Release date: 10 March 2011

PRELIMINARY RESULTS FOR THE YEAR ENDED 30 JANUARY 2011

A record year as Morrisons prepares to go multi-channel

Financial summary

- Turnover up 7% to £16.5bn (2009/10: £15.4bn)
- Like-for-like sales (ex fuel, ex VAT) up 0.9% (2009/10: 6.0%)
- Underlying profits[1] before tax up 13% to £869m (2009/10: £767m)
- Profit before tax £874m (2009/10: £858m including £91m exceptional credit)
- Net debt £817m (2009/10: £924m) after capital investment of £592m.
- Gearing of 15% (2009/10: 19%)
- Basic earnings per share 23.9p (2009/10: 22.8p)
- Underlying earnings per share up 12% to 23.0p (2009/10: 20.5p)
- Total dividend for the year up 17% to 9.6p (2009/10: 8.2p) – dividend cover of 2.4 times

Highlights

- Record customer numbers in store
- 15 new stores opened and agreement to acquire16 Netto stores[2&3]
- Fresh produce retailer of the year[4]
- First convenience trial sites identified
- Acquisition of kiddicare.com and investment in FreshDirect, announced today mark entry into e-commerce
- £1bn equity return to take place over two years and commitment to double-digit dividend growth over the next three years

Commenting on the results, Sir Ian Gibson, Non-Executive Chairman, said:

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

Dalton Philips, CEO, said:

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

Outlook

We expect the economic backdrop to remain challenging in 2011, with higher taxes, government spending cuts, inflation and rising unemployment all continuing to weigh on consumer confidence and disposable incomes. With our unique position of high quality food at great value prices, supported by

the range of exciting initiatives we are implementing to drive our business, Morrisons is well positioned to face these challenges and deliver further profitable growth.

Notes

[1] Excluding IAS19 pension interest, pensions credit and property disposals

[2] 15 new stores were opened in the year, 1 of which was a replacement for an existing store

[3] The process of obtaining formal approval by the Office of Fair Trading of our purchase of all 16 stores is close to conclusion and we believe such approval will shortly be confirmed

[4] Awarded by Retail Week, the main industry periodical

-ENDS-

This announcement may include forward looking statements, which are statements made about potential future events or occurrences. These statements are made by the Directors in good faith, based on the information available to them at the time of the announcement. Consequently such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying such forward looking statements and information.

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Chairman's statement

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

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

Results

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

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

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

The Board

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

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

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

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

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

Colleagues

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

Charitable donations

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

Business Review

Our Strategy

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

Morrisons difference
Morrisons is different. We are different because:

- we are closer to source than any other food retailer through our relationships with farmers and through our unique manufacturing and packing facilities so we really understand how the food that we sell has been produced. We intend to broaden the range of food we make ourselves to reinforce this difference;

- we prepare more food every day in our stores than any of our competitors because our customers value food that is really fresh; and

- we have in-house craft skills and employ more butchers, bakers and fishmongers than any other supermarket, because our customers like to be served by food specialists.

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

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

New channels - convenience and e-commerce
The grocery market is changing, with customers seeking alternative and complementary channels. Convenience stores and on-line shopping are the two fastest growing sectors of the market and de-

veloping our offer in these channels will be another focus of our future strategy. We will look to do this in a way that is uniquely Morrisons and in a way that makes us 'Different and Better than Ever'.

Shareholder investment and returns

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

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

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

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

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

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

Our Operational Plan

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

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

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

- our key point of difference is in the provision of great value fresh food, and we plan to extend our lead still further, exploiting our unique food preparation skills to establish clear ground between us and the rest of our competitors. We are trialling a range of exciting new concepts in store which will help us to do this.

- the best and quickest source of new sales space is to make more effective use of what we already have. We are planning to liberate space in our stores for new categories by rebalancing our existing range. Trials are underway to establish the most effective means of achieving this but results to date suggest that we could, as a first stage, liberate up to 10% of the existing centre store space in our 20,000-40,000 square feet stores (and more in larger stores) which would then be available for new products and categories. Subject to a successful trial, rollout of Project Liberate will begin in 2012, with the prospect of creating up to an additional 0.75m square feet of selling space in the business, equivalent to approximately a full year's new store programme.

- our proportion of own label sales lags behind our competitors, despite our vertical integration providing us with a real opportunity to offer differentiated products, and to build a strong own brand. We intend to develop our brands strongly, and to that end have, for the first time, created a separate management structure to oversee this £6bn business.

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

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

Capturing growth

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

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

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

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

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

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

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

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

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

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

UK grocery retail market

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

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

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

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

Operational review

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

Executive team

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

Turnover growth

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

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

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

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

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

The rise in the price of oil, exacerbated by increases in fuel duty and continuing sterling weakness, meant that consumers were paying on average 15.8p per litre more at the pump than last year, with average unleaded prices per litre of 115p. Overall fuel price increases impacted our customers disposable income by nearly £400m, income that could otherwise have been spent in store. Our fuel volumes increased 4.8%, as customers shopped around for the best price in town. Overall, like-for-like fuel sales were up 18% in the year.

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

Sharp everyday pricing and a strong promotions programme were a feature of Market Street, which again performed strongly. Our unique vertically integrated food production capability supported by the unrivalled food preparation that is carried out every day in store, allow us to be flexible and offer more great value, innovative offers on fresh produce than any other retailer. Our customers strongly approve of our support for British farming through our own farm at Dumfries and because we are the only major British retailer selling 100% British fresh pork, beef, lamb and poultry raised to British standards of animal welfare. Our closeness to the source of our fresh products allows us to talk to our customers with authority about the provenance and freshness of our food offer, a quality which is be-

coming more important in an increasingly health conscious environment. During the year we launched our new television advertising campaign which continues the strong emphasis on the provenance, quality and freshness of our food and on our in-store skills, with food stories told to school children. It has proved to be highly effective.

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

Operating results

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

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

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

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

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

Systems

During the period we accelerated the deployment of our new IT systems across all areas of the business. This six year, £310m programme of investment, will result in the replacement of all the Group's core systems and technology infrastructure. To date, the bulk of the Group's payroll, HR and financial systems have been replaced, a complete new wide-area network installed, the majority of store hardware renewed and voice-picking technology implemented in our grocery and frozen distribution centres. Additionally, the Group's new store electronic point of sale system has been rolled out to over 200 stores and the new trading product master file has been completed for the bulk of ambient and

frozen products. The new ERP system has been successfully piloted in one produce factory, and has now commenced full roll-out. The software required to run our distribution centres is currently being piloted in one depot. The success of these activities, and our proven ability to implement changes with no impact on the business, give us great confidence for the remainder of the programme, which will run through 2013.

Network Development

We continue to make good progress in the development of our new South West RDC at Bridgwater. This is an 800,000 square feet facility which will serve some seventy stores and provide further capacity to support our nationwide expansion. The total investment will be £95m. The site will open in the final quarter of 2011 and become fully operational in early 2012. This is 3 months later than we had originally planned, due to delays experienced by the site developer in achieving a viable total scheme for the site, which depends also on residential development that has proved challenging given the state of the housing market.

Food Production

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

- we acquired Simply Fresh, a stir fry and prepared vegetable business for which Morrisons was the biggest customer, but which had significant further capacity. This will enable us to consolidate our sourcing of all these products in house.

- we acquired a cooked meat production plant which will add to our existing capacity and allow us to fulfil nearly all of our requirements in-house.

Both businesses are performing well.

Corporate Social Responsibility

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

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

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

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

Financial review

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

Financial strategy

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

The underlying principles behind this strategy are:

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

We are meeting these principles by:

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

Performance against financial strategy

- like-for-like sales growth was in excess of the market in 2010/2011
- underlying earnings per share were 23.0p, an increase from last year of 12%
- the Group's balance sheet builds on our strong financial position:
  - 87% of our estate is freehold;
  - we use prudent assumptions to value our defined benefit pension schemes; and
  - our long term financing facilities adequately cover our planned investments.

Summary of results

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

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

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

Balance sheet

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

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

Summary cash flow

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

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

Cash generated from operations

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

Interest and tax

Interest

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

Tax

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

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

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

Capital expenditure

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

Stores and business capital expenditure

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

New selling space increased 3% in the year.

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

IT systems replacement

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

Acquisitions

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

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

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

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

Gearing

Our gearing ratio was 15% (2010: 19%) and is well below the sector average, demonstrating our strong balance sheet.

Our credit rating (provided by Moody's) remains strong at A3, and we continue to be one of only three European retailers to have this rating.

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

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

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

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

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

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

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

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

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

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

Returns to shareholders

Dividends

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

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

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

Shareholder investment and returns

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

An equity retirement plan was approved by the Board for announcement on 10 March 2011 to purchase in the market £1billion of ordinary shares over the coming 2 years, for subsequent cancellation.

Investments since the year end

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

Additionally, on 9th March 2011 we invested £32m in a 10% stake of FreshDirect, an internet grocer in the US.

Key judgements & assumptions

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

Additional information

Risks and uncertainties

Identifying and monitoring our risks

Within the Group, responsibility for risk management and internal control lies with the Board. Executive management implements and maintains the system of controls. The list below sets out the most significant risks to the achievement of the Group's goals. The list does not include all risks that the Group faces and it does not list the risks in any order of priority.

Business Interruption

Risk

Our distribution and systems infrastructures are fundamental to ensuring the normal continuity of trading in our stores. If a major incident occurred to this infrastructure or another key facility this could have a detrimental impact on the business's ability to operate effectively.

Mitigation

To reduce the chances of this happening and also to reduce the impact of such an event if it were to happen, we have developed recovery plans and invested in the creation of a remote IT disaster recovery site.

Business strategy

Risk

In the long term, effectively managing the strategic risks that the Group faces will deliver benefits to all our stakeholders. The Board understands that if the strategy and vision are not properly formulated or communicated then the long term aims of the Group won't be met and the business may suffer.

Mitigation

Recognising the importance of formulating and implementing a successful strategy, the strategy is developed by the CEO and senior executives. The Group has recently appointed a strategy director reporting to the Group Finance Director to further strengthen the business in this respect. The strategy is considered and approved by the Management Board, which takes time each year to review and monitor its delivery through formal time set aside for this purpose. To ensure that our strategy is communicated and understood, the Group engages with a wide range of stakeholders including shareholders, employees, suppliers and other groups. This continual process helps to ensure that the strategy remains relevant and improves the likelihood of success.

Colleague engagement and retention

Risk

The continued success of the Group relies heavily on the investment in the training and development of our 132,000 colleagues. This is a critical element of the quality of service we offer to our customers.

Mitigation

The Group's employment policies, remuneration and benefits packages are designed to be competitive with other companies, as well as providing colleagues with fulfilling career opportunities. During the year, 48,000 people went through our Academy programme and we started the Morrisons BSc

degree programme offering. The Group continually engages with colleagues across the business to ensure that we keep strengthening our team at every level.

Corporate Social Responsibility

Risk

In line with our commercial objectives we have identified three areas, Environment, Society and Business where by 'doing the right thing', we protect valuable resources, meet demand for sustainable products and make our business more efficient. Morrisons is committed to taking good care and if we fail to meet our commitments this could damage our reputation and potentially lose the trust of our stakeholders.

Mitigation

The appropriate management evaluation and verification systems are integrated into operational management activities and these are overseen by the Management Board and the Corporate Compliance and Responsibility Committee. Delivery against targets and key performance indicators is regularly monitored and reported. Further information is available in our Corporate Social Responsibility report at www.morrisons.co.uk/today.

Financial and treasury

Risk

The main financial risks that the Group is exposed to relate to the availability of funding, the loss of a financial counter party and the uncertainty produced by fluctuations in interest and foreign exchange rates. All of these things have the potential to undermine the Group's ability to finance its trading activities and its financial results.

Mitigation

The Group's treasury operations are controlled centrally by the Treasury Committee in accordance with clearly defined policies and procedures that have been authorised by the Board. The Treasury Committee has certain approved delegated authorities but it is not permitted to trade for profit and it reports twice a year to the Audit Committee on its activities.

Pensions

Risk

The Company operates defined benefit and defined contribution schemes.

The liabilities of the Group's two defined benefit schemes are derived from cash flow projections over long periods and are therefore inherently uncertain. These are subject to changes in life expectancy, inflation, future salary increases, volatility regarding the value of investments and the returns derived from such investments.

The operating and financial costs are recognised in the income statement in the period in which they arise. Therefore, any variation from these assumed values has the potential to introduce volatility to the Group's results.

Mitigation

In consultation with our pension scheme members the Company has taken a number of steps to put the schemes onto a sound financial footing for the long term and reduce the risk to the Group. These have included additional contributions to the schemes, changes to the investment strategy as well as using a prudent basis of assumptions for the actuarial valuation. Last year we moved all future benefit accrual to a career average basis, such that it will grow in line with inflation rather than being linked to final salary.

Product Quality and Safety

Risk

We are aware that if we fail or are perceived to fail to deliver to our customers' satisfaction the expected standards of safety in our products; this has the potential to harm them and damage our business reputation. This in turn could adversely impact our market share and our financial results. Our business focuses on fresh food and we have a vertically integrated business model; therefore, food safety is of paramount importance.

Mitigation
As a manufacturer of food products, we have established strict standards and monitoring processes to manage the risks associated with food safety throughout our Group and its supply chain. Our food manufacturing businesses are ISO22000 accredited which provides an effective framework for the control of internal processes. Food hygiene practices are taken very seriously throughout our Group, and are monitored both through internal audit procedures and external bodies such as environmental health departments. We also maintain regular supplier assessments for food and non food categories. Our stock withdrawal procedures operate throughout our supply chain to minimise the impact to customers of any supplier recalls.

Property

Risk
The business is growing the size of its retail space through acquisition and by modernising and extending existing stores and facilities. If we fail to adequately grow our space in an earnings enhancing way we will lose market share and our profits will suffer.

Mitigation
We have a property strategy that develops stores to a well proven format and we operate a formal capital approval process which is over seen by the Investment Board.

Regulation

Risk
The Group operates in an environment governed by strict regulations to ensure the safety and protection of customers, shareholders, staff and other stakeholders and the operation of an open and competitive market. These regulations include alcohol licensing, health and safety, the handling of hazardous materials, data protection, the rules of the stock exchange and competition law. In all cases, the Board takes its responsibilities very seriously, and recognises that breach of regulation can lead to reputational and financial damage to the Group.

Mitigation
There is clear, ultimate accountability with Directors for compliance with all areas of regulation and the Corporate Compliance and Responsibility Committee provides oversight over many of these areas. The business designs its policies and procedures to accord with relevant laws and regulations. In respect of Competition Law and the Grocery Supply Code of Practice these are monitored and reported on by the Head of Competition Law Compliance.

Systems and integration

Risk
The Board identified that many of the existing systems were approaching the end of their useful lives and that a comprehensive programme of replacement was required. This programme of work is expected to take a number of years to complete. The Board is aware of the risks faced by any organisation seeking to successfully implement new systems.

Mitigation
To maximise the likelihood of successful delivery the Group has chosen to partner with some of the world's leading technology companies for key projects. Also our business, like other similar businesses has a capacity to absorb a level of change without having a detrimental impact on continuing business operations. Change programmes within the Group are designed with this in mind and are structured and governed in a manner that allows the Board to monitor their impact. Specifically, a sub committee of the Audit Committee monitors the progress of the largest programme and receives regular reports from management, Risk & Internal Audit and other specialists.

Responsibility statement

The 2011 Annual report and financial statements, which will be issued on 9th May 2011, contains a responsibility statement in compliance with DTR 4.1.12. This states that on 9 March 2011, the date of approval of the Annual Report, the Directors confirm that the best of their knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair review of the assets, liabilities, financial position and profit or loss of the Company and its subsidiaries included in the consolidation as a whole, and

- the Directors' report includes a fair review of the development of the business and the position of the Company and its subsidiaries including in the consolidation taken as a whole, together with a description of the principle risks and uncertainties that they face.

List of the Directors and their roles will be provided in the 2011 Annual report and are available on the Group's website, http://www.morrisons.co.uk/corporate/About-Morrisons/Board-members.

Consolidated statement of comprehensive income

52 weeks ended 30 January 2011

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

Consolidated balance sheet

30 January 2011

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

Consolidated cash flow statement

52 weeks ended 30 January 2011

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

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT IN THE PERIOD

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

Consolidated statement of changes in equity

52 weeks ended 30 January 2011

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

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

General information
Wm Morrison Supermarkets PLC is a public limited company incorporated in the United Kingdom under the Companies Act 2006 (Registration number 358949). The Company is domiciled in the United Kingdom and its registered address is Hilmore House, Gain Lane, Bradford, BD3 7DL, United Kingdom.

Basis of preparation
The financial information set out herein does not constitute the Company's statutory accounts for the periods ended 30 January 2011 or 31 January 2010 but is derived from those accounts. Statutory accounts for 2010 have been delivered to the registrar of companies, and those for 2011 will be delivered in due course. The auditors have reported on those accounts; their report was (i) unqualified, (ii) did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain statements under sections 498(2) or 498(3) of the Companies Act 2006.

The Group's accounting policies are set out below and have, unless otherwise stated, been applied consistently to all periods presented in this financial information.

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

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

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

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

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

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

There is no impact on earnings per share previously disclosed.

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

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

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

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

a) Sale of goods in-store and fuel
Sale of goods in-store is recorded net of value added tax, staff discounts, coupons, vouchers and the free element of multi-save transactions. Sale of fuel is recognised net of value added tax and Morrisons Miles award points. Revenue is recognised when transactions are completed in-store.

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

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

Supplier income
Supplier incentives, rebates and discounts are collectively referred to as supplier income in the retail industry. Supplier income is recognised as a deduction from cost of sales on an accruals basis based on the expected entitlement which has been earned up to the balance sheet date for each relevant supplier contract. The accrued incentives, rebates and discounts receivable at year end are included within prepayments and accrued income. Where amounts received are in the expectation of future business, these are recognised in line with that future business.

Other operating income
Other operating income primarily consists of income not directly related to the operating of supermarkets and mainly comprises rental income from investment properties and income generated from recycling of packaging. Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease term. Details of rental income from investment property are provided in note 12.

Property transactions
Property includes the balance sheet headings of Property, plant and equipment and Investment property. The results of transactions relating to disposal of property are reported in profit for the period under Profit arising on property transactions. Depreciation and any impairment charges or reversals are recognised in cost of sales or administrative expenses, as appropriate.

Borrowing costs
All borrowing costs are recognised in the Group's profit for the period on an effective interest rate basis except for interest costs that are directly attributable to the construction of buildings and other qualifying assets which are capitalised and included within the initial cost of the asset. Capitalisation of interest ceases when the asset is ready for use.

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

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

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

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

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

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

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

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

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

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

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

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

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

Freehold land	0%
Freehold buildings	2.5%
Leasehold land	Over the lease period
Leasehold buildings	Over the shorter of lease period and 2.5%
Plant, equipment, fixtures and vehicles	14-33%
Assets under construction	0%

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

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

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

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

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

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

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

Lessor accounting – operating leases
Assets acquired and made available to third parties under operating leases are recorded as property, plant and equipment and are depreciated on a straight line basis to their estimated residual values over their estimated useful lives. Operating lease income is charged on a straight line basis to the date of the next rent review.

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

Lessee accounting – operating leases
Rental payments are taken to profit for the period on a straight line basis over the life of the lease. Property leases are analysed into separate components for land and buildings and tested to establish whether the components are operating leases or finance leases.

Lessee accounting – finance leases
The present value, calculated using the interest rate implicit in the lease, of the future minimum lease payments is included within Property, plant and equipment and financial liabilities as an obligation to pay future rentals. Depreciation is provided at the same rates as for owned assets, or over the lease period, if shorter.

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

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

Provisions are made in respect of individual properties where there are obligations for onerous contracts, dilapidations and certain decommissioning obligations for petrol filling stations. The amounts provided are based on the Group's best estimate of the likely committed outflow to the Group. Where material, these estimated outflows are discounted to net present value.

Foreign currencies
Transactions in foreign currencies are recorded at the rates of exchange at the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currency are retranslated at the rates of exchange at the balance sheet date. Gains and losses arising on retranslation are included in profit for the period.

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

The Group operates two defined benefit retirement schemes which are funded by contributions from the Group and members. The defined benefit schemes are not open to new members. Pension scheme assets, which are held in separate trustee administered funds, are valued at market rates. Pension scheme obligations are measured on a discounted present value basis using assumptions as shown in note 20. The operating and financing costs of the scheme are recognised separately in profit for the period when they arise. Death-in-service costs are recognised on a straight line basis over their vesting period. Actuarial gains and losses are recognised immediately in other comprehensive income.

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

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

Share-based payments
The Group issues equity settled share-based payments to certain employees in exchange for services rendered by them. The fair value of the share-based award is calculated at the date of grant and is expensed on a straight line basis over the vesting period with a corresponding increase in equity. This is based on the Group's estimate of share options that will eventually vest. This takes into account movement of non-market conditions, being service conditions and financial performance, if relevant.

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

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

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

ii) Cash and cash equivalents
Cash and cash equivalents for cash flow purposes includes cash-in-hand, cash-at-bank and bank overdrafts together with short term, highly-liquid investments that are readily convertible into known amounts of cash, with an insignificant risk of a change in value, within three months from the date of acquisition. In the balance sheet bank overdrafts are presented within current liabilities.

b) Financial liabilities
i) Trade and other creditors
Trade and other creditors are stated at cost.

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

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

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

To minimise the risk from potential movements in energy prices, the Group has energy price contracts which are designated as cash flow hedges. To minimise the risk from potential movements in foreign exchange rates, the Group uses forward exchange contracts which are designated as cash flow hedges. In the prior year, the Group had a cross-currency swap designated as a cash flow hedge. This derivative financial instrument, which matured during the current financial year, was used to match or minimise risk from potential movements in foreign exchange rates inherent in the cash flows of certain financial liabilities.

Derivatives are reviewed quarterly for effectiveness. Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or highly probable forecast transaction, the effective part of any gain or loss on the movement in fair value of the derivative financial instrument is recognised in other comprehensive income and presented in the hedging reserve in equity.

The gain or loss on any ineffective part of the hedge is immediately recognised in profit for the period within Cost of sales in relation to the energy price contracts and within Finance income/costs in relation to the cross-currency swap. If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or liability, the associated cumulative gains or losses that were recognised directly in equity are reclassified into profit for the period when the transaction occurs.

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

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

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

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

The shares are deducted for the purpose of calculating the Group's earnings per share.

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

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

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

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

c) Determination of useful lives, residual values and carrying values of Intangible assets, Property, plant and equipment and Investment property
Depreciation is provided so as to write down the assets to their residual values over their estimated useful lives as set out in the accounting policies for Intangible assets, Property, plant and equipment and Investment property. The selection of these residual values and estimated lives, particularly in respect of plant and equipment, requires the exercise of judgement.

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

Notes to the financial information

52 weeks ended 30 January 2011

1 UNDERLYING PROFIT

The Directors consider that underlying earnings per share measures referred to in the Chairman's statement, Operational review and Financial review provide additional useful information for shareholders on underlying trends and performance and reflects how the business is monitored internally. The adjustments are made to reported profit to (a) remove the impact of pension interest income volatility on profit for the period; (b) remove the one-off pensions credit as a result of the move from final salary to CARE (note 20); (c) remove losses/profits arising on property transactions since they do not form part of the Group's principal activities; and (d) apply an effective tax rate of 30%, being an estimated normalised tax rate.

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

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

2 SALES ANALYSIS

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

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

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

3 SEGMENTAL REPORTING

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

Consideration of IFRS 8 *Operating Segments*

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

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

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

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

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

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

4 EMPLOYEES AND DIRECTORS

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

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

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

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

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

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

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

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

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

5 OPERATING PROFIT

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

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

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

6 FINANCE COSTS AND INCOME

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

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

7 TAXATION

a) Analysis of charge in the period

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

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

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

c) Tax reconciliation

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

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

8 DIVIDENDS

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

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

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

9 EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all potentially dilutive ordinary shares. The Company has two (2010: two) classes of instrument that are potentially dilutive: those share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the period and contingently issuable shares under the Group's Long Term Incentive Plan.

a) Basic and diluted earnings per share (unadjusted)

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

	2011			2010		
	Earnings £m	Weighted average number of shares millions	EPS pence	Earnings £m	Weighted average number of shares millions	EPS pence
Unadjusted EPS						
Basic EPS						
Earnings attributable to ordinary shareholders	632	2,640.5	23.93	598	2,623.3	22.80
Effect of dilutive instruments						
Share options and LTIPs	-	56.4	(0.50)	-	50.5	(0.43)
Diluted EPS	632	2,696.9	23.43	598	2,673.8	22.37

b) Underlying earnings per share

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

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

c) Adjusted earnings per share

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

10 INTANGIBLE ASSETS

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

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

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

11 PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

12 INVESTMENT PROPERTY

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

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

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

13 CAPITAL COMMITMENTS

	2011 £m	2010 £m
Contracts placed for future capital expenditure not provided in the financial information	178	95

14 OTHER FINANCIAL ASSETS

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

The cross-currency swaps covered the Group from currency exposure arising from payments of interest and repayment of the principal in relation to Euro bonds. The cross-currency swaps and the Euro bonds matured and were repaid during the year. The notional principal amount of the outstanding cross-currency swaps at 30 January 2011 was €nil (2010: €250m).

15 DEBTORS

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

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

The ageing analysis of trade debtors is as follows:

	2011 £m	2010 £m
Neither past due nor impaired	191	137
Past due but not impaired:		
Not more than 3 months	3	6
Greater than 3 months	3	2
Impaired debt	4	3
	201	148

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

The other classes of debtors do not contain impaired assets.

16 CREDITORS – CURRENT

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

17 OTHER FINANCIAL LIABILITIES

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

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

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

Borrowing facilities

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

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

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

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

	2011 £m	2010 £m
Undrawn facilities expiring:		
Between 1 and 2 years	625	-
Between 2 and 3 years	-	650

18 FINANCIAL INSTRUMENTS

a) Financial risk management

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

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

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

The objectives, policies and processes for managing these risks, which remain unchanged from the prior year, are stated below:

i) Foreign currency risk

The Group makes the majority of its purchases in Sterling however it incurs currency exposure in respect of overseas trade purchases made in currencies other than Sterling, primarily being Euro and US Dollar. The Group's objective is to reduce risk to short term profits and losses from exchange rate fluctuations. It is Group policy that any transactional currency exposures recognised to have a material impact on short term profits and losses will be hedged through the use of derivative financial instruments. As at the balance sheet date, the Group had entered into forward foreign exchange contracts to mitigate foreign currency exposure on up to 50% (2010: 50%) of its forecasted purchases within the next six months.

The sensitivity to a reasonably possible change (+/- 20%) in the US Dollar/Euro exchange rate has been determined as being immaterial.

ii) Liquidity risk

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

The Treasury Committee monitors rolling forecasts of the Group's liquidity reserve on a quarterly basis, which comprises committed and uncommitted borrowing facilities on the basis of expected cash flow. At the year end, the Group had undrawn committed facilities of £625m (note 17); these facilities remain available to the Group.

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

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

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

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

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

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

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

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

The Group trades only with recognised, creditworthy third parties. It is the Group's policy that tenants of investment properties who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The maximum exposure is the carrying amount as disclosed in note 15. There are no significant concentrations of credit risk within the Group.

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

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

Cash flow interest rate risk: The Group's long term policy is to protect itself against adverse movements in interest rates by maintaining up to 60% of its consolidated total net debt in fixed rate borrowings over a four-year horizon. As at the balance sheet date 55% (2010: 61%) of the Group's borrowings are at fixed rate, thereby substantially reducing the Group's exposure to adverse movements in interest rates.

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

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

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

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

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

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

c) Fair values

i) Financial assets

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

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

ii) Financial liabilities

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

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

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

d) Hedging activities

i) Cash flow hedge

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

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

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

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

e) Fair value hierarchy

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

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

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

19 DEFERRED TAX

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

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

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

	Property, plant and equipment £m	Pensions £m	Share-based payments £m	Other short term temporary differences £m	Total £m
Current year					
At 31 January 2010	(563)	5	3	40	(515)
Credited/(charged) to profit for the period	29	(5)	-	9	33
Charged to other comprehensive income	-	(10)	-	(7)	(17)
At 30 January 2011	(534)	(10)	3	42	(499)
Prior year					
At 1 February 2009	(546)	14	6	54	(472)
Charged to profit for the period	(17)	(29)	(3)	(33)	(82)
Credited to other comprehensive income	-	20	-	19	39
At 31 January 2010	(563)	5	3	40	(515)

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

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

20 PENSIONS

a) Defined benefit pension scheme

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

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

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

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

The current best estimate of employer contributions to be paid for the year commencing 31 January 2011 is £36m (2010: £42m).

b) Assumptions

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

i) Financial

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

ii) Longevity

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

	2011	2010	2009
Male	24.2	23.5	23.5
Female	25.1	25.8	25.8

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

	2011	2010	2009
Male	21.8	22.2	22.2
Female	22.8	24.7	24.7

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

In calculating the present value of the liabilities the actuary selects the appropriate mortality table that reflects the longevity assumption. The most up to date tables are used in each period. The current mortality table used is S1PMA/S1PFA-Heavy YOB (2010 and 2009: PNX00 YOB LC). As disclosed in the Critical accounting assumptions, the results of the experience study conducted for the Safeway scheme have been used to adjust the longevity assumption for both schemes.

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

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

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescales covered, may not necessarily be borne out in practice. The expected return on plan assets is based on market expectation at the beginning of the period for returns over the entire life of the benefit obligation.

c) Valuations
Assets of the schemes are held in order to generate cash to be used to satisfy the schemes' obligations, and are not necessarily intended to be realised in the short term. The allocation of assets between categories is governed by the Investment Principles of each scheme and is the responsibility of the trustees of each respective scheme. The trustees should take due consideration of the Group's views and a representative of the Group attends Trustee Investment Committees. The fair value of the schemes' assets, which may be subject to significant change before they are realised, and the present value of the schemes' liabilities which are derived from cash flow projections over long periods and are inherently uncertain, are as follows:

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

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

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

The above pension scheme assets do not include any investments in the Parent Company's own shares or property occupied by any member of the Group.

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

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

d) Sensitivities

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

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

e) Profit for the period

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

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

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

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

The following amounts have been included in finance income:

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

f) Actuarial gains and losses recognised in other comprehensive income

The amounts included in the other comprehensive income were:

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

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

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

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

The expected return on schemes' assets was determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date. Expected returns on equity and property investments reflect long term real rates of return experienced in the respective markets.

g) History of experience gains and losses

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

h) Defined contribution pension scheme

Employees joining the Company after September 2000 are no longer eligible to gain automatic entry into the defined benefit pension scheme. In June 2001, the Company established a stakeholder pension scheme, open to all employees, to which the Company makes matching contributions of a maximum of 5% of eligible earnings. Pension costs for the defined contribution scheme are as follows:

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

21 PROVISIONS

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

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

Onerous leases relate to sublet and vacant properties. Where the rent receivable on the properties is less than the rent payable, a provision based on present value of the net cost is made to cover the expected shortfall. The lease commitments range from 1 to 62 years. Market conditions have a significant impact and hence the assumptions on future cash flows are reviewed regularly and revisions to the provision made where necessary. As noted in the financial review, the amount reversed in the period primarily relates to a store that has been reopened as it fits well with our new smaller stores format and a number of tenants' lease breakpoints being passed resulting in a continuing commitment from the tenants to continue the lease.

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

22 CALLED-UP SHARE CAPITAL

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

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

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

23 RESERVES

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

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

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

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

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

24 CASH FLOW FROM OPERATING ACTIVITIES

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

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

25 ANALYSIS OF NET DEBT

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

26 SHARE-BASED PAYMENTS

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

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

a) Share option schemes
i) Executive share option scheme
In May 1995, the Group adopted the 1995 Senior Executive Share Option Scheme which was made available to Directors and other senior employees. The scheme was terminated on 25 May 2005. The scheme offered options at the market price two weeks prior to the date of the grant which are normally exercisable between three and ten years from the date of grant. The maximum exercise value of the ordinary shares subject to options held by an individual must not exceed the greater of four times earnings and £100,000. The exercise of options under the scheme is subject to performance criteria broadly requiring an increase in Group operating profits of at least 20% between the year prior to the date of the grant and its third or any succeeding anniversary. The scheme is equity-settled.

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

Grant date	12 Nov 2004	02 Apr 2003
Share price at grant date	£2.33	£1.81
Fair value of options granted	£1.4m	£1.9m
Exercise price	£2.22	£1.75
Dividend yield	1.43%	1.49%
Annual risk free interest rate	4.61%	4.12%
Expected volatility*	29.4%	29.4%

* The volatility measured at the standard deviation of expected share price returns is based on statistical analysis on weekly share prices over the last six years prior to the date of grant.

	2011		2010	
	Weighted average exercise price in £ per share	Options thousands	Weighted average exercise price in £ per share	Options thousands
Movement in outstanding options				
Outstanding at start of period	1.88	1,059	1.84	1,814
Exercised	1.89	(902)	1.80	(755)
Outstanding at end of period	1.79	157	1.88	1,059
Exercisable at end of period	1.79	157	1.88	1,059

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

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

ii) Sharesave scheme

The Sharesave scheme has been in operation since 18 May 2000 and all employees (including Executive Directors) are eligible once the necessary service requirements have been met. The scheme allows participants to save up to a maximum of £250 each month for a fixed period of three years. Options are offered at a discount of 20% to the mid-market closing price on the day prior to the offer and are exercisable for a period of six months commencing after the end of the fixed period of the contract. The exercise of options under this scheme is only subject to service conditions and is equity-settled.

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

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

*The volatility measured at the standard deviation of expected share price returns is based on statistical analysis on weekly share prices over the past 3.25 years prior to the date of grant.

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

	2011		2010	
	Weighted average exercise price in £ per share	Options thousands	Weighted average exercise price in £ per share	Options thousands
Movement in outstanding options				
Outstanding at start of period	2.07	32,218	1.83	29,073
Granted	2.37	17,450	1.98	27,650
Exercised	2.46	(5,764)	1.58	(20,532)
Forfeited	2.15	(5,203)	2.16	(3,973)
Outstanding at end of period	2.14	38,701	2.07	32,218
Exercisable at end of period	2.47	20	1.58	29

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

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

b) Long Term Incentive Plans

i) Equity based Long Term Incentive Plan (LTIP)

In May 2007, a discretionary Long Term Incentive Plan for the benefit of certain employees as approved by the Remuneration Committee was introduced. The awards are free share-based awards, with non-market vesting conditions attached, that accrue the value of dividends over the vesting period.
The maximum total market value of shares over which awards may be granted to any employee during any financial year of the company is 300% of salary. Awards normally vest three years after the original grant date providing the relevant performance criteria have been met.

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

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

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

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

ii) Deferred share awards

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

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

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

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

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

27 BUSINESS COMBINATIONS

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

a) Farmers Boy (Deeside) Limited

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

b) Band Camp Limited

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

Assets and liabilities recognised as a result of the acquisitions	Fair value	
	Farmers Boy (Deeside) Limited	Band Camp Limited
	£m	£m
Property, plant and equipment	6	8
Trade and other receivables	-	1
Trade and other payables	-	(2)
Bank overdraft	-	(1)
Borrowings	-	(4)
Net identifiable assets acquired	6	2
Goodwill	7	-
Total consideration	13	2

28 OPERATING LEASE ARRANGEMENTS

a) Lessee arrangements

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

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

b) Lessor arrangements

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

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

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

29 CONTINGENT LIABILITIES

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

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

30 POST BALANCE SHEET EVENTS

a) Business combinations

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

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

b) Borrowings

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

31 PRINCIPAL SUBSIDIARIES

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

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

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

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

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

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.