture sales excluding VAT	(174·8)	—	(174·8)
Group turnover excluding VAT	7,687·1	—	7,687·1
Operating profit/(loss)	314·3	(269·7)	44·6
Profit/(loss) before tax	255·3	(273·0)	(17·7)
Profit/(loss) after tax	127·3	(175·3)	(48·0)

Exceptional items relate to bid costs and changes in estimation techniques.

Statement of total recognised gains and losses	49 weeks to to 7 March 2004 £m
Loss for the financial period	(48·0)
Actuarial loss on pension scheme	(86·5)
Current tax thereon	22·2
Deferred tax thereon	3·8
Total loss relating to the financial period	(108·5)
Prior year adjustment	(151·9)
Total recognised loss since last annual report	(260·4)

The prior year adjustment was in respect of the first time adoption of FRS 17 "Retirement Benefits".

In its previous 52 week period to 29 March 2003 Safeway Limited had a profit after tax of £169·1m.

Notes on the financial statements continued

49 Related party transaction (group)

During the period the group had the following transactions and balances due to and from its joint venture, the BP and Safeway Partnership

	2005 £m	2004 £m
Sales	86·6	—
Recharges	24·4	—
Creditor	(43·8)	—
Debtor	9·2	—

50 Subsidiary and joint venture undertakings

Subsidiaries of Wm MORRISON SUPERMARKETS PLC

	Principal activity	% Equity holding
BOS BROTHERS FRUIT AND VEGETABLES B.V.	produce wholesaler	100
FARMERS BOY LIMITED	manufacture and distribution of fresh food products	100
FAROCK INSURANCE COMPANY LIMITED	insurance	100
HOLSA LIMITED	polythene bag manufacturer	100
NATHANSPIRE LIMITED	financial services	100
NEEROCK LIMITED	fresh meat processor	100
Wm MORRISON PRODUCE LIMITED	produce packers	100
SAFEWAY LIMITED	holding company	100

Subsidiaries of Safeway Limited

SAFEWAY OVERSEAS LIMITED	grocery retailing	100
SAFEWAY STORES LIMITED	grocery retailing	100
SAFEWAY STORES (Ireland) LIMITED	grocery retailing	100
SAFEWAY STORES (Card Services) LIMITED	financial services	100

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

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

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

Joint venture

	Principal activity
BP and SAFEWAY PARTNERSHIP.	petrol/grocery retailer

The principal area of trading for the partnership is the United Kingdom.

Advantage has been taken of the exception conferred by Regulation 7 of the Partnerships and Unlimited Companies (Accounts) Regulations 1993 from the requirement to deliver to the Registrar of Companies and publish the accounts of the BP and Safeway Partnership.

Financial review
52 weeks ended 30 January 2005

The results for 2005 include the acquired results of Safeway Limited.

Turnover

The analysis of group turnover is as follows:	2005 £m	2004 £m	% increase
Till transaction values	13,874·7	5,665·9	144·9
Multisave deductions	(845·6)	(366·2)	130·9
Supermarket takings	13,029·1	5,299·7	145·8
VAT	(1,003·6)	(397·9)	152·2
Supermarket sales	12,025·5	4,901·8	145·3
Other turnover and adjustments	90·6	42·3	114·2
Turnover	12,116·1	4,944·1	145·1
Other turnover and adjustments:			
Income from tenants	40·0	22·2	80.2
Dry cleaning	14·0	—	—
Photo processing	6·2	—	—
Coin operation receipts	25·6	13·5	89.6
Commission income	15·3	5·5	178.2
Third party sales by subsidiaries			
– UK	47·0	37·7	24.7
– export	0·8	0·7	14.3
Sundry	12·4	1·3	—
Goods for own use	(33·0)	(28·3)	16.6
Self financed coupons	(28·3)	(10·2)	177.5
Staff discount	(9·4)	(0·1)	—
	90·6	42·3	114.2

Multisave deductions represented 6·1% of till transactions in 2005 (2004 6.5%). The departmental analysis of the like for like increase/(decrease) in supermarket takings is as follows.

	Morrisons % increase 52 weeks	Conversions % increase/(decrease) since conversion	Conversions % increase/(decrease) 52 weeks	Safeway % increase /(decrease) 52 weeks
Food	4·6			(9·1)
Off licence	4·5			(1·3)
Home & leisure	4·4			(22·5)
Total excluding petrol	4·6	9·0	(2·3)	(8·9)
Petrol	22·6	18·4	9·6	6·4
Supermarket takings	7·1	10·9	0·2	(6·8)

Safeway comparisons are with the equivalent 52 weeks of last year. Departmental analysis is not available for the converted units.

After excluding VAT supermarket sales rose from £4,901·8m to £12,025·5m. Group turnover, after allowing for internal adjustments, other turnover and exports, increased to £12,116·1m from £4,944·1m.

One measure of the group's performance is its customer base. The following shows the average weekly number of customers and the average weekly transactions per store. All figures exclude petrol.

	Average weekly customers per store No.	% increase/ (decrease)	Average transaction value £	% increase/ (decrease)	Average weekly takings per store £000's	% increase/ (decrease)
2000	26,211	2·0	21·23	2·2	556	4·1
2001	26,481	1·0	22·06	3·9	584	5·0
2002	27,645	4·4	22·77	3·2	629	7·7
2003	28,277	2·3	23·57	3·5	666	5·9
2004	29,242	3·4	24·48	3·9	716	7·5
2005	18,712	(36·0)	21·36	(12·7)	400	(44·1)
Cumulative increase/ (decrease)		(28·6)		0·6		(28·1)

Financial review continued

Exceptional costs

The group incurred costs in the acquisition of Safeway Limited and in the store conversion programme.

The costs are summarised below:	2005 £m	2004 £m
Acquisition costs	0·3	10·9
Redundancy costs	23·8	—
Stores conversion/divestment costs	75·1	—
	99·2	10·9

Margins

The analysis of margins as a percentage of sales over the past 5 years is as follows:

	2005	2004	2003	2002	2001
Gross operating profit	24·4	25·5	25·8	24·8	24·6
Staff costs	(13·3)	(11·5)	(11·6)	(11·3)	(11·2)
Depreciation	(2·3)	(2·4)	(2·6)	(2·5)	(2·6)
Other operating charges	(6·5)	(5·4)	(5·3)	(5·1)	(5·0)
Group operating profit pre exceptional costs	3·1	6·4	6·4	5·9	5·8
Exceptional costs	(0·8)	(0·2)	(0·1)	—	—
Group operating profit	2·3	6·2	6·3	5·9	5·8
Interest and sundry items	0·2	0·3	0·3	0·3	0·5
Profit before taxation	2·5	6·5	6·6	6·2	6·3

Overall the group operating margin after exceptional costs has fallen to 2·3% and group operating profit after exceptional costs has decreased from £305·1m to £281·1m a fall of 7·9%.

Turnover, pre tax profit, earnings per share and dividends

Over the past 5 years turnover has increased from £2,969m to £12,116m, pre tax profit from £189·2m to £297·1m and diluted earnings per share from 7·57p to 8·07p. Ordinary dividends have increased from the equivalent of 1·50p per share in 2000 to 3·70p this year. The annual progression is as follows:

	Turnover		Pre tax profit		Diluted earnings per share		Dividend per ordinary share	
	£m	% Inc	£m	% Inc/(dec)	p	% Inc/(dec)	p	% Inc
2000	2,969	17·1	189·2	11·1	7·57	15·6	1·50	22·4
2001*	3,496	17·8	219·1	15·8	9·05	19·6	1·80	20·0
2002	3,915	12·0	243·0	10·9	9·79	8·2	2·20	22·2
2003	4,290	9·6	282·5	16·3	11·61	18·6	2·70	22·7
2004	4,944	15·2	319·9	13·2	12·48	7·5	3·25	20·4
2005	12,116	145·1	297·1	(7·1)	8·07	(35·3)	3·70	13·8
Cumulative increase		308·1		57·0		6·6		146·7

* 53 weeks

The analysis of pre tax profit by operating company activity is as follows:	2005 £m	2004 £m
Retailing/financial services	227·8	290·8
Meat processing	7·4	2·5
Fresh food production	12·0	4·8
Produce packing	47·7	20·8
Insurance	2·0	0·1
Polythene bag manufacture	0·2	0·9
	297·1	319·9

As virtually all the turnover created by subsidiaries is used within the group, the success of each activity is dependant on the retail side of the business. Neerock Ltd ensures that the meat processing facility meets the highest quality requirements demanded by our stores and all lamb, beef and pork going through the abattoir is sourced from British farms. Farmers Boy Ltd continues to introduce new lines and improved production techniques, as does Wm Morrison Produce Ltd. Our polythene bag manufacturing subsidiary, Holsa Ltd and Farock Insurance Co Ltd, our captive insurance company, continue to contribute to profits. Nathanspire Ltd and Safeway Stores (Card Services) Ltd acquires credit and debit card transactions from customers and all profit so generated is included under retailing/financial services. Bos Brothers Fruit and Vegetables B.V., a Dutch produce wholesaler, continues to make a contribution to produce packing profitability.

The ordinary dividend of 3·70p per share will lead to a total distribution of £98·1m which is covered 2·1 times by the profit attributable to ordinary shareholders of £205·7m.

Financial review continued

Fixed assets

The expansion and conversion programme has been outlined in the chairman's statement and during the year the written down value of tangible fixed assets rose from £1,738·7m to £6,824·0m, an increase of £5,085·3m.

The analysis of that increase is as follows:

	Cost £m	Depreciation £m	Written down value £m
Additions	422·9	—	422·9
Additions on acquisition of Safeway	5,806·0	—	5,806·0
Interest capitalised	6·4	—	6·4
Disposals	(902·9)	17·8	(885·1)
Depreciation charged	—	(264·9)	(264·9)
Increase in year	5,332·4	(247·1)	5,085·3
Brought forward	2,437·1	(698·4)	1,738·7
	7,769·5	(945·5)	6,824·0
Proceeds from sales of tangible fixed assets			903·0
Profit on sales of fixtures and fittings and vehicles			—
Profit on sales of land and buildings			(17·9)
Disposals at written down value			885·1

The analysis of the additions (including interest capitalised) is as follows:

	Stores £m	Central £m	Total £m
On facilities opened/opening			
Prior to 1 February 2004	78·7	79·7	158·4
In year ended 30 January 2005	65·6	31·6	97·2
After 30 January 2005	163·6	10·1	173·7
	307·9	121·4	429·3

Debt/funds

During the period there was a decrease in net funds of £1,377·7m as shown in the consolidated cash flow statement. The movement during the period was as follows:

	At 30 January 2005 £m	At 1 February 2004 £m	Movement in period £m
Bonds	(978·2)	—	(978·2)
Lease finance	(10·7)	—	(10·7)
Loan notes	(3·6)	—	(3·6)
Bank balance/overdraft	(159·4)	—	(159·4)
Uncleared banking items	(112·7)	(108·8)	(3·9)
Gross debt	(1,264·6)	(108·8)	(1,155·8)
Cash	20·4	8·8	11·6
Overnight deposits	73·1	85·9	(12·8)
Longer term deposits	—	220·7	(220·7)
Net (debt)/funds	(1,171·1)	206·6	(1,377·7)

Gearing

The gross amount of interest paid by the group was £86·7m which was covered 3 times by the profit before taxation.

Shareholders' funds of the group have increased from £1,317m to £4,018m. Gross debt represented 31·5% of shareholders' funds on 30 January 2005 compared to 8·2% on 1 February 2004. Net debt represented 29·1% of shareholders' funds on 30 January 2005.

Seven year summary of results

	2005** £m	2004 £m	2003 £m	2002 £m	2001* £m	2000 £m	1999 £m
Consolidated profit and loss account							
Group and share of joint venture	12,296·1	4,944·1	4,289·9	3,915·0	3,496·3	2,968·9	2,535·5
Less: share of joint venture	(180·0)	—	—	—	—	—	—
Group turnover	12,116·1	4,944·1	4,289·9	3,915·0	3,496·3	2,968·9	2,535·5
Change in stocks	11·7	13·9	10·9	(0·5)	14·0	4·0	(1·3)
Other operating income	5·9	0·8	1·9	1·2	1·1	0·4	0·6
	12,133·7	4,958·8	4,302·7	3,915·7	3,511·4	2,973·3	2,534·8
Raw materials and consumables	(9,179·7)	(3,695·6)	(3,196·3)	(2,944·0)	(2,651·5)	(2,225·4)	(1,886·7)
Staff costs	(1,607·0)	(570·7)	(498·1)	(444·6)	(391·1)	(339·5)	(281·9)
Depreciation	(279·8)	(120·4)	(111·2)	(98·6)	(89·4)	(76·5)	(68·1)
Other operating charges	(786·1)	(267·0)	(230·7)	(198·6)	(175·0)	(148·8)	(132·5)
Group operating profit pre exceptional costs	380·3	316·0	269·9	229·9	204·4	183·1	165·6
Exceptional costs	(99·2)	(10·9)	(3·5)	—	—	—	—
Group operating profit	281·1	305·1	266·4	229·9	204·4	183·1	165·6
Share of joint venture operating profit	3·6	—	—	—	—	—	—
Total operating profit	284·7	305·1	266·4	229·9	204·4	183·1	165·6
Profit on divestment of assets	17·9	0·8	1·2	0·3	5·3	—	—
Amortisation of negative goodwill	58·2	—	—	—	—	—	—
Net interest	(59·2)	14·1	12·9	12·8	9·4	6·1	4·7
Other finance (costs)/income	(4·5)	(0·1)	2·0	—	—	—	—
Profit before taxation	297·1	319·9	282·5	243·0	219·1	189·2	170·3
Taxation	(91·4)	(122·3)	(96·2)	(87·8)	(75·4)	(69·3)	(67·2)
Profit after taxation	205·7	197·6	186·3	155·2	143·7	119·9	103·1
Minority interest – equity	—	—	(2·7)	(0·6)	(0·8)	(0·7)	(0·3)
Profit for the period	205·7	197·6	183·6	154·6	142·9	119·2	102·8
Dividends	(98·1)	(80·3)	(42·5)	(34·4)	(28·2)	(23·6)	(19·5)
Profit retained	107·6	117·3	141·1	120·2	114·7	95·6	83·3
Basic earnings per share (p)	8·10	12·59	11·79	10·02	9·31	7·78	6·74
Diluted earnings per share (p)	8·07	12·48	11·61	9·79	9·05	7·57	6·55
Dividends per ord. share (p)	3·70	3·25	2·70	2·20	1·80	1·50	1·225
Dividend cover (x)	2·10	2·46	4·34	4·54	5·17	5·18	5·48

* 53 weeks

**The results for 2005 include the acquired results of Safeway Limited as set out on page 28.

Seven year summary of results continued

	2005** £m	2004 £m	2003 £m	2002 £m	2001* £m	2000 £m	1999 £m
Consolidated balance sheet							
Negative goodwill	(262·9)	—	—	—	—	—	—
Tangible fixed assets	6,824·0	1,738·7	1,608·6	1,452·5	1,371·0	1,229·0	1,129·1
Investments in BP joint venture	67·4	—	—	—	—	—	—
Net current liabilities	(1,071·1)	(322·3)	(306·7)	(286·7)	(324·2)	(303·3)	(226·1)
	5,557·4	1,416·4	1,301·9	1,165·8	1,046·8	925·7	903·0
Creditors falling due after more than one year	(989·9)	—	—	—	—	—	(75·0)
Provisions for liabilities and charges	(286·5)	(51·5)	(48·9)	(49·8)	(52·0)	(46·9)	(44·5)
Minority interest	—	—	—	(2·3)	(1·7)	(1·4)	(1·7)
Net assets – excluding pension liability	4,281·0	1,364·9	1,253·0	1,113·7	993·1	877·4	781·8
Pension liability	(263·5)	(47·5)	(20·1)	—	—	—	—
Net assets – including pension liability	4,017·5	1,317·4	1,232·9	1,113·7	993·1	877·4	781·8
Equity share capital	265·8	157·4	156·2	154·4	152·8	152·4	76·0
Non-equity share capital	0·5	1·4	4·7	9·3	13·8	14·6	15·8
Share premium account	20·1	15·9	12·8	7·7	4·4	2·9	78·0
Merger reserve	2,578·3	—	—	—	—	—	—
Investment in own shares	(40·7)	—	—	—	—	—	—
Profit and loss account	1,193·5	1,142·7	1,059·2	942·3	822·1	707·5	612·0
Shareholders' funds	4,017·5	1,317·4	1,232·9	1,113·7	993·1	877·4	781·8

* 53 weeks

** Includes Safeway Limited

Supplementary information

	2005**	2004	2003	2002	2001*	2000	1999
Increase/decrease on previous year %							
Turnover	145·06	15·25	9·58	11·98	17·76	17·10	10·32
Group operating profit	(7·87)	14·50	15·93	12·47	11·61	10·59	10·85
Profit before taxation	(7·13)	13·23	16·25	10·90	15·80	11·11	11·08
Profit after taxation	4·10	6·06	20·02	8·06	19·84	16·22	6·53
Diluted earnings per share	(35·3)	7·49	18·59	8·18	19·55	15·57	5·99
Dividend per ord. share	13·8	20·37	22·73	22·22	20·00	22·45	16·67
Shareholder funds	205·0	6·85	10·71	12·14	13·19	12·24	12·12
% of turnover							
Group operating profit	2·32	6·17	6·21	5·87	5·84	6·16	6·53
Profit before taxation	2·45	6·47	6·59	6·20	6·26	6·37	6·72
Profit after taxation	1·70	4·00	4·34	3·96	4·10	4·04	4·07
Retail portfolio							
Size 000's sq ft (net sales area)				Number of stores at year end			
0–15	78	—	—	—	—	—	—
15-25	186	8	9	9	11	10	7
25-40	197	93	86	83	80	74	70
40+	37	24	24	21	19	17	18
Total	498	125	119	113	110	101	95
Petrol filling stations	283	112	98	89	82	73	70
Total sales area (000's sq ft)	12,468	4,526	4,241	4,039	3,907	3,572	3,398
Average store size	25·0	36·2	35·6	35·7	35·5	35·4	35·8
Average sales area (000's sq ft)	12,705	4,399	4,113	3,964	3,729	3,482	3,226
Total supermarket takings ex petrol (gross) £m	10,929	4,550	3,988	3,644	3,267	2,841	2,494
Average per sq ft per week (£)	16·80	19·94	18·65	17·68	16·53	15·69	14·87
Average per store per week (£000's)	400	716	666	629	584	556	534
Average number of customers per store per week	18,712	29,242	28,277	27,645	26,481	26,211	25,700
Average take per customer (£)	21·36	24·48	23·57	22·77	22·06	21·23	20·78
Employees							
Full time	56,005	23,296	21,136	18,931	16,530	14,899	13,326
Part time	72,447	19,308	17,658	16,814	15,184	13,920	11,845
Casual	12,449	9,780	7,984	7,214	6,186	5,742	5,457
Total	140,901	52,384	46,778	42,959	37,900	34,561	30,628
Full time equivalent (2 part time or 4 casual=1 full time)	95,340	35,395	31,961	29,141	25,668	23,294	20,613
Average per employee							
Turnover (£000's)	127	140	134	134	136	127	123
Operating profit pre-exceptional costs (£)	3,989	8,928	8,444	7,889	7,963	7,860	8,032
Staff costs (£)	16,855	16,123	15,584	15,256	15,238	14,574	13,678
No. of participants in profit related pay scheme	45,583	30,943	28,570	26,399	24,329	22,067	19,351
Average profit related pay received (£)	432	517	498	472	450	447	466

* 53 weeks
** Includes acquisition of Safeway Limited

List of branches

SCOTLAND (58)

MORRISONS (18)
Airdrie Gartlea Road
Alloa Clackmannan Road
Dumbarton Glasgow Road
Dumfries Brooms Road
East Kilbride Lindsayfield Greenhills Road
Edinburgh Ferry Road
Edinburgh Moredun
Edinburgh South Gyle
Falkirk Hope Street
Glasgow Baillieston
Glasgow Bishopbriggs
Glasgow Newlands
Greenock Rue End Street
Kilmarnock West Langlands Street
Livingston Carmondean Centre
Paisley Falside Road
Stranraer London Road
Troon Dukes Road

MORRISONS DUE TO OPEN IN 2005 (5)

Glasgow Cardonald	22/08/05
Glasgow Easterhouse Auchinlea Park	06/06/05
Hamilton	02/05/05
Livingston	17/10/05
Paisley Anchor	05/09/05

SAFEWAY DUE TO CONVERT TO MORRISONS IN 2005 (24)

Aberdeen King Street	28/04/05
Alness Dalmare Road	12/05/05
Arbroath Hume Street	19/05/05
Ayr Castlehill Road	12/05/05
Bellshill John Street	02/06/05
East Kilbride Stewartfield	14/04/05
Edinburgh Hunters Tryst	09/06/05
Edinburgh Portebello Road	28/04/05
Fort William An Aird	16/06/05
Glasgow Anniesland	29/09/05
Glasgow Cambuslang	19/05/05
Glasgow Crossmyloof	09/06/05
Glasgow Giffnock	09/06/05
Glasgow Partick	01/12/05
Hawick Mart Street	26/05/05
Inverness Millburn Road	15/09/05
Inverurie Blackhall Road	26/05/05
Largs Irvine Road	21/04/05
Perth Caledonian Road	07/04/05
Peterhead Queen Street	02/06/05
St Andrews Largo Road	14/04/05
Stevenston Kilwinning Road	28/11/05
Stirling Munroe Road	05/05/05
Wishaw Kirk Road	16/06/05

OTHER SAFEWAY STORES (11)
Bathgate Gardeners Lane
Dundee Arbroath Road
East Kilbride Olympia Centre
Edinburgh Comely Bank
Edinburgh East Craigs
Edinburgh Morningside
Erskine Bridgewater Shopping Centre
Glasgow Burnside
Glenrothes Flemington Road
Inverness Rose Street
Kilmarnock West Shaw Street

ENGLAND– NORTH (124)

MORRISONS (100)
Alnwick Fenkle Street
Barnard Castle Galgate
Barnsley Brampton Corton Wood
Barnsley Westway
Barrow in Furness The Strand
Berwick UT North Road
Beverley
Bishop Auckland Bob Hardisty Drive
Blackburn Railway Road
Blackpool Squires Gate
Bolton Atlas Mills Mornington Road
Bolton Dawes Street
Boroughbridge Wetherby Road
Bradford Bankfoot Mayo Avenue
Bradford Girlington Victoria Shopping Centre
Bradford Idle Enterprise 5
Bradford Thornbury Rushton Avenue
Bradford Westgate
Bridlington Bessingby Road
Carlisle Kingstown Road
Chadderton Hollinwood Avenue
Cheadle Cheadle Heath Edgley Road
Chorley Brooke Street
Cleveleys Amounderness Way
Consett Front Street
Darlington Morton Park
Darlington North Road
Denton Saxon Street
Doncaster York Road
Dukinfield Foundry Street
Eccles Irwell Place
Failsworth Poplar Street
Formby Three Tuns Lane
Guiseley Otley Road
Halifax Illingworth
Harrogate Starbeck
Hartlepool
Heckmondwike Union Street
Heywood Dawson Street
Huddersfield Waterloo Penistone Road
Hull Anlaby Springfield Way
Hull Holderness Road
Hyde Mottram Road
Ince in Makerfield Makerfield Way
Jarrow Viking Precinct
Keighley
Kendal Old Showground
Knottingley
Leeds Bramley*
Leeds Horsforth Town Street
Leeds Hunslet Church Street
Leeds Kirkstall Savins Mill Way
Leeds Merrion Centre Woodhouse Lane
Leeds Swinnow Road
Liverpool Belle Vale Besford Road
Middlesbrough Berwick Hills
Morecambe Central Drive
Morley Windsor Court
Nelson Pendle Street
Newark Kings Road
Newcastle UT Byker
Newcastle UT Cowgate Two Ball Lonnen
Newcastle UT Killingworth
Ormskirk Park Road
Penrith Brunswick Road
Pontefract Stuart Road
Preston Riversway Mariners Way
Redcar Lord Street
Ripon Harrogate Road
Rochdale Kingsway
Rotherham Bramley
Rotherham Catcliffe
Rotherham Parkgate
Rothwell Commercial Street
Scarborough Eastfield Dunslow Road
Selby Market Cross
Sheffield Ecclesfield The Common
Sheffield Halfway Oxclose Park Road
Sheffield Hillsborough Penistone Road
Sheffield Meadowhead
Skipton Broughton Road
Southport Winter Gardens
St Helens Baxters Lane
St Helens Boundary Road
Stockport Bredbury Stockport Road
Stockport Reddish Road
Stockton Thornaby
Sunderland Doxford Park
Sunderland Seaburn Whitburn Road
Tynemouth Preston Grange
Wakefield Dewsbury Road
Wakefield Ridings Centre
Warrington Greenalls Avenue
Wetherby Horsefair
Whitehaven Flatt Walks
Whitley Bay Hillheads Road
Widnes Green Oaks
Wigan The Galleries
Workington Derwent Retail Park
Yeadon High Street

SAFEWAY DUE TO CONVERT TO MORRISONS IN 2005 (13)

Blyth Regent Street	18/08/05
Bolton Harwood Lee Gate	18/08/05
Brough Welton Road	07/04/05
Guisborough Westgate	05/05/05
Kirkham Poulton Street	21/04/05
Malton Castlegate	21/04/05
Manchester Chorlton Cum Hardy Wilbraham Road	04/08/05
Meltham Station Street	07/07/05
Morpeth Stanley Terrace	21/04/05
Swinton Swinton Hall Road	23/06/05
Todmorden Rochdale Road	13/10/05
West Kirby Dee Lane	28/04/05
York Acomb Front Street	09/06/05

OTHER SAFEWAY STORES (11)
Bingley Myrtle Walk
Bolton Breightmet*
Durham Millburn Gate
Hedon Hull Road
Hexham Wentworth Park
Middlesbrough Coulby Newham*
Newcastle UT Eldon Square
Northallerton High Street
Peterlee Bedeway
Pickering Champney's Yard
Stokesley Springfield

List of branches continued

ENGLAND– MIDLANDS (98)

MORRISONS (64)

Banbury Swan Close Road
Belper Chapel Street
Birmingham Castle Bromwich
Birmingham Small Heath
Bromsgrove Bruntsford Indusrial Park
Burton upon Trent Wellington Road
Buxton Bakewell Road
Cambridge Cambourne
Cannock Mill Street
Chester Liverpool Road
Chesterfield Chatsworth Road
Coalville Whitwick Road
Congleton Princess Street
Corby Oakley Road
Coventry Binley
Crewe Dunwoody Way
Cromer Holt Road
Derby Wheatcroft Way
Dereham Station Road
Dudley Kingswinford
Eastwood Derby Road
Evesham Davies Road
Fakenham Clipbush Lane
Felixstowe Grange Farm Avenue
Gainsborough Heapham Road
Grantham Isaac Newton Centre
Harwich Iconfield Park
Hereford Commercial Road
Ipswich Sproughton Road
Kettering Lower Street
Kings Lynn Coburg Street
Laceby (Cleethorpes) Hilmore Road
Leicester Aylestone Road
Leominster Barons Cross Road
Letchworth Broadway
Lichfield Beacon Street
Lincoln Triton Road
Malvern Roman Way
Mansfield Sutton Road
Market Drayton Maer Road
Milton Keynes Barnsdale Drive
Newcastle under Lyme Lower Milehouse Lane
Northampton Kettering Road
Northampton Victoria Promenade
Norwich Albion Way
Nottingham Bulwell Leen Drive
Nottingham Netherfield Victoria Parkway
Peterborough Lincoln Road
Redditch Warwick Highway
Retford Idle Valley Road
Rugeley Market Street
Scunthorpe Lakeside Parkway
Shrewsbury Whitchurch Road
Solihull George Road
Spalding Pinchbeck
Stamford Uffington Road
Staveley Barnfield Close
Stoke Ridgeway Drive
Tamworth Marlborough Way
Telford Wellington Spring Hill
Walsall Wallows Lane
Wellingborough Oxford Street
Winsford Wharton
Wolverhampton Bilston Black Country Route

SAFEWAY DUE TO CONVERT TO MORRISONS IN 2005 (27)

Aldridge Anchor Road	06/10/05
Beccles George Westwood Way	28/04/05
Birmingham Acocks Green Warwick Road	28/11/05
Birmingham Rubery Bristol Road South	24/11/05
Burntwood High Street	15/09/05
Chapel en le Frith Market Street	20/10/05
Coventry Holyhead Road	21/11/05
Droitwich Spa St Andrews Centre	17/11/05
Ellesmere Port Chester Road	01/12/05
Hinckley Stoke Road	25/07/05
Kidderminster Oxford Street	21/07/05
Leek Banfield Close	26/05/05
Loughborough Maxwell Road	05/05/05
Lowestoft Tower Road	07/04/05
Lutterworth Bitteswell Road	16/06/05
Melton Mowbray Sherrard Street	30/06/05
Nantwich Station Road	02/06/05
Newcastle UL Goose Street	07/04/05
Nottingham Gamston Lings Bar Road	14/07/05
Ross on Wye Station Street	18/08/05
Skegness Wainfleet Road	12/05/05
Solihull Shirley	28/07/05
Stone Mill Street	14/04/05
Stratford UA Alcester Road	25/08/05
Walsall Lichfield Street	25/08/05
Wilmslow Church Street	22/09/05
Wolverhampton Pendeford Blaydon Road	18/08/05

OTHER SAFEWAY STORES (7)

Birmingham Kings Heath
Diss Victoria Road
Halesowen Hagley Street
Hucknall High Street
Ilkeston Albion Centre
Stourbridge Crown Centre
West Bromwich Farley Centre*

ENGLAND– SOUTH (121)

MORRISONS (24)

Aylesbury Station Way
Basingstoke Worthing Road
Bristol Cribbs Causeway
Chippenham Cepen Park North
Clacton Waterglade
Fleet Elvethom Heath
Grays London Road
High Wycombe Temple End
Horndean Lakesmere Road
Leighton Buzzard Lake Street
Little Clacton Centenary Way
London Chingford Salisbury Hall Gardens
London Enfield Southbury Road
London Erith James Watt Way
London Harrow Hatch End
London Queensbury Honeypot Lane
London Sidcup Jenner Close
London Stratford The Grove
St Albans Hatfield Road
Swindon Haydon Wick Thames Avenue
Taunton Priory Bridge Road
Welwyn Garden City Black Fan Road
Woking Goldsworth Road
Yate Station Road

MORRISONS DUE TO OPEN IN 2005 (2)

Gloucester Abbeydale Heron Way	14/11/05
Rochester Strood High Street	31/10/05

SAFEWAY DUE TO CONVERT TO MORRISONS IN 2005 (67)

Bath London Road	14/04/05
Bideford Kingsley Road	10/11/05
Bodmin Priory Road	07/07/05
Bognor Regis Bedford Street	20/10/05
Bridgwater The Broadway	04/08/05
Bridport West Bay Road	23/06/05
Bristol Fishponds Road	30/06/05
Bude Stucley Road	13/10/05
Canterbury Ten Perch Road	08/09/05
Canvey Island Northwick Road	11/08/05
Caterham Church Walk	04/08/05
Chatham Walderslade Princes Avenue	13/10/05
Cheltenham Up Hatherley	14/07/05
Clevedon Triangle Centre	24/11/05
Devizes Estcourt Street	27/10/05
Eastbourne High Street	10/11/05
Farnborough Southwood	18/08/05
Folkestone Cheriton Road	06/10/05
Glastonbury Street Road	08/09/05
Gosport Walpole Road	04/08/05
Gravesend Cold Harbour Road	25/08/05
Hadleigh London Road	28/07/05
Hastings Queens Road	14/07/05
Herne Bay Beach Street	17/11/05
Liskeard Plymouth Road	27/10/05
London Acton King Street	17/11/05
London Becontree Heath	01/09/05
London Camden Town Chalk Farm Road	24/11/05
London Holloway Hertslet Road	20/10/05
London Palmers Green Aldermans Hill	17/11/05
London Peckham	22/09/05
London Petts Wood Queensway	03/11/05
London Stoke Newington Stamford Hill	03/11/05
London Sutton High Street	15/09/05
London Thamesmead Twin Tumps	05/05/05
London Wood Green High Road	10/11/05
Loughton High Road	07/07/05
Lymington Stanford Road	29/09/05
Maidstone Sutton Road	21/07/05
Maldon Limebrook Way	14/07/05
Newport (IOW) South Street	09/06/05
Newquay Treloggan Road	06/10/05
Oxted East Hill	27/10/05
Paignton Totnes Road	23/06/05
Penzance Longrock Eastern Way	20/10/05
Plymouth Outland Road	29/09/05
Plymstock Billacombe Road	03/11/05
Portsmouth Anchorage Park	07/07/05
Reading Basingstoke Lane	13/10/05
Redruth Agor Road	01/09/05
Reigate Bell Street	30/06/05
Sandown Lake	27/10/05
Seaford Dane Road	29/09/05
Tavistock Plymouth Road	11/08/05

List of branches continued

ENGLAND– SOUTH continued

Tewkesbury Ashchurch Road 22/09/05
Tiverton Kennedy Way 15/09/05
Totnes Coronation Road 25/08/05
Totton Spruce Drive 21/07/05
Verwood Verwood Centre 28/07/05
Warminster Weymouth Street 02/06/05
Westerham Biggin Hill Main Road 24/11/05
Weston Super Mare Summer Lane 19/05/05
Weymouth Dorchester Road 18/09/05
Wincanton Alderneads 03/11/05
Witham Braintree Road 30/06/05
Wokingham Woosehill 22/09/05
Yeovil Lysander Road 23/06/05

OTHER SAFEWAY STORES (28)
Andover Bridge Street
Bracknell The Peel Centre
Canterbury St Georges Place
East Grinstead West Street
Eastleigh Leigh Road
Lewes Eastgate Street
London Bow
London Ealing
London Hammersmith
London Hersham Hersham Centre
London Hounslow Staines Road
London Morden
London Shepherds Bush
London St Katherines Dock
London Streatham
London U. Norwood
London West Wickham
London Wimbledon
Midsomer Norton The Hollies
Poole Parkstone
Ringwood Meeting House Lane
Sandhurst Yorktown Road
Slough Farnham Road
Southampton Bitterne
Southampton Portswood
Southend Eastwood
Tunbridge Wells Vale Road
Walton on Thames Church Street

WALES (20)

MORRISONS (8)
Bangor Holyhead Road
Barry Penny Way
Chester Saltney*
Ebbw Vale Beaufort Road
Newport Rogerstone Azalea Road
Port Talbot Baglan Christchurch Road
Rhyl Marsh Road
Swansea Brunel Way

SAFEWAY DUE TO CONVERT TO MORRISONS IN 2005 (12)
Aberystwyth Llanbadarn Fawr 19/05/05
Brecon Free Street 10/11/05
Caernarfon North Road 08/09/05
Caerphilly Castle Court 01/09/05
Cardiff Ty Glas Road 11/08/05
Carmarthen Llanelli Road 26/05/05
Colwyn Bay Sea View Road 01/09/05
Denbigh Smithfield Road 21/07/05
Haverfordwest Bridge Meadow Lane 16/06/05
Neath Angel Street 06/10/05
Newtown Pool Road 12/05/05
Welshpool Berriew Street 11/08/05

OTHER (18)

SAFEWAY NORTHERN IRELAND (13)
Ballyclare Main Street
Bangor (NI) Market Lane
Belfast Shore Road
Belfast Westwood Kennedy Way
Coleraine Ring Road
Cookstown Sweep Road
Downpatrick Ballydugan Road
Dundonald Upper Newtownards Road
Enniskillen Erneside Shopping Centre
Kilkeel Newcastle Street
Newtownards Circular Road
Omagh Dromore Road
Strabane Branch Road

SAFEWAY OTHER (5)
Gibraltar Westside
Guernsey St Peter Port
Isle of Man Douglas
Isle of Man Ramsey
Jersey St Helier

* Divestment stores

Summary

	Morrisons Current	Morrisons To open	Morrisons Conversions	Divestments	Morrisons antcipated at 31.12.05	Safeway balance (ex divestments)
Scotland	18	5	24	—	47	11
England North	100	—	13	(1)	112	9
Midlands	64	—	27	—	91	6
South	24	2	67	—	93	28
Wales	8	—	12	(1)	19	—
Other	—	—	—	—	—	18
	214	7	143	(2)	362	72

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