Annual review and summary financial statement 2006

Wm Morrison Supermarkets PLC

Contents

01 Financial summary
02 Chairman's statement
03 Chief Executive's statement
12 Summary financial review
14 Summary directors' report
16 Summary corporate governance report
18 Summary corporate social responsibility report
19 Statement of the independent auditors to the members of Wm Morrison Supermarkets PLC
20 Summary financial statement
21 Summary notes to the financial statement
23 Seven year summary of results
24 Summary directors' remuneration report
28 Investor relations and financial calendar

Financial summary

52 weeks ended 29 January 2006

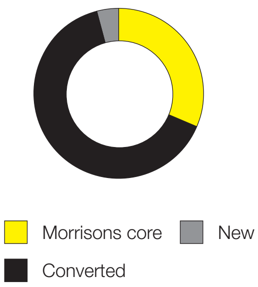
- **£12,114.8m** Group turnover up £11.1m (2005: £12,103.7m)
- **£61.5m** Profit before taxation and Safeway integration and conversion costs (2005: £332.2m)
- **£460.2m** Proceeds from store disposals, bringing total disposals to £1.4bn, funding capital expenditure over the conversion period
- **£374.4m** Integration and conversion costs, bringing total costs of Safeway integration to £513.6m
- **£1,147.6m** Net debt (2005: £1,160.9m)
- **£311.0m** Operating cash inflow (2005: £448.0m)

"The results we are presenting today are the outcome of an extremely challenging year for Morrisons. However, through this period of great change, we have built strong foundations for the company's future as a national retailer.

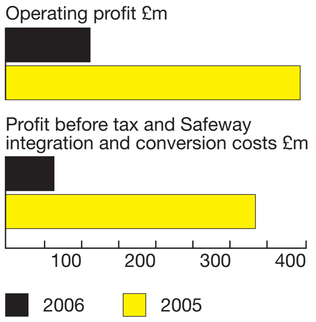
We can look forward to renewed strength and energy now that we are one company with one focus – **to be the Best Grocer in Town**"

Sir Kenneth Morrison CBE, Chairman

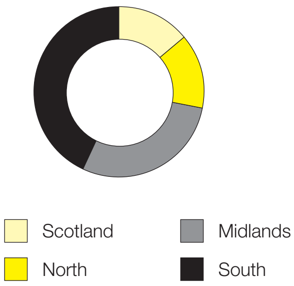
A substantial company
378 stores



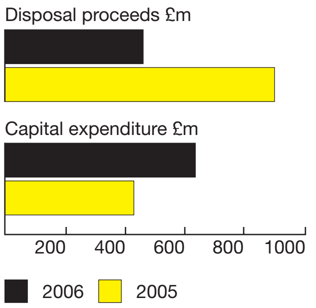
Profits down in a difficult year



A national retailer
378 stores



Proceeds from disposal programme funded capital expenditure



Chairman's statement

The year under review developed much as indicated and produced the expected disappointing financial result. It did, however, represent a period of great change and some major achievements.

- The Safeway retail estate was completely investigated and decisions were made about the future of every store. Retained stores were converted and refitted to trade as Morrisons and most of the balance of stores were disposed of.
- Distribution has been constantly under review and many improvements have already been made. Plans for the final shape of this function are being developed.
- Operational systems have been modified and the Group now operates on one single basis with a common product file. Extensive work has been carried out in benchmarking the whole range of our own label products, which has been extended and modified to meet present demands.
- Problems with residual stocks identified from Safeway have all been dealt with and will not recur.
- The retraining of some 90,000 Safeway staff has been ongoing throughout this period and great progress has been made. They bring with them their experience and expertise and represent a valuable addition to our team. The team building effort has been substantial and was only made possible by the outstanding contribution of many existing Morrisons staff.
- Market share of trade has now stabilised after a great many store disposals have been made and forms a good platform for the future.
- Morrisons has been transformed into a national operation and much has been learned in the past 12 months.

Our financial results for 2005/06 indicate the consequences of a year of great change and some difficulty. Whilst turnover was in line with the previous year, at £12.1bn, our profits before tax and Safeway integration and conversion costs were down from £332.2m to £61.5m. Additionally, with Safeway integration and conversion at its peak in the year, the pre tax costs of this activity increased from £139.2m to £374.4m. We have written off the £103.2m goodwill created on the acquisition of Safeway. This arose on the conversion to International Financial Reporting Standards and the Board considers, in view of the Group's financial performance and the likelihood that profit recovery will take time, that it is appropriate to write off this item.

Despite the poor performance, our net debt reduced to £1.15bn, with proceeds from Safeway store disposals contributing to the costs of converting the stores that we have retained. The Board concluded that we should keep our total dividend at the previous year's level of 3.7p per share, meaning that a final dividend is proposed of 3.075p per share. Whilst this is uncovered in the year, it reflects the Board's confidence in future earnings recovery.

We have been fortunate to secure the services of Brian Flanagan, Paul Manduca, Susan Murray and Nigel Robertson as Non Executive Directors. I am pleased to confirm that they have already contributed significantly to the work of the Board through their efforts and on the various committees.

Other changes during the year included the appointment of Robert Stott as Chief Executive Officer in March and David Jones, an existing Non Executive Director, as Deputy Chairman.

Richard Pennycook joined the company as Group Finance Director in October with a brief to overhaul and strengthen the Company's financial administration. He has been responsible for the co-ordination of the Board's activities in developing an Optimisation Plan for profit recovery over the next three years.

In the early development of this plan it became apparent that this programme would take some time to complete and was likely to extend beyond Robert Stott's retirement date. The Board concluded that in this circumstance it would be prudent to commence the search for a successor for him. Egon Zehnder are conducting the search and good progress is being made. In the meantime, Robert remains totally committed to the business and the job in hand – as he has been for all the 33 years I have been fortunate enough to know him.

I am grateful to all colleagues for their strenuous efforts in difficult circumstances. In the interest of good team building, new colleagues from Safeway who accepted Morrisons terms and conditions qualify for profit share alongside their longer serving colleagues. In addition, we are pleased to announce that a new Save As You Earn scheme, open to all colleagues after a qualifying period, will be launched on 27 March 2006.

The Group made good progress during the year in completing the Safeway conversion and integration. The outlook remains highly competitive but I am confident that in our Optimisation Plan we have a clear route forward that will enable us to deliver an improvement in like-for-like sales and underlying trading performance in 2006/07.

At the date of this report, the Office of Fair Trading is considering a referral of the grocery market to the Competition Commission. Morrisons welcomes strong competition as being good for the consumer and good for business, and we have written to the OFT to suggest a number of ways in which the competitive landscape can be improved. We believe this can be achieved without the cost that a full market reference would incur.

Sir Kenneth Morrison CBE
Chairman

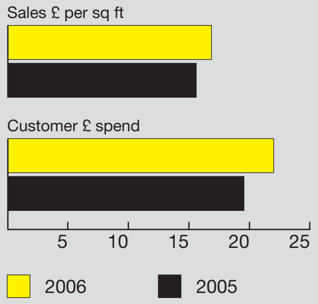
Chief Executive's statement

£61.5m

Profits were down in a difficult year. Profit before tax and Safeway integration and conversion costs was £61.5m (2005: £332.2m). Cash flows remained positive and the conversion programme has been well received by customers.

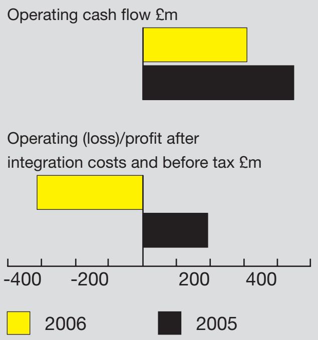
Sales per square foot and customer spend are both up

Despite a reducing number of stores turnover has been held level because customers have been spending more with us:



Operating cash flows are still strong despite operating losses

Careful management of working capital has resulted in a strong cash flow for the year:



The year under review has been one of high activity for many of our people and the pace of change was intense. Towards the end of the period, as our conversion, integration and disposal programmes came to a conclusion, the coherent shape for the business that we had planned became clear. This review will focus on much of the activity in the year, but it is perhaps helpful to begin with a summary of how the business looked at the end of the year.

Business profile

By any measure, the Morrisons that has emerged from the acquisition of Safeway is a substantial business. With £12.1bn of turnover, we are the UK's fourth biggest retailer, and with 11.8% grocery market share we feed approximately one in nine of the UK population. Our trade is now truly national, and at 29 January 2006 we operated 378 Morrisons stores, with 10.6m square feet of retail space. Some 9m customers per week pass through our doors, and they are served by 123,000 colleagues throughout the business. We also control many of the most important elements of our fresh food supply chain, through our abattoirs, bakeries, fresh food processing facilities and fruit and vegetable packing plants. With these activities, we are a "top 5" UK food processor. Morrisons has always maintained a prudent balance sheet, and this is illustrated by the fact that 92% of our store space is freehold or long leasehold, and the £6.7bn of property on our balance sheet at 29 January 2006 makes us a "top 10" UK property owner.

All of these statistics underline the scale of our new business, but do not actually say anything about what we want to be. Our vision is simple and – we believe – relevant to our customers. It is to be the Best Grocer in Town.

Trading review

Sales

Whilst total group sales (inc VAT) were level with the prior year at £13.1bn, the composition changed substantially. The process of disposing of Safeway stores that did not fit the Morrisons model resulted in stores with a total turnover of some £544m in 2005/06, being sold. This was compensated somewhat by increased sales through former Safeway stores that were converted to Morrisons. Additionally, fuel sales increased significantly as a result of the rise in oil prices and increased volumes.

£m	Core Morrisons	Converted stores	New/Closed/ Divested stores	2005/06 Total	2004/05 Total
Sale of goods in stores	4,655	4,811	1,073	10,540	10,940
Fuel	1,111	1,225	130	2,516	2,052
Total sales inc. VAT	5,766	6,036	1,203	13,056	12,992
Sales per square foot (£)	20.03	17.33	12.44	17.68	15.46
inc/(dec) on prior year	(3.4)%	13.3%	(2.4)%	7.7%	(9.3)%
Customer numbers (m)	186.5	233.7	63.4	483.6	519.7
inc/(dec) on prior year	(1.8)%	12.0%	(59.8)%	(12.9)%	(9.9)%
Customer spend (£)	24.96	20.58	16.94	21.79	19.69
inc/(dec) on prior year	(1.6)%	(3.0)%	12.2%	4.3%	(6.9)%
Like for like sales (exc fuel) %	(3.4)%	8.9%	–	2.4%	10.4%

Valuing long-term relationships

Our trading values are straightforward and based on over 100 years of integrity in all our dealings. We work with our suppliers to build long-term partnerships that deliver a consistent supply of great products to our customers.

Within turnover, important indicators of performance are customer numbers, average basket size and like-for-like store sales performance. Of most relevance to the continuing Group are the figures for those stores operated by Morrisons prior to the Safeway acquisition and still owned by the Group ("core Morrisons") and the post-conversion figures for Safeway stores converted to the Morrisons format ("converted stores").

Core Morrisons stores were impacted by the competitive effect of having to dispose of 50 large Safeway stores in the same catchment area as the equivalent core Morrisons store. These disposals were required by the Office of Fair Trading as part of their clearance of the Safeway acquisition. As these stores were acquired by competitors stronger than Safeway, there was an inevitable impact on the neighbouring core Morrisons store. In addition, customers were hit, during the year, by the effect of oil price and council tax rises constraining their spending power. For these reasons, core Morrisons saw like-for-like sales (excluding fuel) decline by 3.4% in the year, with customer spending down 1.6%.

Converted stores responded well to the removal of Safeway's weak trading format and replacement with the proven, value driven, Morrisons model. The initial sales uplifts were encouraging, and the overall like-for-like increase of 8.9% (excluding fuel) in the year provides a solid platform for further growth over the coming years. This was evidenced by performance of the small number of stores that had been converted for more than one year by the end of the financial period. This population of stores was exhibiting 3.8% second year growth (excluding fuel).

100

years of integrity in all our dealings with suppliers large and small, at home and abroad.

Winner third year running of Availability Gold Award and first time winner of Customer Service Gold Award.

Key Facts

- The only major food retailer to own and operate fresh food manufacturing and processing facilities.
- Over 30 years' experience of factory operations.
- 3,500 colleagues employed in manufacturing.
- Most of the fresh fruit and vegetables that we sell we pack ourselves.

Profit conversion

The Group's gross profit margin decreased marginally in the year, reflecting the increased mix of fuel sales in the total turnover figure. This was a drag on margin – had sales mix remained the same, margin would have been 0.8% higher. There were positive benefits of consolidated buying terms from the combined business and the beneficial effect of putting more volume through our vertically integrated structure.

Staff costs rose by £94m, despite the divestment of stores and the run-down of Safeway head office facilities. This reflects, in part, investment in service in the stores, where the Morrisons operating model has a higher ratio of staff to customers than Safeway. Additionally, it reflects increases in distribution and manufacturing staff to service the new business.

	2005/06 £m	%	2004/05 £m	%
Total turnover (ex. VAT)	12,114.8		12,103.7	
Other operating income	18.5		18.3	
Raw materials and consumables	(9,155.5)		(9,110.3)	
Gross profit	2,977.8	24.6	3,011.7	24.9
Staff costs	(1,630.8)	(13.5)	(1,536.9)	(12.7)
Depreciation	(256.9)	(2.1)	(259.2)	(2.1)
Other costs	(978.6)	(8.1)	(820.2)	(6.8)
Operating profit before Safeway integration and conversion costs	111.5	0.9	395.4	3.3

Working hard as a team to deliver for our customers

At the heart of our business are good all round retailing skills. We work as one team, helping and supporting each other as we seek to meet the needs of our shoppers.

Other costs increased from £820.2m to £978.6m, as new manufacturing and distribution facilities came on stream and we felt the impact throughout the business of the increased price of fuel. The additional distribution costs amounted to £75m and increased energy costs to £35m.

Conversion programme

160 stores were converted from Safeway to Morrisons in the year, bringing the total for the programme to 220. Despite the wider difficulties experienced by the Group, the execution of this programme was flawless and reflects great credit on the numerous colleagues involved. Each conversion was thoroughly done, with the stores remodelled to provide greater focus on fresh foods, the past under-maintenance of the estate rectified, systems and processes converted to Morrisons, the store signage changed and all colleagues trained in the Morrisons way.

The total cost of the programme was £623.4m, of which £467.4m was spent in the year – £320.4m of this was capitalised and £147.0m shown as exceptional Safeway conversion costs.

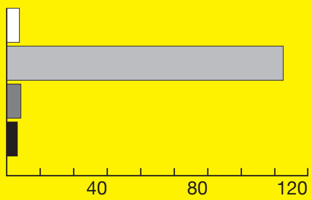
In many cases, the stores conversion programme has brought a new grocer to town. The majority of past Safeway customers have converted, with us, to Morrisons, although inevitably some have chosen to go elsewhere. Overall, however, the 15.8% increase in customer numbers since conversion illustrates that customers are trying us, and liking what they find.

It was to be expected that our competitors would respond to the looming threat of Morrisons' arrival in town as the conversion programme progressed. Most converted stores opened having to compete with competitors offering deep tactical discounts in the weeks up to and following conversion

123,223

trained and well-motivated colleagues ready to serve.

Split of colleague numbers '000



– typically a £10 discount on a £40 shop, or an £8 discount on a £30 spend. The converted stores grew despite the intensity of the competition, and it is our approach to win and retain customers for the long term through great in-store service and the overall strength of our offer.

Divestment programme

127 stores were sold or closed in the period, bringing the total since the Safeway acquisition to 241. These stores either did not fit the Morrisons trading model, or were required to be sold by the OFT. The disposals included the Safeway stores in the Channel Islands, Northern Ireland and the Isle of Man, although we retained the successful store in Gibraltar. Also disposed of was our share in the convenience store/forecourt joint venture with BP in 61 locations.

Store disposals summary

£m	2005/06	2004/05	Total
Total proceeds	460.2	903.0	1,363.2
Book value disposed of	433.4	903.4	1,336.8
Square footage (sq ft m)	1.7	1.4	3.1
Turnover in period	543.6	2,143.5	2,687.1
Annual rent obligation	9.7	8.4	18.1

Giving our customers the best shopping experience

We are now the country's fourth largest supermarket chain and promoting our offer on a nationwide stage makes us stronger than ever before. We are grocers first and foremost and it is our vision to be the Best Grocer in Town.

Store development programme
We opened 7 new stores, at Hamilton, Auchinlea, Cardonald, Paisley, Livingston, Strood and Gloucester. It was particularly pleasing, given the presumption by some that Morrisons is a "northern" brand, that the 36,000 square foot store opened at Strood in Kent in October saw our best ever opening week sales performance.

Looking ahead, we will continue to focus closely on optimising our existing business in the coming year, and only expect to open four new stores in 2006 but probably twice this number the following year.

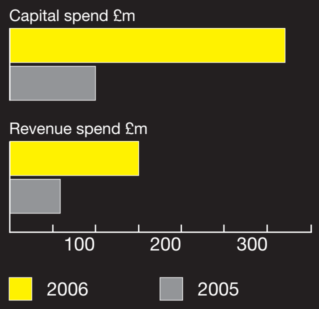
Support infrastructure
We strengthened and expanded both our manufacturing and distribution infrastructures in the period. In manufacturing, we expanded our in-house baking capacity through the acquisition in April of an 80% stake in Rathbones and our abattoir operation was expanded in early 2005 through the acquisition of a second facility, at Turriff in Scotland. Our two abattoirs are now processing the bulk of our current fresh meat requirements. We also extended our fruit packing facilities at Thrapston in Northamptonshire and opened a new vegetable packing house nearby at Rushden.

In distribution, we opened a new dedicated Regional Distribution Centre at Latimer Park, Kettering, in October. With 702,000 square feet and at a cost of £67m, this centre will serve approximately 70 stores in the Midlands and the South. We also announced, during the second half of the year, our intention to close three ex-Safeway depots that were poorly located, inefficient and surplus to requirements. The depots, in Bristol, Aylesford and Warrington are all now closed. Exceptional costs of £74m were incurred in closing these facilities, but as a result an annual net saving of £30m will benefit our cost base in the coming year.

378

stores nationwide.

£623 million invested in the conversion programme



Key Facts

- Over 10 million square feet of retail selling space.
- 9 million customers per week.
- 11.8% grocery market share.
- Same prices in all our stores.

The Safeway head office facility at Hayes in Middlesex was closed in December following the transfer of all IT processing to Yorkshire. The site was sold for £22m. Safeway's outsourced accounting facility at Crossgate, South Shields, was brought in house in September, in order to achieve tighter control of accounting for Safeway's residual business. Staff numbers in this site have been considerably reduced, but it will continue to operate payroll and certain accounting services. Morrisons new head office facility in Bradford remains on course to open in Spring 2006, and will house approximately 1,600 colleagues currently spread across a number of locations.

Colleagues

To be the Best Grocer in Town, we need to be the best shopkeepers in town, and Morrisons has always prided itself on the high standards of in-store service we provide to our customers. We were delighted, for our colleagues, to win the Grocer Award once again for best customer service, as well as that for availability, in a year of great change and some turmoil.

Our colleague numbers reduced over the year as a result of the store disposals programme and, latterly, the depot closures. These reductions more than offset the increased numbers of colleagues in converted stores, where the Morrisons retail model required more labour in-store than was the case in Safeway. Some of this relates to higher levels of food preparation in store, for example our freshly made sandwiches and our unique butchery operation. Some also

A truly national supermarket

Tremendous teamwork enabled a remarkable achievement. Together we created one business, with one set of values and established a national brand.

There are now 378 Morrisons stores nationwide thanks to the successful achievement of the biggest retail conversion exercise ever undertaken in the UK.

In just 18 months 220 stores were totally converted.

Every store was converted on time, supplied on time, staffed on time and opened on time.

Every conversion was thoroughly done, with every area of the store adapted and remodelled.

On opening day shoppers walked into a fully re-branded, new Morrisons experience.

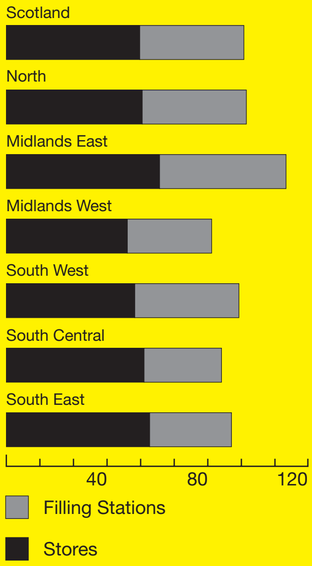
reflects the way that Safeway were attempting to cut costs at the expense of service, for example by restricting the number of tills open to serve customers.

As we move forward, it is vital that we become "one Morrisons". The Group is made up of Morrisons colleagues who have been with us for many years, Safeway colleagues who are equally long serving, and others who are new to the business. More than 90,000 of our colleagues have been with Morrisons less than two years. They need to fully understand the Morrisons way, whilst those of us who have been in the business a long time need to learn from our newer colleagues. The process of truly becoming one team will take time, but with common goals and values, clearly articulated, I am confident that this will be achieved.

The market

Publicly available market share data shows that Morrisons share of the grocery market increased from 6.4% in January 2004 to 11.8% in January 2006, as a result mainly of the new space added by converting Safeway stores. As a truly national player in the market for the first time, our brand exposure has increased significantly, with the equivalent of one third of the UK population visiting our stores in any four week period. With the conversion, integration and disposal programmes complete, and as we get back to business as usual, the opportunity for us to serve these customers better, and to sell more, is significant. Already, the same market research shows that customers regard us as "best for value", through our combination of good prices, great promotions and consistent high quality.

378 stores: 275 filling stations



100%

Every store converted on time and opened on time

Key Facts

- **220 stores converted in 18 months.**
- **241 stores sold since acquisition.**
- **15 new-build stores opened in 2 years.**
- **Over 11,000 new recruits.**

UK consumers benefit from one of the best and most competitive grocery markets in the world. We respect our competitors, and recognise that they have moved on in the two years during which we have been inwardly focused on absorbing Safeway. Our Optimisation Plan, now under way, will see us take the fight to our rivals, and we relish the challenge.

Optimisation plan

Having virtually completed the process of converting or disposing of Safeway stores, moving onto one set of systems and operating with a single head office team, our focus now turns to getting the best out of our new business. Our Optimisation Plan, over the next three years, lays out a clear road map for profit recovery. The objectives are simple – apply the Morrisons philosophy, which worked so well over many years, to the new, bigger business, and adapt it where we have to, to reflect things that have changed.

There is no simple fix in the plan – it is about getting back to the day job, and delivering improvement store by store and line by line. Morrisons has become a new business, with 220 recently converted stores and 5.5 million new customers each week, being served by some 90,000 colleagues new to Morrisons. Much of what we have to do is to deliver, for customers, as we always have done, but we also need to recognise that our store portfolio is more diverse, in both space terms and geography, than it was. Morrisons has always been able to adapt successfully to new locations and geographic markets – the key to the Optimisation Plan will be more, and faster, adaptation than before.

Our vision is to be the Best Grocer in Town. We will get there by being customer focused, sales led, value driven, with a trading mentality and great attention to the detail of shopkeeping in our stores.

I am confident that this will be achieved.

Robert Stott
Chief Executive

Summary financial review

Overview

The Chairman's statement and Chief Executive's operating review describe the overall operating performance of the Group. This review summarises other aspects of the Group's financial performance, including financing costs, taxation, dividends and pensions, and also comments on key financial policies and procedures.

Conversion to International Financial Reporting Standards (IFRSs)

This is the first annual report required to be prepared under IFRS. The Group's unaudited interim results, mailed to shareholders in November 2005, included details of the impact of the change to IFRS reporting on the results for both the year ended 30 January 2005 and the half year to 24 July 2005. A copy of that announcement is available in the Investor Relations section of the Group's website.

The impact of IFRS is not material to the operating result. The main impacts are on pensions, deferred tax, share-based payments, financial instruments and the classification of certain balance sheet items. Details are set out in note 6.

Finance income and costs

Net finance costs decreased by £13.2m to £52.2m largely as a result of the repayment of debt prior to 30 January 2005 resulting in a lower average debt level of £260m throughout the year ended 29 January 2006.

Profit before taxation and Safeway integration and conversion costs

The Group operates a profit share scheme which is open to all qualifying employees (including ex-Safeway employees who have converted to Morrisons terms and conditions). Given the difficulty in predicting future profitability of the Group when the Safeway acquisition was announced, Morrisons qualifying employees were guaranteed that for two years (ending 29 January 2006) their profit share would be maintained at the level paid in the year ended 1 February 2004. As a result, profit share amounting to £33.4m was charged in the year (2005: £19.7m). Future profit share scheme payments will be limited once again to 5% of pre tax profits.

The fees of £3.7m (2005: £3.2m) paid to the auditors for non-audit work compared to the audit fee of £1.3m (2005: £0.7m) are unusually high, reflecting assistance given by them in the year to the Board in reviewing its financial forecasting procedures. It is the intention of the Board, through strengthening of the Group's finance function, to ensure that non-audit fees paid to the auditors return to more normal levels.

Safeway conversion and integration costs

As shown in the income statement, the Group recorded costs associated with the conversion and integration of Safeway of £374.4m in the period, bringing total costs expensed in the two years since acquisition to £513.6m. The largest cost in the period related to the conversion of stores from Safeway to Morrisons which together with the related staff costs amounted to £147.0m (see note 2). These costs, comprising items such as staff uniforms, trolleys and remedial maintenance, were in addition to costs capitalised of £320.4m for items such as refrigeration plant and till systems. The capital expenditure is discussed below.

Other integration costs included redundancies associated with the wind-down of the former Safeway head office and, late in the period, the announced closure of three Safeway depots with the loss of approximately 2,500 jobs. Additionally, an impairment of the closed depots was taken, to reflect their anticipated realisable values.

The section "Impairment judgements concerning assets" below comments on the write off of £103.2m of goodwill.

Taxation – effective rate

The effective rate of tax is 20.0% (2005: 45.6%). As well as the Group being in a loss-making position, the change from 2005 is as a result of the impairment of goodwill, the sheltering of capital gains on divestments and other disallowable expenses.

Earnings per share

Basic earnings per share moved from earnings of 4.14p last year to a loss of 9.46p this year as a result of the decrease in earnings resulting in the loss for the year rather than any significant changes in shares. Earnings per share is not diluted where this would reduce a loss.

Cash flow, capital expenditure and net debt

Despite the loss for the financial period, the Group generated cash from its operations and from the Safeway stores disposal programme in the year. Cash generated from operations was £311.0m after adding back non-cash depreciation of £256.9m and working capital benefits of £218.1m. Disposal proceeds of stores and subsidiaries of £460.2m (2005: £903.0m) have more than funded the capital expenditure programme of £635.4m (2005: £428.3m) for the period since the acquisition of Safeway.

The Group concluded the programme of converting Safeway stores to Morrisons by converting 160 stores in the year, at a capital cost of £320.4m. This programme was more than a change of signage and brand labels; it also addressed maintenance and layout issues to bring the stores to the high standards of the Morrisons estate. The construction of 7 new stores, a new 702,000 square foot distribution facility in the Midlands, the new head office building and the acquisition of new baking facilities were the principal other investments to support the enlarged business, totalling £246.4m. Investment took place in assets due to open in the future, including stores due to be opened in 2007. A total of £190.3m included in property, plant and equipment at the balance sheet date was for assets in the course of construction.

The Group's net debt reduced, marginally, to £1.15bn.

Impairment judgements concerning assets

The carrying values of assets are required to be tested annually for impairment. If these tests indicate that the value in use (as measured by discounted cash flows) or the market values of individual assets, or appropriate groups of assets, fall below their carrying value then an impairment provision is required.

These tests and the judgements required in performing them and drawing conclusions are both complex and, because of the high carrying values of the Group's assets, highly significant to the financial statements. The Directors consider all relevant factors, both internal and external, in order to determine if there are circumstances or events that indicate that an impairment may exist.

The Directors have considered carefully the current trading and operating performance of the Group and its future prospects. Plans are in place to enhance trading and operational efficiency in the coming three years, and using the cash flows anticipated from this they have concluded that the individual carrying values of stores and other operating assets are supportable either by value in use or market values. They have also concluded that the overall value of goodwill created on the Safeway acquisition, of £103.2m, is not supportable and should therefore be written off.

The Directors intend to keep this issue under review until such time as the Group has returned to an appropriate level of reported profit.

Financial instruments and financial risks associated with debt

The Group manages its borrowings and exposure to interest and foreign currency on instruments issued by using derivative financial instruments. The Group finances its operations with a combination of bank loans and bonds.

Treasury management

Part of the change programme for the finance function is the creation of a treasury management function. A Head of Treasury and Taxation, and a Treasury Manager, have been recruited and will establish suitable treasury practices and policies that are appropriate for the governance of a listed company of this size and nature.

Credit rating

The Group's bonds, issued by Safeway Ltd, are publicly traded and rated by Moody's who downgraded their rating from Baa1 to Baa2 in January 2006, and maintain the rating on watch.

Defined benefit pension scheme liability

The consolidated defined benefit pension scheme deficit increased by £8.1m from £408.1m at 30 January 2005 to £416.2m at 29 January 2006.

The actual return on assets exceeded the expected return by £165.3m reflecting the improvement in the stock market during the year and the fact that 78% of scheme assets were held in equities. The improvement in the asset valuation was more than offset by the actuarial loss in the year of £205.6 million, mainly as a result of the rate applied to discount the pension scheme liabilities decreasing by 0.5% which reflects movements in market indices. This gave rise to a net £40.3m actuarial increase in liability. In addition, current service costs and interest exceeded the expected return by £59.9m which when offset by contributions of £92.1m resulted in the £8.1m movement observed.

Summary directors' report

Summary financial statement

The Summary financial statement on pages 20 to 22, the Summary remuneration report on pages 24 to 27, the Summary directors' report on this and the next page, and the Summary corporate governance report on pages 16 and 17 are summaries of information contained in the Annual report and financial statements. The Directors' report, the full financial statements and the auditors' report on those financial statements, which is unqualified, are contained in the Annual report and financial statements 2006. The aim is to provide shareholders with the key financial information in a clear and concise manner. Therefore, the Summary financial statement does not contain sufficient information to allow as full an understanding of the results of the Group, its state of affairs or the policies and arrangements concerning Directors' remuneration, as is provided in the Annual report.

The Annual report and financial statements are available on the corporate website. Alternatively, a printed copy can be obtained free of charge by contacting the Company Secretary at the address given on the inside back cover of this report.

Principal activity and review of the year

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

A review of the Group's activities is presented in the Chief Executive's Operating Review.

Result and dividend

The loss for the period after taxation amounted to £250.3m.

The Directors have declared the following dividends:

	£m
Paid interim dividend of 0.625p per share (2005: 0.625p)	16.6
Proposed final dividend of 3.075p per share (2005: 3.075p)	82.2

The final dividend will be paid on 30 May 2006 to shareholders who are on the register of members on 28 April 2006.

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 set their remuneration is to be proposed at the forthcoming Annual General Meeting.

Annual General Meeting

12 ordinary and 3 special resolutions will be proposed at the Annual General Meeting. Details of these resolutions are set out in the notice of meeting. The Directors believe each of these resolutions is in the best interests of the Group and recommend shareholders to vote in favour of all of them as they intend to do in respect of their personal beneficial holdings of 113,248,544 ordinary shares of the Company.

Substantial shareholdings

As at 22 March 2006 the Company had been notified of the following notifiable interests in its ordinary shares:

Brandes Investment Partners LLC 372,263,113 (14.0%), Franklin Resources Inc. 98,206,056 (3.7%), Walter Scott & Partners Ltd approximately 89,000,000 (3.3%) and Zurich Financial Services 80,233,241 (3.0%).

In addition, Mr A R Wilson has an interest in 235,026,149 (8.8%) of which he has a beneficial interest in 21,628 ordinary shares. His interest in the remaining 235,004,521 ordinary shares is purely as a trustee and includes 11,991,012 ordinary shares shown under the beneficial holding of K Morrison.

K Morrison is interested as a trustee in 170,764,597 of the ordinary shares held by Mr A R Wilson as a trustee.

Directors

The Executive and Non Executive Directors of the Group during the period were:

Executive Directors

Sir Kenneth Morrison CBE (b 20.10.1931)
Executive Chairman
Has been with the Group, which bears the name of his father, since finishing national service in 1952 and was Chairman and Managing Director from 1956 to 1997 at which time he relinquished the Managing Director's role. During his period in charge the Group has grown from a small market trader to one of the leading superstore operators in the country. Sir Kenneth was awarded the CBE in 1990 and knighted in the 2000 New Year's honours list for services to the food retailing industry. He is the Chair of the Nomination Committee.

Robert Stott (b 22.03.1943)
Chief Executive
Originally joined the Group in 1973 after 10 years with Pedigree Petfoods. He was appointed to the 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 Group in 1996. He was re-appointed to the Board in 1997 as Buying Director and became Joint Managing Director in March 2002. In March 2005 he was appointed as the Group's first ever Chief Executive.

Marie Melnyk (b 10.06.1958)
Managing Director
Joined the Group in 1975 and became Produce Director when appointed to the board of management in 1987. She was closely involved with the setting up of the central grocery facility at Wakefield, becoming Trading Director in 1988 and was appointed, to the 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 was appointed as sole Managing Director in March 2005.

Mark Gunter (b 01.07.1958)
Store Operations Director
Mark joined the Group 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. He was appointed to the Board of the Group in 2000 as Store Operations Director with additional responsibility for retail operations, retail projects and company wide security.

David Hutchinson (b 24.12.1948)
Production Director
Joined the Group 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 Board of the Group in 2002 adding warehouse and distribution functions to his responsibilities.

Roger Owen (b 21.10.1948)
Property Director
Has been with the Group since 1975 and was appointed Building and Services Director in 1979. He joined the Board in 1987 as Property Director and has full responsibility for site acquisition, construction and estate management.

Richard Pennycook (b 26.02.1964)
Group Finance Director
Joined the Group in October 2005 after working as Group Finance Director of RAC Plc, the quoted specialist motoring and vehicle management company. A qualified accountant and member of the Society of Turnaround Professionals, he has been involved as Finance Director in turnarounds of H P Bulmer Holdings plc, Welcome Break Holdings Ltd and Laura Ashley plc. Other previous roles include Finance Director of J D Wetherspoon plc and various senior positions in Allders plc.

Non Executive Directors

David Jones CBE (b 02.02.1943)
David Jones was appointed Chief Executive of Next Plc in 1988, becoming Deputy Chairman in 2001 and Chairman in 2002. His previous experience includes twenty years with Great Universal Stores and five years as Chief Executive of Grattan. He joined the Board in May 2004 and was appointed Deputy Chairman in March 2005. He is a member of the Audit, Nomination and Remuneration Committees.

Brian Flanagan (b 03.08.1952)
Brian Flanagan joined the Group as a Non Executive Director in July 2005. He is a member of the Audit, Nomination and Remuneration Committees. Previously he has worked for the Mars Corporation for twenty six years and possesses a broad international business experience. He has held senior management positions in finance, information systems, manufacturing, purchasing and was, most recently, the global Vice President of Business Transformation for Mars Inc. He is also a Non Executive Director of PNSL Ltd.

Paul Manduca (b 15.11.1951)
Paul Manduca joined the Group as a Non Executive Director in September 2005. He is a member of the Audit, Nomination and Remuneration Committees and became the Chair of the Audit Committee from 20 October 2005. Most recently he was Deutsche Asset Management's European Chief Executive. He was previously Chief Executive of Rothschild Asset Management and the founding Chief Executive of Threadneedle Asset Management. He is a former director of MEPC plc and a current director of Development Securities Plc and Aon UK as well as a number of other companies.

Susan Murray (b 16.01.1957)
Susan Murray joined the Group as a Non Executive Director in July 2005. She is a member of the Audit, Nomination and Remuneration Committees and became the Chair of the Remuneration Committee from 20 October 2005. Currently she is a Non Executive director of SSL International Plc, Enterprise Inns Plc, and Imperial Tobacco Group Plc. She was formerly Chief Executive of Littlewood Stores Ltd.

Nigel Robertson (b 16.11.1959)
Nigel Robertson joined the Group as a Non Executive Director in July 2005. He is a member of the Audit, Nomination and Remuneration Committees. Currently he is the Chief Executive Officer of Chelsea Stores Holdings Ltd. He was previously Managing Director of Ocado, the online grocery shopping business set up in partnership with Waitrose. Prior to this he held senior positions in Marks and Spencer Plc both in the UK and USA.

Summary corporate governance report

The Board is mindful of the high standards of corporate governance required by the Combined Code and during the year has made a number of changes towards full compliance. The main changes are:

- With the appointment of four Non Executive Directors, Brian Flanagan, Paul Manduca, Susan Murray and Nigel Robertson the composition and membership of the Board committees comply with the Combined Code from October 2005 and is as shown in the table.
- From October 2005 the Chairs of the various committees are:
  Nomination – Sir Kenneth Morrison;
  Audit – Paul Manduca;
  Remuneration – Susan Murray.
- A formal schedule of matters reserved for the Board has been adopted, and terms of reference for all committees of the Board were formalised in October 2005.
- The Audit Committee met frequently since October 2005 and have addressed a number of governance related matters including the strengthening of the Finance department, a policy for non audit-related services provided by the external auditor, reviewing disclosures and key accounting policies relating to the Annual report (including the conversion to International Financial Reporting Standards) and reviewing reports on internal control from both management and the external auditors.
- PricewaterhouseCoopers were appointed to advise the Audit Committee to compensate for the fact that none of the Non Executives have recent and relevant experience as defined by current criteria.

		Current committee membership and role		
Name	Status	Nomination	Audit	Remuneration
Sir Kenneth Morrison	Chairman Executive Director	X		
David Jones	Deputy Chairman, Non Executive, Senior Independent Director	X	X	X
Brian Flanagan	Non Executive Director	X	X	X
Paul Manduca	Non Executive Director	X	X	X
Susan Murray	Non Executive Director	X	X	X
Nigel Robertson	Non Executive Director	X	X	X

Board balance and independence
The Board is mindful of the Combined Code's recommendation that independent Non Executives should comprise a majority of the Board. The Board intends to build on the progress that has been made in the past year towards full compliance, and will pay regard to the current lack of recent and relevant financial experience amongst the Non Executives.

The Board considers all its Non Executive Directors to be independent in character and judgement. No Non Executive Director:

- Has been employed by the Group within the last five years.
- Has had a material business relationship with the Group within the last three years.
- Receives remuneration other than director's fees.
- Has close family ties with any of the Group's advisers, directors or senior employees.
- Holds cross-directorships or has significant links with other directors through involvement in other companies or bodies.
- Represents a significant shareholder.
- Has served on the board for more than nine years.

Internal control
As reported last year, the impact of the Safeway acquisition put significant strain on the existing financial resource and control environment. This made it more difficult for the Board to forecast reliably likely trends in profitability and to obtain a full understanding of some underlying trading balances.
The auditors, KPMG, were appointed to investigate these issues and to support the Board in its obligation to provide financial guidance to the markets. The Board provided profit guidance in June 2005 relating to the year to 29 January 2006, and the actual results set out in these financial statements are consistent with that guidance.

The new Group Finance Director identified the need to strengthen the structure and quality of the team within Finance. A new, deeper Finance structure has been authorised and is being implemented. This incorporates five new senior positions including an internal audit and risk function. Experienced interim managers have initially filled these positions as well as giving the additional support required for the change activities within Finance. The new top team in Finance will formalise a risk assessment and management process for the Group, will review and upgrade the quality of financial reporting, will develop formal treasury policies and, in due course, will implement robust accounting systems.

During the year the Finance function successfully dealt with the integration of the accounting systems as part of the stores conversion programme, implemented a new forecasting and planning process (initially commenced following the KPMG review notified at last year's AGM and leading to completion of the Group's Optimisation Plan), converted the Group's financial statements to International Financial Reporting Standards (conversion announcement 17 November 2005), implemented a new process to identify, mitigate and report to the Audit Committee risks that arise in financial processes, and implemented a new Board approved format for management accounts.

These activities combined with the normal process for identifying and evaluating the significant risks in the Group means that the Board has reviewed the internal control processes of the Group during the year and is satisfied that the systems are designed to provide the Board with accurate and timely information as to the financial performance of the Group, and to reduce, as far as possible, the risk of failure to achieve business objectives and of material misstatement or loss.

Auditors' independence

In December 2005 the Audit Committee implemented a new policy that defines the non-audit services that the auditor may perform. This policy is effective from the new financial year and will mean that the Group is compliant with the APB's Ethical Standard no.5. The non-audit services work is split into:

- Work where the auditor is preferred supplier (e.g. reports on internal controls or governance where they do not have to investigate their own work).
- Work where the auditor is one of many potential suppliers (e.g. certain corporate finance services).
- Work where the auditor will only be used in exceptional circumstances and there is no practical alternative (e.g. assisting in forecasting work).
- Work where the auditor cannot be used (e.g. support to the Audit Committee).

KPMG have confirmed to the Audit Committee that they were compliant with APB's Ethical Standards in relation to the audit engagement throughout the year. Where non-audit services have been provided that could be perceived to impact independence, additional safeguards were put in place.

Shareholder relations

The Group maintains regular contact with institutional shareholders throughout the year. To support and improve this communication process the position of Investor Relations Director was created and filled in October 2005. This role is responsible for understanding the requirements of institutional and major investors, reporting them to the Board and ensuring that these information requirements are reasonably met.

During the year the Senior Independent Director and other Non Executive Directors held a number of meetings with major shareholders in order to develop a balanced understanding of their views and concerns. These were reported back to the Chairman and the Board.

All Directors, Executive and Non Executive Directors attend the AGM. The Chairmen of the Audit, Nominations and Remuneration committees are available to answer questions.

Further information and other areas of non compliance with the Combined Code

The other areas of non compliance at the year end with the Combined Code not already mentioned above are:

- The split of Chairman's and Chief Executive's roles is not formally defined, reflecting the long working relationship between the two incumbents. The Board has agreed that formal role definitions will be put in place ahead of the appointment of a new Chief Executive.
- A formal assessment process of the Board, its Chairman, members and committees as reported last year has been deferred for completion in the coming year.
- "Whistleblower" processes for complaints of a financial, audit or risk nature and the treatment of these complaints that have been raised to be handled confidentially and reported to the Audit Committee. These are to be implemented by the new appointment of Head of Internal Audit and Risk.

A full statement concerning corporate governance is given in the Annual report and financial statements.

Summary corporate social responsibility report

Our approach to CSR is driven by our Company vision and values, which are supported by Group-wide policies for corporate governance, employment, health, safety and welfare, ethical trading and responsible business practice.

Our aim is to reduce the impact of our business on the environment in which we operate through a programme of continuous improvement that minimises risks and negative impacts and adds value to our business by enabling us to enhance our commercial operations.

CSR matters are addressed through a cross functional 'Steering Committee' of senior executives, with on-going work co-ordinated through the CSR arm of our Public Relations department and delivery of activities undertaken through line management in each of the business divisions.

The priorities for our CSR programme are:

- Product Integrity
- Supply Chain Management & Labour Standards
- Community Investment
- Operational Environmental Management
- Employment Policies

During what was a period of great change in the business we concentrated our resources on Environmental Management and Product Integrity, particularly with regard to healthy eating and sustainability.

Environment: Energy efficiency and greenhouse gas emissions

Our policy is to reduce carbon dioxide emissions from energy used for building services through responsible energy sourcing; in our specification for construction, installation, maintenance and monitoring of plant; and also by minimising demand and promoting efficient consumption.

- The total CO_2 equivalent emissions from energy used by the Group is 764,221 tonnes; or 63.1 tonnes of CO_2/£m. (Calculated using DEFRA reporting guidelines).

All energy data has been migrated to the Group's new energy management system, Optima, which has extensive monitoring and targeting abilities. We are participating in long-term Climate Change Agreements for 202 stores and seven production facilities, in addition to working on a number of projects to identify opportunities for improvements in efficiency and to eliminate waste energy. Installation of the "Trend" automatic lighting system has been extended and is now established in 245 petrol filling stations. A variety of proven energy saving technologies and methods covering engineering design, controls and equipment specification are being used to reduce energy consumption for refrigeration.

Waste management

Our prime objective is to prevent the generation of waste, wherever possible. Where this is unavoidable, we apply the waste management hierarchy of reduce, re-use, recover, recycle, dispose. Where disposal is the only practical option available, we use appropriately licensed waste management facilities in accordance with relevant legislation.

As we now have fewer stores, absolute volumes of material recovered for recycling have decreased compared to the previous year; however, the tonnage of material recovered per store has increased by 23%. Currently 72% of all store generated waste is recovered for recycling.

Wherever possible we aim to offer our customers the chance to recycle. This is achieved by working in partnership with Local Authorities to provide recycling facilities and these are currently available at 329 stores.

In addition to complying with the Producer Responsibility (Packaging Waste) Regulations, we are working to find innovative packaging solutions to eliminate or reduce the need for packaging, in line with meeting the shared objectives of the Courtauld Commitment. To this end we are currently pursuing a number of projects with the Waste and Resources Action Programme (WRAP).

Product integrity

The process of enhancing our range in accordance with our customers' requirements has included extending our premium 'Best' range, introducing more organic foods and increasing the supply of locally sourced produce. Recognising our role in the health debate, our 'Eat Smart' range continues to develop and our 'Free From' range is to include Morrisons brand products.

Changes to product packaging and presentation have included a review of our on-pack labelling to include energy, protein, carbohydrates, sugar, fat, saturated fat, fibre, sodium and salt, together with Guideline Daily Amounts (GDAs).

We operate an on-going salt reduction programme, which has achieved lower salt levels for hundreds of products, including ready meals, bread, soups, cooking sauces, cereals, snacks and sandwich fillings.

Significant work has been involved in further developing our fish procurement policy to ensure we are buying from the most sustainable sources and finding the least depleted stocks. We will also be working with our suppliers to address sustainability issues concerning the supply of palm oil as a commodity ingredient in many popular products.

Community investment

Fundraising for our Charity of the Year, Breast Cancer Campaign broke all previous records, with over £1 million being donated by staff and customers. Also with the generous support of our customers, we raised £65,000 for the Asian Earthquake Appeal, which was donated to the Shelterbox Trust, and over £197,000 for Children in Need. Other donations to local and national causes, including through Morrisons Charitable Trust and excluding gifts in kind totalled £678,000.

A more detailed CSR statement can be found in our Annual Report and Accounts and on our website www.morrisons.co.uk.

Statement of the independent auditors to the members of Wm Morrison Supermarkets PLC

We have examined the summary financial statement set out on pages 20 to 22.

This statement is made solely to the Company's members, as a body, in accordance with section 251 of the Companies Act 1985. Our work has been undertaken so that we might state to the Company's members those matters we are required to state to them in such a statement and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our work, for this statement, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The Directors are responsible for preparing the Annual review in accordance with applicable United Kingdom law. Our responsibility is to report to you our opinion on the consistency of the summary financial statement within the Annual review with the full Annual financial statements and Directors' report and the Directors' remuneration report, and its compliance with the relevant requirements of section 251 of the Companies Act 1985 and the regulations made thereunder.

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

Basis of opinion

We conducted our work in accordance with Bulletin 1999/6 'The auditor's statement on the summary financial statement' issued by the Auditing Practices Board for use in the United Kingdom. Our report on the Group's full Annual financial statements describes the basis of our audit opinion on those financial statements.

Opinion

In our opinion the summary financial statement is consistent with the full annual financial statements, the Directors' report and the Directors' remuneration report of Wm Morrison Supermarkets PLC for the 52 week period ended 29 January 2006 and complies with the applicable requirements of section 251 of the Companies Act 1985 and the regulations made thereunder. We have not considered the effects of any events between the date on which we signed our report on the full Annual financial statements (22 March 2006) and the date of this statement.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
Leeds

6 April 2006

Summary financial statement

52 weeks ended 29 January 2006

Summary consolidated income statement

	Note	2006 £m	2005 £m
Group turnover	1	**12,114.8**	12,103.7
Operating profit before Safeway integration and conversion costs		**111.5**	395.4
Net finance costs		**(52.2)**	(65.4)
Share of post tax profits from BP joint venture		**2.2**	2.2
Profit before taxation and Safeway integration and conversion costs		**61.5**	332.2
Safeway integration and conversion costs	2	**(374.4)**	(139.2)
(Loss)/profit before taxation for the period		**(312.9)**	193.0
Taxation		**62.6**	(88.0)
(Loss)/profit for the period		**(250.3)**	105.0
(Loss)/earnings per share (pence)			
– Basic		**(9.46)**	4.14
– Diluted		**(9.46)**	4.12
Ordinary dividends (pence per share)	3		
Interim		**0.625**	0.625
Final		**3.075**	3.075

Summary consolidated balance sheet

	Note	2006 £m	2005 £m
Goodwill and other intangibles		**–**	103.2
Non-current assets	4	**6,752.0**	6,855.0
Other assets		**692.1**	742.3
Current liabilities		**(1,806.8)**	(1,712.4)
Bonds and other non-current financial liabilities		**(1,022.7)**	(1,016.7)
Deferred tax, pension liabilities and provisions		**(966.0)**	(965.5)
Net assets		**3,648.6**	4,005.9
Called up share capital and share premium		**304.2**	285.9
Merger reserve		**2,578.3**	2,578.3
Retained earnings		**766.1**	1,141.7
Total equity		**3,648.6**	4,005.9

Summary consolidated cash flow statement

	Note	2006 £m	2005 £m
Cash flows from operating activities		**311.0**	448.0
Interest		**(74.9)**	(96.9)
Tax		**33.3**	(171.5)
Net cash inflow from operating activities		**269.4**	179.6
Disposal proceeds and interest receivable		**483.4**	924.1
Purchase of fixed assets and acquisitions		**(651.0)**	(1,259.7)
New borrowings and other changes in financing		**118.3**	1,015.8
Repayment of borrowings		**(2.6)**	(1,007.3)
Dividends		**(97.8)**	(87.7)
Net increase/(decrease) in cash and cash equivalents		**119.7**	(235.2)
Loan movements		**(97.4)**	7.3
Loans and finance leases acquired with subsidiary		**–**	(1,149.8)
Other non-cash movements		**(9.0)**	11.6
Movement in net debt		**13.3**	(1,366.1)
Opening net debt		**(1,160.9)**	205.2
Closing net debt	5	**(1,147.6)**	(1,160.9)

The Annual review and summary financial statement were approved by the Board on 6 April 2006. R Stott and R Pennycook signed the Summary financial statement on behalf of the Board.

Summary notes to the financial statement

1 Turnover	2006 £m	2005 £m
Sale of goods in stores	**10,540.5**	10,939.7
Fuel	**2,515.7**	2,051.9
Total sales including VAT	**13,056.2**	12,991.6
VAT	**(1,026.6)**	(995.3)
Third party sales by subsidiaries	**33.1**	41.4
Income from concessions	**48.9**	53.6
Other	**3.2**	12.4
Total turnover	**12,114.8**	12,103.7

2 Safeway integration and conversion costs	2006 £m	2005 £m
Redundancy costs	**75.5**	23.8
Staff costs in respect of store conversions	**10.6**	7.6
Impairment of depots closed	**21.0**	–
Goodwill impaired and write off brand not used	**103.2**	40.0
Loss on sale of property, plant and equipment	**16.7**	14.9
Divestment and acquisition costs	**11.0**	3.0
Store conversion costs	**136.4**	49.9
Total	**374.4**	139.2

3 Dividends

The Directors are proposing a final dividend in respect of the financial period ending 29 January 2006 of 3.075p per share which will absorb an estimated £82.2m of shareholders' funds. This amount will be charged to retained earnings when authorised by the shareholders at the AGM on 25 May 2006. It will be paid on 30 May 2006 to shareholders who are on the register of members on 28 April 2006.

4 Non-current assets	2006 £m	2005 £m
Property, plant and equipment	**6,143.9**	5,708.1
Lease prepayments	**217.8**	230.5
Investment property	**225.3**	218.5
Investment in Joint Venture	**–**	78.4
Financial assets	**36.4**	37.0
Non-current assets classified as held for sale	**128.6**	582.5
Total	**6,752.0**	6,855.0

Included above are non-current assets classified as held for sale which are categorised as current in the Annual report.

5 Analysis of net debt	2006 £m	2005 £m
Cash and cash equivalents	**91.1**	(28.6)
Interest and cross-currency swaps	**36.4**	37.0
Loans and other current financial liabilities	**(252.4)**	(152.6)
Bonds and other non-current financial liabilities	**(1,022.7)**	(1,016.7)
Net debt	**(1,147.6)**	(1,160.9)

6 IFRS reconciliations of closing net assets and profit	2005 £m	
Profit for the period		
(Loss)/profit per UK GAAP	**205.7**	
Share-based payments	**(1.5)**	
Employee benefits	**(1.9)**	
Leases	**0.9**	
Business combinations	**(98.2)**	
Profit per IFRS	**105.0**	

	2005 £m	2004 £m
Closing net assets		
Net assets per UK GAAP	**4,017.0**	1,317.4
Share-based payments	**2.1**	3.8
Employee benefits	**(22.4)**	(6.6)
Business combinations	**(80.3)**	–
Leases	**7.4**	6.5
Dividends	**82.0**	71.6
Other	**0.1**	4.5
Net assets per IFRS	**4,005.9**	1,397.2

Explanation of differences

The consolidated financial statements for the period ended 29 January 2006, from which the summary financial statement has been extracted, has been prepared in accordance with International Financial Reporting Standards (IFRSs). Listed below are the various options that were chosen together from those available under IFRS 1 *First-time Adoption of IFRSs* with a brief description of key differences.

IFRS 1 first-time adoption options

IAS 19 *Employee Benefits* – all cumulative actuarial gains and losses are recognised at date of transition.

IFRS 2 *Share-based Payment* – the recommended approach of only valuing post-November 2002 share-based payments has been followed.

IAS 39 *Financial Instruments* – implementation was deferred to 31 January 2005.

Material differences

Share-based Payments – fair value is charged to the income statement for executive share options and share-based incentive payments to employees.

Pensions – the liability and charge will differ due to different treatment of death in service costs and the use of the bid value under IAS 19 *Employee Benefits* compared to market value under FRS 17 *Retirement Benefits*.

Leases – all premiums for long leasehold land are now recognised as operating lease prepayments rather than fixed assets. The effect on the income statement is a reduced charge.

Business combinations – goodwill is not amortised under IFRS. These adjustments represent primarily two adjustments – the reversal of negative goodwill amortisation and the retirement of the Safeway brand – plus the variations in valuations that arise from the application of IFRS standards compared to UK GAAP. In addition, provision is required under IAS 12 *Income Taxes* for the potential capital gains tax arising on fair value uplift of properties acquired from Safeway which increases goodwill.

Financial instruments – derivative instruments are recognised at market value at each balance sheet date from the date of transition. The change in fair value from date of transition (31 January 2005) has been taken to the Income Statement as hedge accounting has not been adopted. The impact on the opening balance sheet at 31 January 2005 was £4.0m and the impact on the income statement for 2006 was (£10.1m).

Dividends – proposed dividends are not allowed to be recognised until authorised or paid. Authorisation is normally at an Annual General Meeting.

Seven year summary of results

52 weeks ended 29 January 2006

Income statement	IFRS GAAP 2006 £m	IFRS GAAP 2005[2] £m	UK GAAP 2005[2] £m	UK GAAP 2004 £m	UK GAAP 2003 £m	UK GAAP 2002 £m	UK GAAP 2001[1] £m	UK GAAP 2000 £m
Group turnover	12,114.8	12,103.7	12,116.1	4,944.1	4,289.9	3,915.0	3,496.3	2,968.9
Group operating profit before one off costs	111.5	395.4	398.2	316.8	271.1	230.2	209.7	183.1
One off costs	(374.4)	(139.2)	(99.2)	(10.9)	(3.5)	–	–	–
Group operating (loss)/profit	(262.9)	256.2	299.0	305.9	267.6	230.2	209.7	183.1
(Loss)/profit before taxation	(312.9)	193.0	297.1	319.9	282.5	243.0	219.1	189.2
Basic earnings per share (p)	(9.46)	4.14	8.10	12.59	11.79	10.02	9.31	7.78
Diluted earnings per share (p)	(9.46)	4.12	8.07	12.48	11.61	9.79	9.05	7.57
Dividends per ordinary share (p)	3.70	3.70	3.70	3.25	2.70	2.20	1.80	1.50
Dividend cover	(2.56)	1.20	2.35	4.49[4]	5.12	5.31	5.81	5.65

Balance sheet	IFRS GAAP 2006 £m	IFRS GAAP 2005[2] £m	UK GAAP 2005[2,3] £m	UK GAAP 2004[3] £m	UK GAAP 2003[3] £m	UK GAAP 2002[3] £m	UK GAAP 2001[2,3] £m	UK GAAP 2000[3] £m
Non-current assets	6,752.0	6,958.2	6,628.5	1,738.7	1,608.6	1,452.5	1,371.0	1,229.0
Other assets	692.1	742.3	740.7	492.0	384.1	328.0	223.8	253.5
Current liabilities	(1,806.8)	(1,712.4)	(1,732.1)	(742.7)	(655.6)	(586.3)	(525.1)	(538.0)
Non-current liabilities	(1,988.7)	(1,982.2)	(1,540.4)	(100.4)	(73.7)	(61.4)	(67.5)	(62.9)
Net assets	3,648.6	4,005.9	4,096.7	1,387.6	1,263.4	1,132.8	1,002.2	881.6

Supplementary information	IFRS GAAP 2006	IFRS GAAP 2005[2]	UK GAAP 2005[2]	UK GAAP 2004	UK GAAP 2003	UK GAAP 2002	UK GAAP 2001[1]	UK GAAP 2000
Retail portfolio								
Total sales area (000's sq ft)	10,633	12,468	12,468	4,526	4,241	4,039	3,907	3,572
Average store size (000's sq ft)	28.1	25.0	25.0	36.2	35.6	35.7	35.5	35.4
Total supermarket takings ex petrol (gross) £m	10,541	10,929	10,929	4,550	3,988	3,644	3,267	2,841
Average per sq ft per week (£)	17.68	16.80	16.80	19.94	18.65	17.68	16.53	15.69
Average per store per week (£000's)	477	400	400	716	666	629	584	556
Average number of customers per store per week	25,818	18,712	18,712	29,242	28,277	27,645	26,481	26,211
Average take per customer (£)	20.92	21.36	21.36	24.48	23.57	22.77	22.06	21.23
Employees								
Total	134,337	140,901	140,901	52,384	46,778	42,959	37,900	34,561
Staff costs (£)	17,528	16,120	16,081	16,124	15,585	15,257	15,237	14,574
Average per employee Turnover (£000's)	130	127	127	140	134	134	136	127
Operating profit pre-exceptional costs (£)	1,198	4,147	4,177	8,950	8,482	7,899	8,170	7,860

1 53 weeks.

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

3 Restated for FRS 20 *Share-based payment* for share options, FRS 21 *Events after the balance sheet date* for dividends. and FRS 25 *Financial instruments – disclosure and measurement* for preference shares and minority interests.

4 Excluding amounts payable on newly issued shares relating to the Safeway acquisition.

Summary directors' remuneration report

The remuneration committee (the "committee") is chaired by Susan Murray, with its other members comprising Brian Flanagan, David Jones, Paul Manduca and Nigel Robertson.

Remuneration policy

The committee's key objectives are to determine and recommend to the Board, within the agreed terms of reference, an overall remuneration package for the Executive Directors (a reference which includes the Chairman throughout this report) and to monitor the level and structure of remuneration for senior management.

In June 2005, the committee identified that the Directors' remuneration packages were not fully competitive and that it was necessary to make some adjustments to ensure that the Directors were retained and motivated to drive the Group's recovery. At this time the Directors' responsibilities and workloads had increased significantly and the Group faced particular challenges integrating Safeway and retaining key members of the executive team. The committee was also mindful that it had found it necessary to offer extra contractual protection to the incoming Group Finance Director for a limited period, and it considered that the task of integrating the senior executive team could be made more difficult if his terms were substantially different to other Executive Directors. Accordingly, base salaries were increased and the Directors' service contracts were amended so that they would receive two times the annual value of certain elements of their remuneration and benefits in the event of a termination of their employment in certain circumstances before 1 July 2007.

In October 2005, after the committee was reconstituted in accordance with the Combined Code and was fully independent, it commissioned a comprehensive and independent review of the Directors' individual remuneration packages with comparisons made against listed retailers and other plc's of broadly similar size. As a result, the committee decided that going forward it wished to put in place remuneration structures which will enable the Group to recruit, retain and motivate high calibre senior executives and that those structures will be more performance related. This will be achieved by moving progressively over time to:

- Base salaries around the mid-market starting with no further increases in the current financial year for Executive Directors.
- Introduce a competitive suite of annual and long-term incentives.
- Remove two times annual compensation provisions in contracts; replacing them with new 1 year service agreements.
- Limit pensionable pay to base salary only (see further below).

Base salary and benefits

Base salary is a fixed cash sum payable monthly in arrears.

Base salary levels changed with effect from 1 March 2005 following the review in June 2005 (unless otherwise indicated), and are as follows:

Sir Kenneth Morrison	£675,000
Robert Stott	£650,000
Marie Melnyk	£650,000
Mark Gunter	£500,000
David Hutchinson	£480,000
Roger Owen	£480,000
Richard Pennycook (with effect from 1 February 2006)	£480,000

Mindful of the need to set the right balance in Executive Directors' packages, and to ensure the ability to attract, retain and motivate the quality of management required by the business, the policy is, in the future, to move towards setting around mid-market salaries in the context of fully competitive total packages with a substantial proportion being subject to the performance of the business and individuals. The committee will have regard to the following when reviewing salary levels:

- the performance of the individual concerned, together with any change in responsibilities that may have occurred;
- the rates for similar roles in comparator companies (both direct retail competitors and more generally in UK based companies of a similar size and complexity);
- avoiding where possible the automatic ratcheting effects of following "median" or "upper quartile" levels of salary derived from comparator company analyses.

Benefits relate to health insurance, vehicle running costs and telephone expenses and relocation expenses in connection with Executive Directors relocating to the Yorkshire area.

Annual bonus

The committee has developed a bonus plan for Executive Directors for the 2006/07 financial year to reinforce the strategy identified in the Optimisation Plan. For 2006/07 a maximum bonus will be no more than 100% of base salary for those Executive Directors selected for inclusion in the plan by the committee, on the following basis:

Measures	% of bonus potential
Profit before tax, excluding exceptionals	80%
Personal objectives set by the committee	20%

In addition, no bonus will be payable for the achievement of personal objectives unless the minimum profit target has been achieved. Future bonus plan design and participation will be determined by a review to be conducted by the committee when the new Chief Executive has been appointed.

All-Employee Sharesave Scheme

The Group also operates an H M Revenue & Customs approved Sharesave Scheme under which all eligible employees (including Executive Directors) may be invited to participate on similar terms. The Scheme allows participants to save each month with a building society over a three, five or seven year period up to a maximum of £250 per month. At the end of the period, individuals may use their savings plus a tax free bonus to buy ordinary shares in the company at up to a 20% discount to the market price shortly before they commenced saving. It is intended that this scheme will be operated during the first half of this current financial year.

Long-term incentives
No further grants of share options under the 1995 Senior Executive Share Option Scheme will be made as the Scheme closed at the end of its 10 year life on 25 May 2005.

The committee intends to develop a long term incentive plan when the new Chief Executive has been appointed and will seek shareholder approval for it in due course.

Pension arrangements
Each Executive Director (and the Chairman) is entitled to a pension equal to ⅔ of pensionable pay providing he or she has served on the Board 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 service, 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 ⅔ pensionable salary at age 62.

In the case of members who joined 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 2005/06 is £105,600.

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 Group's pension scheme. This element of the Directors' remuneration is pensionable to ensure they receive benefits on the same basis as other members of the scheme.

In addition to participating in the scheme, Richard Pennycook will receive a contribution of 10% of his base salary above the HM Revenue & Customs earnings limit.

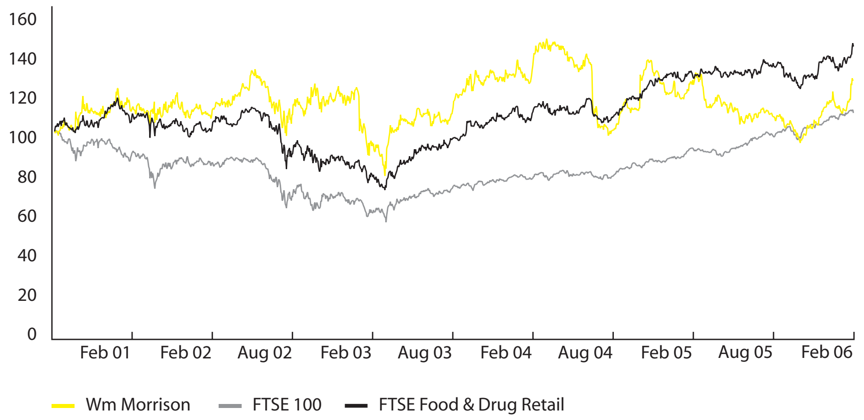
Robert Stott will receive a pension payment for service from the age of 62 based upon a payment of 16% of pensionable pay into the scheme.

The committee will be reviewing the pension policy during the course of the year with particular reference to the impending changes in legislation. The committee is committed to following a policy of no greater cost to the Group of operating its pension arrangements for Executive Directors as a result of any changes felt to be necessary to deal with changes in pensions legislation.

However, where relevant, greater flexibility may be built into the pension arrangements. Other than the Group-wide profit related pay plan, pension is limited to annual salary and the Group's new annual bonus scheme for Executive Directors and other senior executives is not pensionable.

Performance graph
The following graph shows the Group'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 Group is a constituent of both indices.

Group performance TSR



Summary directors' remuneration report continued

Directors' contracts

Executive Directors

As part of a package of measures approved by the Board in June 2005, liquidated damages provisions in Executive Directors' contracts were extended to two times the annual value of certain elements of their remuneration and benefits for terminations before 1 July 2007. This change and the increased salaries were felt to be necessary to protect the company at a time of great uncertainty and in the face of attempts by other companies to recruit key members of the executive team.

The committee has reviewed these contracts and determined that from 1 July 2007 any compensation provisions for termination without notice will only extend to 12 months of pay. Going forward, all new Director contracts will be for a 12 month notice period. Furthermore, any deferred share awards and any long term incentive plan will be excluded from the definition of "pay".

The departure of Robert Stott was announced in October 2005 as part of the restructuring of the Board of Directors and the implementation of a succession planning strategy leading to the recruitment of a replacement Chief Executive. Robert Stott has agreed to stay with the Group until a handover has been achieved following the appointment of a suitable replacement. Pursuant to his contract, he will receive a payment worth two times his salary, profit share and certain benefits. Following cessation of employment he has agreed to work on a consultancy basis for 12 months at an appropriate market rate.

On 31 May 2005 Martin Ackroyd's position as Finance Director ceased. Under a compromise agreement he received a payment of £505,796 plus 12 months of normal pension scheme funding. Options granted under the 1995 Executive Share Option Scheme lapsed on his departure. As part of his termination agreement he agreed to make his services available for a year, as required, at an hourly rate of £125.

On 25 May 2005 outline terms were agreed with Richard Pennycook such that he would be appointed to the position of Group Finance Director from 1 October 2005 with the details of his contractual terms to be agreed in due course. Details concerning his salary, incentives and pension are set out above. In order to recruit him, it was necessary to offer him extra protection on termination of employment, in particular that he would receive two times the annual value of certain elements of his remuneration and benefits in the event of a termination in certain circumstances before 1 July 2007.

Non Executive Directors

The remuneration for the Non Executive Directors is determined by the Board and is reviewed from time-to-time with regard to the time commitment required and the level of fees paid in comparable companies. The current fee levels are as follows:

Name	Base £'000	Committee Chairmanship £'000	Deputy Chairman £'000	Total £'000
B Flanagan	40	–	–	40
D Jones	10	–	60	70
P Manduca	40	10	–	50
S Murray	40	10	–	50
N Robertson	40	–	–	40
Total	170	20	60	250

Directors' emoluments and pension entitlements

The emoluments of the Directors were as follows:

Name	Directors salaries/fees £'000	Benefits £'000	Annual Bonus £'000	Compen-sation for loss of office £'000	Total year to 29 Jan 2006 £'000	Total year to 30 Jan 2005 £'000
Executive Directors						
M Ackroyd	131	10	–	506	647	439
M Gunter	492	37	24	–	553	442
D Hutchinson	466	28	24	–	518	345
M Melnyk	642	27	31	–	700	592
K Morrison	667	39	32	–	738	635
R Owen	473	35	24	–	532	440
R Pennycook	133	8	–	–	141	–
R Stott	638	29	31	–	698	539

Name	Directors salaries/fees £'000	Benefits £'000	Annual Bonus £'000	Compen-sation for loss of office £'000	Total year to 29 Jan 2006 £'000	Total year to 30 Jan 2005 £'000
Non Executive Directors						
D Davidson	7	–	–	–	7	28
B Flanagan	23	–	–	–	23	–
D Jones	282[1]	–	–	–	282	28
P Manduca	19	–	–	–	19	–
S Murray	26	–	–	–	26	–
N Robertson	23	–	–	–	23	–
Total	4,022	213	166	506	4,907	3,488

1 Between March 2005 and November 2005, D Jones' remuneration was increased to £460,000 when he temporarily increased his time commitment and became Deputy Chairman of the Group.

Benefits in kind 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.

During the year, 5 Directors exercised options under the Executive Share Option Plan and the Sharesave Plan, realising an aggregate gain of £250,000 (2005: £404,000).

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

Name	Accrued pension at 30 Jan 2005 £'000	Increase in accrued pension (excluding inflation) in year ended 29 Jan 2006 £'000	Transfer value of the increase in accrued pension during the year £'000	Accrued pension at 29 Jan 2006 £'000	Transfer value of accrued pension at 30 Jan 2005 £'000	Transfer value of accrued pension at 29 Jan 2006 £'000	Movement in transfer value during the year £'000
Executive Directors							
M Ackroyd	181	37[2]	414[1]	218[1]	2,068	2,434[1]	366[1]
M Gunter	33	3	27	37	272	337	65
D Hutchinson	89	45	688	136	1,201	2,080	879
M Melnyk	236	60	586	302	2,074	2,952	878
R Owen	200	50	769	255	2,691	3,923	1,232
R Stott	28	–	–	28	545	555	10
Total	767	195	2,484	976	8,851	12,281	3,430

1 At 31 May 2005.
2 At 31 May 2005. The increase in accrued pension does not exclude inflation.

The accrued pension at 30 January 2005 has been restated following a review of the calculations performed for last year's accounts. This has not affected either the cost to the Group or the value available to any Executive Director.

More Information

This is a summary of the Group's Directors' remuneration report which appears in the Annual report and financial statements 2006.

Investor relations and financial calendar

Annual General Meeting
The AGM will be held at 11.00 on Thursday 25 May 2006 at The Cedar Court Hotel, Mayo Avenue, Bradford, West Yorkshire.

Dividend Reinvestment Plan
The Company has a Dividend Reinvestment Plan which allows shareholders to reinvest their cash dividends in the Company's shares bought in the market through a specially arranged share dealing service. Full details of the plan and its charges, together with mandate forms, are available from the Registrars.

Corporate website
The Morrison website is available on the internet at www.morrisons.co.uk. In addition to our latest Annual report and financial statement for 2006, our website also contains information on Corporate Social Responsibility, company history, stores and services, latest offers, press information, as well as a local store finder.

Share price information is available on the corporate website, in the financial press and the Cityline service operated by the Financial Times (telephone 0906 843 3545).

Shareholder information online
Morrison shareholders have the option of viewing the Annual report through the internet. The information will be exactly the same as in the printed version, but using the internet has clear advantages such as lowering our costs and reducing environmental waste.

Annual report
This Annual review contains summarised financial information which does not contain sufficient information to allow as full an understanding of the results of the Group, its state of affairs or of the policies and arrangements concerning Directors' remuneration as is provided in the Annual report. The Annual reports are available on the corporate website as a downloadable file. Alternatively, a printed copy can be obtained free of charge by contacting the Company Secretary, indicating future mailing list requirements for the Annual report.

Financial calendar 2006/07

Financial events	
Financial year end	29/01/06
Prelim results announcement	23/03/06
Annual review posted	21/04/06
Annual general meeting	25/05/06
Half year end	23/07/06
Interim results announcement	21/09/06

Dividends	
Final dividend record date	28/04/06
Final dividend payment date	30/05/06
Interim dividend record date	13/10/06
Interim dividend payment date	13/11/06

Shareholder information

The number of shareholders at 29 January 2006 was 49,904 (2005: 51,986) and the number of shares in issue was 2,674,454,447 (2005: 2,658,291,079).

	Number of holders	%	Balance as at 29 Jan 2006	%
Analysis by type of shareholder				
Private shareholders	44,243	88.66	599,275,715	22.41
Deceased accounts	116	0.23	491,765	0.02
Insurance companies	5	0.01	24,748	0.00
Investment trusts	39	0.08	544,723	0.02
Pension funds	46	0.09	5,473,095	0.20
Nominee companies	5,042	10.10	2,092,412,443	78.24
Limited companies	299	0.60	7,989,055	0.30
Bank and bank nominees	14	0.03	4,404,824	0.16
Other institutions	100	0.20	3,838,079	0.14
Analysis by size of shareholding				
1 – 1,000	25,489	51.08	11,530,936	0.43
1,001 – 10,000	21,123	42.33	61,815,896	2.31
10,001 – 1,000,000	3,033	6.08	243,169,564	9.09
Above 1,000,001	259	0.52	2,357,938,051	88.17

Registrars
Capita Registrars
Northern House
Woodsome Park
Fenay Bridge
Huddersfield
HD8 0LA
Telephone 0870 162 3131
www.capitaregistrars.com

Solicitors
Gordons
Riverside West
Whitehall Road
Leeds
LS1 4AW

Ashurst
Broadwalk House
5 Appold Street
London
EC2A 4DW

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

Stockbrokers
Hoare Govett Limited
250 Bishopsgate
London
EC2M 4AA

Citigroup Smith Barney
Canada Square
Canary Wharf
London
E14 5LB

Company Secretary
Jonathan Burke

Registered Office
Wm Morrison Supermarkets PLC
Hilmore House
Thornton Road
Bradford
BD8 9AX
Telephone 01274 494166

Investor Relations
Investor Relations Department
Telephone 01274 494166

www.morrisons.co.uk
Wm Morrison Supermarkets PLC

More reasons to shop at MORRISONS