Wm MORRISON
SUPERMARKETS
PLC

Report and financial statements 2004

Wm MORRISON SUPERMARKETS PLC

Report and financial statements for the 52 weeks ended 1 February

2004

Message to Shareholders

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

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

Contents

Directors and advisers

Company number 358949

Registered office
Hilmore House, Thornton Road, Bradford BD8 9AX
Tel: 01274 494166

Executive directors

Executive chairman
Sir Kenneth Duncan Morrison CBE

Joint managing directors
Marie Margaret Melnyk
Robert Winston Stott

Executive directors
Martin Ackroyd FCT
Mark Gunter
David Robert Hutchinson
Roger Anthony Owen FRICS, MCI.Arb

Secretary
J J Burke BA (Hons) ACMA, ACIS

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

Solicitors
Gordons, 14 Piccadilly, Bradford BD1 3LX
Ashurst, Broadwalk House, 5 Appold Street, London EC2A 2HA
Hammonds, 2 Park Lane, Leeds LS3 1ES

Bankers
HSBC Bank Plc, 47 Market Street, Bradford BD1 1LW
ABN Amro Corporate Finance Limited, 250 Bishopsgate, London EC2M 4AA

Brokers
Hoare Govett Limited
250 Bishopsgate, London EC2M 4AA

Registrars and transfer office
Capita Registrars
Northern House, Woodsome Park, Fenay Bridge, Huddersfield HD8 0LA
Tel: 0870 162 3131

Board of management

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

Share information

Period end		Announcement date
52 weeks to 1 February 2004		18 March 2004
25 weeks to 25 July 2004		23 September 2004*
52 weeks to 30 January 2005		24 March 2005*
Dividends		
Ordinary shares		**Payment date**
2003 Final payment	2·25p	27 May 2003
2004 Interim payment	0·55p	10 November 2003
2004 Final payment	2·70p	24 May 2004*
2005 Interim payment		8 November 2004*
Convertible preference shares		
Half year to March	2·625p	15 March
Half year to September	2·625p	15 September
Next conversion date		30 June 2004

Low cost dealing service

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

Payment of dividend

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

Dividend reinvestment plan

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

Share history 1982 to date

	Ordinary dividend (net) (p per share) year to 31 January	Share price (p) on 5 April (reported closing mid price) Ordinary	Preference	Total market capitalisation £m
1982	1·40	166	—	77
1983	1·60	158	—	73
1984	1·80	210	—	97
1985	2·20	240	—	111
23 May 1985—Capitalisation issue of 1 ordinary share for each ordinary share held.				
1986	1·35	196	—	182
1987	1·60	242	—	225
18 September 1987—Rights issue of 1 $5\frac{1}{4}$% cumulative redeemable convertible preference share of £1 for every 2 ordinary shares held.				
1988	2·00	239	95	268
1989	2·30	283	105	314
25 May 1989—Capitalisation issue of 1 ordinary share for each ordinary share held.				
1990	1·30	163	105	356
1991	1·55	252	155	549
29 November 1991—Rights issue of 1 ordinary share for every 5 ordinary shares and 14 ordinary shares for every 125 convertible preference shares held at 230p per share.				
1992	2·00	318	190	834
21 May 1992—Capitalisation issue of 2 ordinary shares for each ordinary share held.				
1993	0·80	157	264	1,228
1994	1·00	124	207	970
1995	1·20	138	233	1,082
1996	1·40	159	258	1,245
1997	1·70	153	256	1,201
1998	2·10	255	429	2,003
1999	2·45	310	517	2,437
13 May 1999—Capitalisation issue of 1 ordinary share for each ordinary share held.				
2000	1·50	137	446	2,153
2001	1·80	200	668	3,149
2002	2·20	216	722	3,405
2003	2·70	179	616	2,833
8 March 2004—Share issue in respect of acquisition of Safeway plc.				
2004	3·25*	252**	840	6,693

The $5\frac{1}{4}$% cumulative redeemable convertible preference shares can be converted in June each year up to and including 2006. The original basis for conversion was 28 ordinary shares for every £100 in nominal amount of convertible preference shares. This was subsequently amended on 25 May 1989 to 56 ordinary shares for every £100 nominal, on 21 May 1992 to 168 ordinary shares for every £100 nominal and on 13 May 1999 to 336 ordinary shares for every £100 nominal.

* subject to confirmation

** as at 1 April 2004

Notice of meeting

THE SIXTY FOURTH ANNUAL GENERAL MEETING of the company will be held at the Hanover International Hotel, Mayo Avenue, Bradford, West Yorkshire on Thursday 20 May 2004 at 11.00 am for the following purposes:

1 To receive and consider the directors' report and audited financial statements for the 52 weeks ended 1 February 2004.

2 To declare a final dividend of 2·70p per share payable on 24 May 2004 to ordinary shareholders on the register of members at the close of business on 23 April 2004.

3 To re-elect M M Melnyk as a director.

4 To re-elect R A Owen as a director.

5 To approve the directors' remuneration report for the 52 weeks ended 1 February 2004.

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

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

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

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

(i) the maximum aggregate numbers of ordinary shares and convertible preference shares hereby authorised to be purchased are 151,900,000 ordinary shares and 144,476 convertible preference shares representing approximately 5·7% and 10% respectively of the issued share capital of each class of shares at the date of this notice;

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

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

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

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

That for the purposes of the authority conferred by Article 7(2) of the company's articles of association (authority to allot relevant securities) the prescribed period shall be from the date of passing of this resolution until 30 June 2005 or, if earlier, the expiry of the next annual general meeting of the company and the Section 80 amount shall be £80,000,000 (representing approximately 30·2% of the issued ordinary share capital of the company at 18 March 2004).

Notice of meeting continued

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

That for the purposes of the power conferred by Article 7(3) of the company's articles of association (power to allot equity securities for cash) the prescribed period shall be from the date of passing of this resolution until 30 June 2005 or, if earlier, the expiry of the next annual general meeting of the company and the Section 89 amount shall be £13,255,325 (representing 5% of the issued ordinary share capital at 18 March 2004) and that the directors may in addition during the prescribed period allot equity securities for cash as if section 89(1) of the Act did not apply to such allotment up to the amount required in connection with the exercise of the rights of conversion attached to the convertible preference shares.

Registered Office
Hilmore House
Thornton Road
Bradford BD8 9AX

By order of the board
JONATHAN BURKE
Secretary
18 March 2004

Notes

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

2 A member entitled to attend and vote is entitled to appoint a proxy or proxies to attend and vote instead of him. A proxy need not be a member of the company. To be valid the form of proxy must be completed and lodged with the registrars of the company not later than 11.00 am on 18 May 2004. A proxy should either be submitted by post on the enclosed form of proxy or via the internet at www.capitaregistrars.com where full instructions are given. If you choose to appoint a proxy electronically you will need your unique investor code printed on the form of proxy notes section.

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

4 The total issued share capital of the company at the date of this notice was £265,106,519 in ordinary shares of 10p each and £1,444,776 in 5¼% cumulative redeemable convertible preference shares of £1 each.

5 Dividend warrants will be posted on 21 May 2004 to those ordinary shareholders registered at the close of business on 23 April 2004. Participants in the dividend reinvestment plan will receive their statements and if applicable share certificates by 3 June 2004.

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

Chairman's statement

Review of the 52 weeks ended 1 February 2004

The directors are pleased to announce the results for the 52 weeks ended 1 February 2004. Once again they show a year of good, steady progress, with record sales and profits – the 37th successive improvement since the company went public in 1967. A solid team performance delivered the goods once again, in spite of the diversion of attention to the bid for Safeway plc. A good illustration of the strength in depth of our management team and a tribute to their all-round knowledge, skill and application when under extra pressure.

Sales

Total takings through our stores were £5·3bn rising by 15·3% from the £4·6bn reported in 2003. This growth came from a combination of new stores, increases in the average number of customers in each of our stores, and a rise in the average spend by each customer.

During the year sales were helped by the opening of new stores at Port Talbot, Ebbw Vale, Barrow, Liverpool, Bristol and Barnsley and large new replacements, which began trading at Anlaby, Failsworth and Rotherham. The results of the store opening programme have been exceptionally good and some new takings records have been established. During this time the Wetherby store was closed for rebuilding works. We finished the year trading from 125 stores with an average sales area of 36,200 sq. ft. and added petrol filling stations to our stores at Banbury, Failsworth, Keighley, Retford and Yeadon.

Like-for-like sales were up by 9·3% and total supermarket takings by 15·3% to £5·3bn. Shoppers continue to enjoy our offer of low prices and great value in quality surroundings. Our success in the fresh food areas of our business was again demonstrated through the strong performance of the "Market Street". Multisaves were again well supported and our customers benefited to the tune of £366m.

The average number of customers using each of our stores every week rose by 3·4% and their average spend went up from £23·57 to £24·48 – an increase of 3·9%. Excluding petrol sales, each of our stores took an average of £715,700 per week, an increase of 7·4% over the £666,400 shown in the previous year. When we exclude new stores, the increase in like-for-like stores sales was 8·5% and this rises to 9·3% when petrol is taken into account. After VAT and other adjustments, net sales from our stores improved by 15·2% against last year.

In order to recognise the importance of other forms of income, most of the items previously shown as sundry income have been reclassified as turnover and once we include rents receivable, lottery commission, etc., the total turnover of the group has risen from £4,290m in 2003 to £4,944m this year.

Profit

Although the gross margin was slightly down, staff costs, overheads and depreciation rose less than the increase in turnover, and the operating margin remained virtually unchanged. Operating profit was £305·1m after taking into account £10·9m of advisors costs in respect of the Safeway acquisition (last year £3·5m) compared to £266·4m twelve months earlier.

As usual we treat any profit on the disposal of land and buildings as exceptional with income from this source falling from £1·2m to £0·8m.

After taking interest into account, profit before tax rose by 13·2% from £282·5m to £319·9m.

We have fully adopted FRS 17 "Retirement Benefits" for the first time and this has lead to a restatement of the prior year's figures.

Balance Sheet

At the year end our balance sheet remained strong with no borrowings other than normal overdraft facilities and £206·6m in net cash. The year has seen capital expenditure of £252m during which time shareholders' funds have increased from a restated £1,233m to £1,317m – an increase of 6·8%

Dividend

The directors are proposing a final ordinary dividend of 2·70p per ordinary share. This will be paid on all shares in issue on 23 April 2004, including those issued in respect of the acquisition of Safeway plc on 8 March 2004. The total dividend for the period will be 3·25p per ordinary share compared with 2·70p in 2003, which shows an increase of 20·4%. Excluding the amount payable on newly issued shares, the dividend is covered 3·9 times by the profit attributable to ordinary shareholders and £117m will be retained in the business for further investment.

Staff

Over an extended period of 14 months when a number of members of senior management were heavily engaged in the ultimately successful bid for Safeway plc, it was good to see how well the company performed. All members of management and staff are to be commended for their good work, and I would like to thank them for their support at a particularly busy time. I am pleased to note that in the 26th year of our profit sharing scheme the sum available for distribution is increased by 12·5% to £16m and will be distributed amongst all eligible employees. I would like to personally thank them for their continuing energy and enthusiasm which contributes so much to the success of the company.

Chairman's statement continued

Current Developments

On 2 February, the first day of the new financial year, our first Scottish store opened in Kilmarnock and this was followed 4 weeks later by the new store at Hartlepool. The replacement store at Wetherby opened in March and this will be followed by Falkirk in June, Knottingley and Swansea in October, and Manchester in November.

Just as last year when we completed major works at Dereham, Beverley and Keighley to refresh our stores, the programme will continue with improvements at Harrogate, Boroughbridge and the Wetherby shopping centre. Safeway stores at Rubery and Bridport have store extensions at completion and the Hereford store will enjoy increased warehouse space. A new Safeway store of 29,000 sq. ft. with a petrol filling station at Bangor (Northern Ireland) will open in April.

Future Developments

We expect to be very busy in the next few months with new developments including major store projects at Auchinlea and Livingston in Scotland, and Swadlincote in Derbyshire. Consent has been obtained to rebuild our existing store in Rothwell, and a further six store sites will move from the design stage shortly. Further investment is being made in central facilities and an additional 440,000 sq. ft. warehouse has been purchased at Northampton to enable us to begin the conversion programme of the first 50 large Safeway stores. Work commences in June and these stores should carry the Morrison brand by the end of the year. Our initial planning application for the new Regional Distribution Centre at Kettering was inexplicably turned down, despite being recommended for approval. Whilst this was a set-back, the purchase of the Northampton unit will relieve any immediate pressure whilst talks continue with the local authority to try and satisfy their concerns. A 100 acre site has been acquired in Corby to enable us to build facilities to increase our packing capacity for fresh fruit and vegetables and improve our ability to distribute both fresh and frozen goods. Packing and distribution facilities for produce at the Hook of Holland are being augmented in order to meet our increased demands. The projected head office building for Bradford has been re-designed to cater for the needs of the enlarged company. We will continue to seek and exploit opportunities to develop new large stores in good locations.

Safeway

After a 14 month period of investigation, which commenced in January 2003, initially by the Office of Fair Trading and then by the Competition Commission, we received consent to bid for Safeway. The transaction was completed on 8 March 2004, and the process of integration started.

We are required to dispose of 52 stores under the consent and have commenced the marketing of these units. There has been great interest in them and offers received to date have been very encouraging, although, of course, the loss of turnover is disappointing. It is our intention to promptly transfer our trading in four towns to existing Safeway units in Ripon, Southport, Chester and Bramley, Leeds.

Our plan to integrate the Safeway business into Morrisons will obviously take some time and there is a pressing need for the implementation of our culture throughout the larger company in order to improve operating standards and build volume sales. With this in mind we have selected the first 50 stores which will be converted to the Morrisons brand. The work of benchmarking all the own label products of both companies is approaching completion and the results will enable us to simplify the supply chain and maximise production efficiencies. Operating as a sales driven company, with the customer always of prime concern, will result in increased volume sales and help to ensure job opportunities in sales and distribution. The difficulty of obtaining firm information before 8 March 2004 has been a handicap but we are rapidly catching up with important details of the Safeway business. We have sought to update all our new colleagues on our plans for the future and all areas of the business were kept informed through presentations from the Hayes head office. Firm plans are in place for the run down of the Hayes office and its ultimate disposal.

I would like to welcome all our new colleagues from Safeway and hope that I can count on their support through a period of hard but exciting work.

Prospects

The Morrison business is presently in very good shape with store takings in the first 8 weeks of the current year increasing by 14·9%, with like-for-like stores 9·4% ahead, or 9·2% higher excluding petrol. It is our intention to convert the larger Safeway stores to the Morrison format in a rolling programme throughout the next months, which, coupled with the current development programme, will ensure further growth.

Our current trading strength illustrates how we understand our market and, most importantly, how we recognise the needs of our customers. We have in place a competent team which will extend our success in serving up good, honest value for money to all customers, new or old. I see another good year of progress in prospect.

Annual General Meeting

The Annual General Meeting will be held at 11·00 am on Thursday 20 May at the Hanover International Hotel, Mayo Avenue, Bradford, West Yorkshire. I will update you at the meeting with further details of the company's progress. If you are unable to attend, may I please ask you to vote on the resolutions by either using the enclosed form of proxy or electronically as detailed in the notice of meeting (page 5 note 2).

The record date for the final dividend is 23 April and the dividend will be paid on 24 May.

Sir Kenneth Morrison CBE
1 April 2004

Directors' report
52 weeks ended 1 February 2004

The directors have pleasure in presenting their report and the group's audited financial statements for the 52 weeks ended 1 February 2004.

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

Review of the period
A review of the development of the group is contained in the chairman's statement on page 6 and financial review on page 39.

Result and dividend
The profit for the period attributable to ordinary shareholders, after taxation of £122·3m and non-equity dividends of £0·1m, amounted to £197·5m. The directors recommend that a final equity dividend of 2·70p per share be paid. An interim dividend of 0·55p per share was paid on 10 November 2003. The total dividend of 3·25p per ordinary share represents an increase of 20·4% over the 2·70p per ordinary share paid last year and the total net equity distribution amounts to £80·2m, leaving profit retained of £117·3m. The record date for the final dividend is 23 April 2004.

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

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

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

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

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

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

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

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

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

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

Annual general meeting
Seven ordinary and two special resolutions will be proposed at the annual general meeting. Details of these resolutions are set out in the notice of meeting on pages 4 and 5 of this report. The directors believe each of these resolutions is in the best interests of the company and recommend shareholders to vote in favour of all of them as they intend to do in respect of their personal beneficial holdings of 110,641,616 ordinary shares of the company.

Directors' report continued

Share capital

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

1 Resolution 7 (a special resolution) to renew until the close of the next annual general meeting the authority given at the annual general meeting held on 22 May 2003 for the company to buy its ordinary and convertible preference shares on the London Stock Exchange up to a maximum of 151,900,000 ordinary shares of 10p each ("ordinary shares") and 144,476 5¼% cumulative redeemable convertible preference shares of £1 each ("convertible preference shares") representing approximately 5·7% and 10% respectively of the issued share capital in each class of shares.

2 Resolutions 8 (an ordinary resolution) and 9 (a special resolution) to enable directors to continue to exercise existing powers to allot unissued shares and to allot shares for cash otherwise than to existing shareholders pro rata to their holdings. These resolutions replace the resolutions passed at the extraordinary general meeting of the company held on 11 February 2004 and will run until the close of the next annual general meeting. The intention is to renew and roll them forward by one year at each future annual general meeting. Under resolution 8 the directors will be authorised to allot the unissued ordinary share capital of the company (representing approximately 30·2% of the issued ordinary share capital). Resolution 9 authorises the directors to allot equity shares for cash otherwise than pro rata to ordinary shareholders. They may do so only in respect of shares representing up to 5% of the issued ordinary share capital, in connection with the conversion of the convertible preference shares or to facilitate rights issues of ordinary shares.

Save for the issues of shares in relation to share option schemes or on conversion of the convertible preference shares, there is no present intention to make use of either authority and the resolutions are being proposed only to ensure that the directors are able to act in the best interests of the company should a requirement arise. Any shares purchased pursuant to the authority contained in resolution 7 will be cancelled or held in treasury.

Regulations introduced in 2003 enable listed companies to hold their own shares, once purchased, in treasury, as an alternative to cancelling them. Shares held in treasury may be cancelled, sold for cash or used to satisfy share options and share awards under employee share schemes. The company is not entitled to exercise any rights, including the right to attend and vote at meetings in respect of the shares and no dividend or other distribution may be made in respect of the shares. It may be appropriate for the company to hold its own ordinary shares in treasury, rather than cancelling them if the directors exercise the authority conferred by resolution 7. Your board will have regard to any guidelines which may be published by investor groups in considering any purchase, holding or resale of treasury shares.

The approval of the holders of the convertible preference shares to the purchases of shares pursuant to the authority contained in resolution 7, and any renewal of further grant of that authority on like terms, was given at a separate meeting held on 13 May 1999.

Under the provisions of the company's articles of association, the holders of convertible preference shares in the company have the right to convert such shares during June in each year up to 2006 into ordinary shares. The convertible preference shareholders will shortly receive a letter regarding their rights of conversion in 2004.

During the period, a total of 3,257,587 convertible preference shares were converted into 10,945,492 ordinary shares on the basis of 336 ordinary shares for every £100 nominal amount of convertible preference shares in accordance with the terms of issue of the convertible preference shares. In addition, 1,197,298 ordinary shares were issued to employees exercising share options. In the period 2 February 2004 to 18 March 2004 options in respect of 91,721 ordinary shares were exercised. On 8 March 2004 1,077,053,733 ordinary shares were issued on the acquisition of Safeway plc becoming effective.

At the annual general meeting of the company held in 2003, a special resolution was passed to authorise the purchase by the company of up to 151,900,000 ordinary shares and 470,236 convertible preference shares representing approximately 10% of the issued share capital of each class of shares at that time. This authority remained valid on 1 February 2004. The company has not purchased any of its own shares pursuant to that authority which will expire at the close of the 2004 annual general meeting.

At 18 March 2004 options in respect of 53,872,586 ordinary shares of 10p each in the company were outstanding, representing 2·0% of the issued ordinary share capital at that date and 2·2% of the issued ordinary share capital assuming exercise in full by the company of its authority (both current and that being sought at the annual general meeting) to purchase its own shares.

At the extraordinary general meeting held on 11 February 2004 the shareholders passed resolutions to increase the authorised share capital by £200,000,000 and to authorise the directors to allot unissued shares and to do so for cash otherwise than to existing shareholders pro rata to their holdings. The authorities relating to the allotment of shares will be replaced by those proposed at the annual general meeting.

Directors' report continued

Substantial shareholdings

As at 18 March 2004 the company was aware that the following shareholders (excluding directors) had interests in 3% or more of the issued share capital of the company:

Ordinary shares
Mr & Mrs N G Pritchard 85,917,453 (3·2%).

In addition, Mr A R Wilson has an interest in 235,689,775 ordinary shares (8·9%) of which he has a beneficial interest in 25,471 ordinary shares. His interest in the remaining 235,664,304 ordinary shares is purely as a trustee and includes 11,993,265 ordinary shares shown under the beneficial holding of K D Morrison and 37,733,306 ordinary shares shown under the beneficial holding of Mr & Mrs N G Pritchard.

K D Morrison is interested as a trustee in 159,487,397 of the ordinary shares held by Mr A R Wilson as a trustee.

Directors and their interests

The directors of the company are:

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

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

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

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

Mark Gunter (b 1.7.1958) Stores operations director
Joined Morrisons in 1986 as a store general manager after gaining wide experience in food retailing. In 1991 he progressed to district manager, was appointed regional director in 1993 and stores director in 1999. He was appointed to the main board of the company in 2000.

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

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

M M Melnyk (age 45) and R A Owen (age 55) retire by rotation and, being eligible, offer themselves for re-election at the annual general meeting.

Directors' report continued

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

	1 February 2004		2 February 2003	
Beneficial	Ordinary shares	Options to purchase ordinary shares	Ordinary shares	Options to purchase ordinary shares
M Ackroyd	138,160	794,300	383,448	534,300
M Gunter	12,200	694,300	12,200	434,300
D R Hutchinson	85,512	474,300	85,512	214,300
M M Melnyk	494,414	994,300	212,952	1,035,762
K D Morrison	109,224,850 (6·9%)	610,000	108,937,965 (7·0%)	660,000
R A Owen	532,178	780,000	682,178	520,000
R W Stott	154,302	624,300	102,194	504,300
Non-beneficial				
K D Morrison	159,487,397 (10·1%)		166,977,282 (10·7%)	

There were no changes in the above interests in the period from 2 February 2004 to 18 March 2004.

Share options

Total options outstanding including directors listed below:

Date of grant	Number of options	During the 52 weeks ended 01.02.04				Exercise	Exercisable	
	At 02.02.03	Granted	Exercised	Lapsed	At 01.02.04	price	From	To
06.05.93	265,382	—	265,382	—	—	76p		
27.04.94	656,728	—	404,236	—	252,492	61p	27.04.97	27.04.04
30.04.96	600,000	—	235,000	—	365,000	77·5p	30.04.99	30.04.06
16.04.99	530,000	—	130,000	—	400,000	148p	16.04.02	16.04.09
31.03.00	300,000	—	100,000	—	200,000	123p	31.03.03	31.03.10
28.06.00	16,268,007	—	60,370	1,512,356	14,695,281	118p	01.09.05	01.03.06
05.04.01	2,450,000	—	—	50,000	2,400,000	187p	05.04.04	05.04.11
05.04.02	1,050,000	—	—	—	1,050,000	209p	05.04.05	05.04.12
28.05.02	10,582,701	—	2,310	1,624,483	8,955,908	173p	01.07.07	31.12.07
02.04.03	—	3,570,000	—	—	3,570,000	175p	02.04.06	02.04.13
	32,702,818	3,570,000	1,197,298	3,186,839	31,888,681			

The aggregate nominal value of shares allotted during the period was £119,730 and the consideration received by the company for the allotment was £1,021,032.

Options prior to 1995 were granted under the Senior Executive Share Option Scheme 1985 approved by shareholders on 23 May 1985 whilst those after 1995 (apart from those granted on 28 June 2000 and 28 May 2002) were granted under the Executive Share Option Scheme 1995 approved by shareholders on 25 May 1995. The exercise price is equal to the mid market quotation of the shares on the day immediately prior to the date of the offer of an option. The date of grant was in all cases within 14 days of the date of the offer.

The options granted on 28 June 2000 and 28 May 2002 were issued under the sharesave scheme at a discount of 20% to the share price on the date of offer in accordance with the rules of the scheme, approved by shareholders on 18 May 2000.

In the period 2 February 2004 to 18 March 2004 no further options were granted and a total of 91,721 options were exercised.

114,517 options under the Sharesave scheme lapsed between 2 February 2004 and 18 March 2004. A total of 31,682,443 options were outstanding on 18 March 2004.

Political and charitable donations

During the period the group made charitable donations amounting to £72,000. In addition the group sponsored various charities and in the year over £449,000 was raised by customers and staff. No political donations were made.

Directors' report continued

Future developments

The group continues to expand into new areas of merchandise where considered appropriate and plans to continue physical expansion of retail stores as and when opportunities arise. On 8 March 2004 the company completed the acquisition of Safeway plc. This increased the number of stores operated by the group by 479 although at least 52 of these have to be divested due to conditions imposed by the Office of Fair Trading. In the year to 31 March 2003 Safeway plc had turnover of £8,807m and net assets of £2,211m. The acquisition was satisfied by the issue of just over 1,077m new ordinary shares each valued at 249p plus £646m cash giving total consideration for the net assets of £3,328m. An exercise will take place over the coming months to establish the fair value of the assets acquired. Further details of current and future developments are set out in the chairman's statement on pages 6 and 7.

Going concern

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

Payment to creditors

Supplier credit is an important factor in the success of the business. Following the acquisition of Safeway plc we will, as previously acknowledged, work within the spirit and letter of the supermarkets' code of practice. We will continue with our policy to ensure all payments are made within mutually agreed credit terms. Where disputes arise we attempt to sort these out promptly and amicably to ensure delays in payment are kept to a minimum. Creditor days outstanding for the company at 1 February 2004 were 38 (2003 39).

Health and Safety Policy

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

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

The following work has been achieved to target during the last twelve months:

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

Corporate governance

Statement of policy

The directors' statement on how the principles established in the combined code on corporate governance are applied to the company appears below.

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

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

All these principles and responsibilities are founded upon the basis of maintaining the successful continuity of the business.

Guidelines on corporate governance issues

Directors

The board is made up entirely of executive directors. The board keeps under review the question of appointing non executive directors.

The board is free to make the selection of chairman and chief executive in the best interests of the company at the relevant time and has an open mind whether or not the roles should be separate.

Directors' report continued

The board is responsible for the appointment of directors and for nominating them for election by the shareholders on first appointment and thereafter at three yearly intervals.

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

Relations with shareholders

The company maintains regular contact with institutional shareholders throughout the year. The board prefers to see such shareholders in the presence of a broker to broaden the access of shareholders to the discussions at such meetings. In addition the annual general meeting provides a forum for communicating with private investors.

Internal control

The board is responsible for the group's system of internal control and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss.

The combined code has a requirement that the directors' review the effectiveness of the group's system of internal controls. This includes internal financial controls and controls over financial, operational, compliance, and risk management.

The board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the group, that has been in place for the year under review and up to the date of approval of the annual report and accounts, and that this process is regularly reviewed by the board and accords with the guidance.

During 2003 the board met in full on over 20 occasions. Matters regularly covered included reports from each of the main sectors of the business – Store Operations, Trading, Estates & Property, Personnel, Information Technology, Finance and Legal as well as other business as it arose.

Regular operations meetings are held involving members of the main board, members of the board of management and other specialists as required. In addition the property director discusses all relevant matters with the chairman and his managing director on a regular basis.

Subsidiary company board meetings are held each month and attended by at least one member of the group main board. Detailed operational meetings are held by each member of the board with their relevant managers.

The directors are satisfied that these procedures are adequate to minimise potential risks facing the business.

The company does not have an independent internal audit department capable of performing a full and regular monitoring role of the company's procedures. Despite this it is felt that the financial record keeping is robust and capable of highlighting significant departures from procedures. Other areas of risk which may normally be carried out by an internal audit department are in the main covered by the board either as a whole or within the various meetings highlighted above. The security department regularly audits and reports on the robustness of internal procedures and their implementation and is also closely involved in all matters of a sensitive nature reporting directly to the chairman. Consequently the directors have confirmed that they do not feel it necessary to expand the internal audit department at this stage.

Compliance statement

The company is required to report on compliance with the detailed requirements of the combined code throughout the 52 weeks ended 1 February 2004.

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

The company ensures that it recruits to the board only individuals of sufficient calibre, knowledge and experience to fulfil the duties of a director appropriately. There is no formal training programme for directors (A.1.6).

The company does not have any non-executive directors on the board (A.2.1, A.3.1, A.3.2, A.6.1). The directors are mindful of the provisions of the combined code in this regard and regularly review the situation.

The company's nomination committee is made up of the chairman and managing directors. There are no non-executive members on the committee (A.5.1).

The company does not have a formal remuneration committee (B.1.1-3, B.1.9-10, B.2.1-6, C.2.3) but the emoluments of the directors are the subject of appraisal by the chairman and the managing directors taking into account individual performance and market conditions.

The company complies with the requirements set out in the Companies Act for giving notice of annual general meetings. Whilst mindful of the requirement of the code to give shareholders at least 20 working days notice this may not be strictly adhered to (C.2.4).

The company does not have an audit committee (C.2.3, D.3.1, D.3.2) but the board as a whole regularly monitors internal controls and also ensures that an objective and professional relationship is maintained with the auditors.

By order of the board
JONATHAN BURKE
Secretary

18 March 2004

Directors' remuneration report
52 weeks ended 1 February 2004

The company is required by the Companies Act 1985 to prepare a directors' remuneration report for the 52 weeks ended 1 February 2004 and to put that report to a shareholder vote. A resolution to approve this report will be proposed at the annual general meeting of the company to be held on 20 May 2004.

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

Unaudited information

Directors' remuneration

The pay and benefits for executive directors are determined by Sir Kenneth Morrison, Marie Melnyk and Robert Stott taking into account individual performance and market conditions.

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

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

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

Policy on directors' remuneration

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

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

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

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

Share options

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

The 1995 scheme replaced the Senior Executive Share Option Scheme 1985. The 1985 scheme has now expired although there are still live options held under that scheme. Options granted under the 1985 scheme were not subject to the achievement of performance criteria but were subject to a maximum individual limit of four times basic salary.

Directors' remuneration report continued

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

It is presently the board's policy to leave the performance conditions relating to the exercise of options granted under the 1995 Scheme unchanged for the grant of options in the current and subsequent financial years. The performance conditions are, in the board's view, appropriate to ensure that options may only be exercised where there is consistent underlying improvement in the financial position of the company judged by reference to operating profit.

Pension arrangements

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

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

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

The accrued pension is that which would be paid annually on retirement at 62, based on service to 1 February 2004.

In the case of members joining the pension scheme prior to 1 June 1989 the pension payable is based on final pensionable pay calculated as the average of the highest 3 years pensionable pay in the directors last 10 years of employment. For members joining the scheme after 31 May 1989 final pensionable pay is the lower of the average of the highest 3 years pensionable pay in the directors last 10 years of employment and the maximum earnings limit which in 2003/04 is £99,000.

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

In the event of death in service a lump sum death benefit equal to three times the director's pensionable pay at the date of death is payable. In addition a spouse's pension equal to one quarter of the pensionable pay at the date of death will be paid. If a former director in receipt of a pension dies before the 5th anniversary of his retirement a lump sum equal to the payments he would have received over that period will be paid. If a former director who dies is survived by a spouse that spouse will continue to receive a pension equal to one half of the pension payable at the time of death.

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

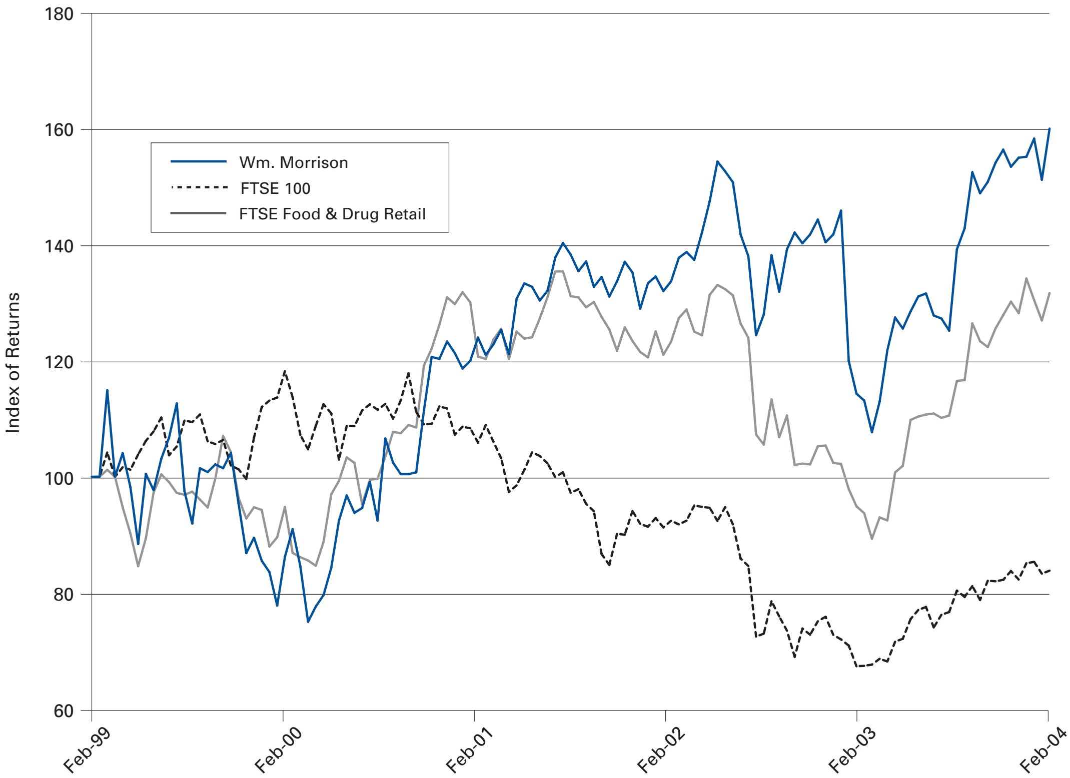
No contributions were paid or are payable by any directors under the terms of the scheme. There are no early retirement rights. Post retirement pensions increase in line with the annual increase in the retail price index or by 5% per annum compound, whichever is the lower.

Directors' remuneration report continued

Performance graph

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

Comparison of total shareholder return against FTSE 100 and FTSE Food and Drug Retailers Indices



Directors' contracts

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

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

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

Audited information

Aggregate directors' remuneration

The total amounts for directors' remuneration were as follows:

	2004 £000's	2003 £000's
Emoluments	2,949	2,373
Gains on exercise of share options	683	2,806
	3,632	5,179

Directors' remuneration report continued

Directors' emoluments and pension entitlements

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

	Basic salary £000's	Taxable benefits £000's	Profit related pay £000's	Total emoluments 2004 £000's	Total emoluments 2003 £000's	Increase in accrued pension £000's	Total accrued pension £000's	Pension transfer value 1 Feb 04 £000's	Pension transfer value 2 Feb 03 £000's
M Ackroyd	330	31	16	377	299	56	184	1,484	885
J Dowd	—	—	—	—	98	—	—	—	—
M Gunter	330	38	17	385	288	3	28	222	149
D R Hutchinson	256	26	13	295	216	54	110	708	354
M M Melnyk	456	27	22	505	391	69	191	1,505	911
K D Morrison	481	43	24	548	431	—	—	—	—
R A Owen	330	32	16	378	300	60	197	1,938	1,230
R W Stott	413	27	21	461	350	4	26	411	312
Aggregate emoluments	2,596	224	129	2,949	2,373	246	736		

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

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

Directors' share options

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

Date of grant	Number of options At 02.02.03	During the 52 weeks ended 01.02.04 Granted	Exercised	Lapsed	At 01.02.04	Exercise price	Market price on date of exercise	Gain on exercise £000's	Exercisable From	To
M Ackroyd										
16.04.99	120,000	—	—	—	120,000	148p	—	—	16.04.02	16.04.09
31.03.00	50,000	—	—	—	50,000	123p	—	—	31.03.03	31.03.10
28.06.00	14,300	—	—	—	14,300	118p	—	—	01.09.05	01.03.06
05.04.01	200,000	—	—	—	200,000	187p	—	—	05.04.04	05.04.11
05.04.02	150,000	—	—	—	150,000	209p	—	—	05.04.05	05.04.12
02.04.03	—	260,000	—	—	260,000	175p	—	—	02.04.06	02.04.13
	534,300	260,000	—	—	794,300			—		
M Gunter										
30.04.96	20,000	—	—	—	20,000	77·5p	—	—	30.04.99	30.04.06
31.03.00	50,000	—	—	—	50,000	123p	—	—	31.03.03	31.03.10
28.06.00	14,300	—	—	—	14,300	118p	—	—	01.09.05	01.03.06
05.04.01	200,000	—	—	—	200,000	187p	—	—	05.04.04	05.04.11
05.04.02	150,000	—	—	—	150,000	209p	—	—	05.04.05	05.04.12
02.04.03	—	260,000	—	—	260,000	175p	—	—	02.04.06	02.04.13
	434,300	260,000	—	—	694,300			—		
D R Hutchinson										
28.06.00	14,300	—	—	—	14,300	118p	—	—	01.09.05	01.03.06
05.04.01	50,000	—	—	—	50,000	187p	—	—	05.04.04	05.04.11
05.04.02	150,000	—	—	—	150,000	209p	—	—	05.04.05	05.04.12
02.04.03	—	260,000	—	—	260,000	175p	—	—	02.04.06	02.04.13
	214,300	260,000	—	—	474,300			—		

Directors' remuneration report continued

Date of grant	Number of options At 02.02.03	During the 52 weeks ended 01.02.04 Granted	Exercised	Lapsed	At 01.02.04	Exercise price	Market price on date of exercise	Gain on exercise £000's	Exercisable From	To
M M Melnyk										
06.05.93	101,462	—	101,462	—	—	76p	185p	111		
27.04.94	200,000	—	200,000	—	—	61p	185p	248		
30.04.96	160,000	—	—	—	160,000	77·5p	—	—	30.04.99	30.04.06
16.04.99	160,000	—	—	—	160,000	148p	—	—	16.04.02	16.04.09
31.03.00	50,000	—	—	—	50,000	123p	—	—	31.03.03	31.03.10
28.06.00	14,300	—	—	—	14,300	118p	—	—	01.09.05	01.03.06
05.04.01	200,000	—	—	—	200,000	187p	—	—	05.04.04	05.04.11
05.04.02	150,000	—	—	—	150,000	209p	—	—	05.04.05	05.04.12
02.04.03	—	260,000	—	—	260,000	175p	—	—	02.04.06	02.04.13
	1,035,762	260,000	301,462	—	994,300			359		
K D Morrison										
30.04.96	220,000	—	220,000	—	—	77·5p	180·75p	227		
16.04.99	40,000	—	40,000	—	—	148p	180·75p	13		
31.03.00	50,000	—	50,000	—	—	123p	180·75p	29		
05.04.01	200,000	—	—	—	200,000	187p	—	—	05.04.04	05.04.11
05.04.02	150,000	—	—	—	150,000	209p	—	—	05.04.05	05.04.12
02.04.03	—	260,000	—	—	260,000	175p	—	—	02.04.06	02.04.13
	660,000	260,000	310,000	—	610,000			269		
R A Owen										
16.04.99	120,000	—	—	—	120,000	148p	—	—	16.04.02	16.04.09
31.03.00	50,000	—	—	—	50,000	123p	—	—	31.03.03	31.03.10
05.04.01	200,000	—	—	—	200,000	187p	—	—	05.04.04	05.04.11
05.04.02	150,000	—	—	—	150,000	209p	—	—	05.04.05	05.04.12
02.04.03	—	260,000	—	—	260,000	175p	—	—	02.04.06	02.04.13
	520,000	260,000	—	—	780,000			—		
R W Stott										
16.04.99	90,000	—	90,000	—	—	148p	178.5p	27		
31.03.00	50,000	—	50,000	—	—	123p	178.5p	28		
28.06.00	14,300	—	—	—	14,300	118p	—	—	01.09.05	01.03.06
05.04.01	200,000	—	—	—	200,000	187p	—	—	05.04.04	05.04.11
05.04.02	150,000	—	—	—	150,000	209p	—	—	05.04.05	05.04.12
02.04.03	—	260,000	—	—	260,000	175p	—	—	02.04.06	02.04.13
	504,300	260,000	140,000	—	624,300			55		

The ordinary share mid market price ranged from 141p to 238p and averaged 201p during the period. The price on 1 February 2004 was 222p compared to 158·5p on 2 February 2003.

Approval

This report was approved by the board of directors on 18 March 2004 and signed on its behalf by

JONATHAN BURKE
Secretary

Morrisons and social responsibility

We take regular account of the significance of social, environmental and ethical matters in relation to our operations through our "Business Ethics Working Group".

Our aim is to reduce the impact of our business on the environment in which we operate through a programme of continuous improvement, minimising risks and managing costs.

Being a responsible retailer driven by commercial best practice, we take a pragmatic approach that favours building practical action into our overall trading operations. Our work is focused on the following key priority areas:

- Avoiding waste
- Saving energy
- Fostering fair and ethical trade
- Preventing pollution
- Conserving natural resources
- Supporting local communities and their environments

The associated business risks in these areas are addressed through our Working Group and taken into account during the normal course of our business.

Waste

We are committed to waste avoidance and recovery programmes. Our approach to waste management is based on minimisation and includes the recycling of polythene and cardboard, as well as the extensive use of returnable transit baskets through our supply chain.

The volume of polythene and cardboard returned and baled for recycling increased by 9% during the year, to 57,486 tonnes.

The use of returnable transit baskets and trays through the supply chain has been extended to include more fresh food lines, increasing tray movement by 4·8 million trips to over 13 million.

We are also committed to working with local Councils to provide customer collection points for recycling at our stores, wherever feasible.

Energy

We continue to actively control the use of energy across the entire estate through our building management systems and in-house monitoring of measures to reduce energy consumption.

On-going investment in energy efficient technology includes utilisation of the government's Enhanced Capital Allowance scheme applicable to this equipment. Our work has resulted in the overall consumption of energy being managed down to a level of increase far less than anticipated by our higher level of trading activity.

Secondary refrigerants are now being trialled at three of our petrol filling stations to reduce our dependence on HFC refrigerants.

Our water consumption is managed by working closely with Yorkshire Water on the installation of water controls, for example, push taps and cistern dams, in all our stores.

To maximise the efficiency of our transport operations we are achieving ongoing improvements in fuel efficiency and vehicle usage, in addition to managing emissions and reducing waste to landfill by 20%.

Ethical trading

We endeavour to maintain a clear understanding of ethical issues in the supply chain and to identify and address associated risks, being committed to the implementation of our ethical trading code.

All our buyers are now trained in the application of the code and many have taken the opportunity to test its principles when visiting suppliers in various countries.

Information is also gleaned through technical audits and we take a positive and constructive approach to any non-compliance, working with suppliers to achieve the improvements as necessary.

Community support

Our Charitable Trust provides donations to national and local causes and throughout the business we also provided additional support to various community initiatives. Last year the value of this support amounted to £130,000, not including numerous gifts in kind. Over £545,000 was raised for our staff-nominated Charity of the Year, Marie Curie Cancer Care, along with £92,000 for Children in Need.

These are but a few examples of the many efforts being made throughout the business to benefit the environment in which we operate. We constantly strive to make improvements; working in a way that we believe is appropriate to our commercial operations, with our Working Group providing a forum to address any new information, or issues arising.

Report of the independent auditors

KPMG Audit Plc

Independent auditors' report to the members of Wm MORRISON SUPERMARKETS PLC

We have audited the financial statements on pages 21 to 38. We have also audited the information in the directors' remuneration report that is described as having been audited.

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

Respective responsibilities of directors and auditors

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

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

We review whether the statement on page 13 reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

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

Basis of audit opinion

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

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

Opinion

In our opinion:

the financial statements give a true and fair view of the state of affairs of the company and the group as at 1 February 2004 and of the profit of the group for the year then ended; and

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

KPMG Audit Plc
Leeds
Chartered Accountants
Registered Auditor

18 March 2004

Statement of director's responsibilities

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

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

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

Accounting policies

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

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

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the group's financial statements with the exception of FRS 17 "Retirement Benefits" and FRS 5 "Substance of transactions application note G" which have been adopted in these financial statements. The comparative figures have been restated accordingly.

Turnover
Turnover represents gross takings from ordinary activities excluding value added tax and intra group transactions.

Depreciation
The policy of the group is to provide depreciation at rates which are calculated to write off the cost less residual value of tangible fixed assets by equal annual instalments as follows:
Freehold buildings – rates varying between 2% and 10% of original cost.
Leasehold buildings – rates varying between 2% and 10% of original cost or over the period of the lease if shorter.
Plant and equipment – rates varying between 15% and 33% of original cost.
Motor vehicles – rates varying between 20% and 25% of original cost.
Additional depreciation is taken when, in the opinion of the directors, the written down value of an asset exceeds the net recoverable value.

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

Leased assets
(i) As lessee
Tangible fixed assets operated under the terms of finance leases are capitalised at a value equal to the cost incurred in acquiring the relevant assets and depreciated in the same manner as owned assets or over the term of the lease if shorter. Finance charges are charged to the profit and loss account over the period of the lease. Payments made under operating leases are charged to the profit and loss account on a straight line basis over the period of the lease.
(ii) As lessor
Assets held for use in operating leases are recorded as fixed assets and depreciated over their useful lives. Income from operating leases is credited to the profit and loss account over the life of the lease.

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

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

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

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

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

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

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

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

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

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

Consolidated profit and loss account
52 weeks ended 1 February 2004

	Notes	2004		2003 As restated	
		£000's	£000's	£000's	£000's
Turnover	1		4,944,075		4,289,914
Increase in stocks			13,850		10,959
Other operating income	2		885		1,870
			4,958,810		4,302,743
Raw materials and consumables			(3,695,570)		(3,196,310)
Gross operating profit			1,263,240		1,106,433
Staff costs	3	(570,723)		(498,147)	
Depreciation	12	(120,367)		(111,173)	
Other operating charges		(256,136)		(227,161)	
			(947,226)		(836,481)
Operating profit pre acquisition costs			316,014		269,952
Acquisition costs	4		(10,948)		(3,514)
Operating profit	5		305,066		266,438
Profit on property disposals			760		1,176
Net interest receivable	6		14,154		12,923
Other finance (costs)/income	7		(85)		1,969
Profit before taxation			319,895		282,506
Taxation	8		(122,260)		(96,168)
Profit after taxation			197,635		186,338
Minority interest—equity			—		(2,682)
Profit for the financial period			197,635		183,656
Dividends	10		(80,321)		(42,510)
Profit retained	18		117,314		141,146
Dividend per ordinary share	10		3·25p		2·70p
Basic earnings per share	11		12·59p		11·79p
Diluted earnings per share	11		12·48p		11·61p

The comparative figures have been restated following the adoption of FRS 5 – Application note G and FRS 17, see notes 1 and 16 respectively. The results derive entirely from continuing operations in both periods. The profit before taxation is the historical cost profit.

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

Consolidated balance sheet
at 1 February 2004

	Notes	2004		2003 As restated	
		£000's	£000's	£000's	£000's
Fixed assets					
Tangible—at cost	12		2,437,126		2,223,469
—accumulated depreciation	12		(698,450)		(614,824)
			1,738,676		1,608,645
Current assets					
Stocks—goods for resale		150,267		136,417	
Debtors	13	26,255		22,643	
Bank deposits—overnight		85,860		43,620	
—longer term		220,700		173,500	
Cash in hand		8,855		7,876	
		491,937		384,056	
Creditors—amounts falling due within one year	14	(814,285)		(690,768)	
Net current liabilities			(322,348)		(306,712)
Total assets less current liabilities			1,416,328		1,301,933
Provisions for liabilities and charges	15		(51,467)		(48,935)
Net assets—excluding pension liability			1,364,861		1,252,998
Pension liability	16		(47,499)		(20,073)
Net assets—including pension liability			1,317,362		1,232,925
Capital and reserves					
Called up share capital	17				
Equity share capital		157,392		156,178	
Non-equity share capital		1,445		4,702	
			158,837		160,880
Share premium account	17		15,900		12,836
Profit and loss account	18		1,142,625		1,059,209
Shareholders' funds	19				
Equity		1,315,917		1,228,223	
Non-equity		1,445		4,702	
			1,317,362		1,232,925

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

The financial statements on pages 21 to 38 were approved by the board of directors on 18 March 2004 and signed on its behalf by:

SIR KENNETH MORRISON CBE
MARTIN ACKROYD
Directors

Consolidated cash flow statement
52 weeks ended 1 February 2004

	Notes	2004 £000's	2003 £000's
Cash inflow from operating activities	22	436,256	440,367
Net cash inflow for returns on investments and servicing of finance	23	8,853	7,748
Taxation paid	24	(109,376)	(104,223)
Capital expenditure	25	(251,897)	(254,324)
Acquisition of minority interest	26	—	(5,000)
Dividends paid	27	(43,983)	(35,837)
Cash inflow before use of liquid resources and financing		39,853	48,731
Management of liquid resources	28	(47,200)	(39,760)
Financing—issue of shares		1,021	2,360
(Decrease)/increase in cash in the period		(6,326)	11,331

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

	Notes	2004 £000's	2003 £000's
(Decrease)/increase in cash		(6,326)	11,331
Increase in liquid resources		47,200	39,760
Change in net cash resulting from cash flows		40,874	51,091
Opening net cash		165,726	114,635
Closing net cash	29	206,600	165,726

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

Consolidated statement of total recognised gains and losses
52 weeks ended 1 February 2004

	2004 £000's	2003 As restated £000's
Profit for the financial period	197,635	183,656
Actuarial loss recognised in the pension scheme (see note 16)	(49,069)	(41,420)
Current tax thereon	2,966	1,787
Deferred tax thereon	11,755	10,639
Total recognised gains and losses relating to the financial period	163,287	154,662
Prior year adjustment (see note 16)	(20,073)	
Total recognised gains and losses since last annual report	143,214	

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

Holding company balance sheet
at 1 February 2004

	Notes	2004 £000's	2004 £000's	2003 As restated £000's	2003 As restated £000's
Fixed assets					
Tangible—at cost	31	2,384,529		2,177,102	
—accumulated depreciation	31	(657,206)		(577,446)	
		1,727,323		1,599,656	
Investments	32	4,921		4,921	
			1,732,244		1,604,577
Current assets					
Stocks—goods for resale		144,436		132,181	
Debtors	33	24,648		21,262	
Bank deposits—overnight		78,900		29,600	
—longer term		200,000		170,000	
Cash in hand		8,847		7,869	
		456,831		360,912	
Creditors—amounts falling due within one year	34	(826,201)		(698,118)	
Net current liabilities			(369,370)		(337,206)
Total assets less current liabilities			1,362,874		1,267,371
Provisions for liabilities and charges	35		(54,891)		(52,142)
Net assets—excluding pension liability			1,307,983		1,215,229
Pension liability	16		(47,499)		(20,073)
Net assets—including pension liability			1,260,484		1,195,156
Capital and reserves					
Called up share capital	17				
Equity share capital		157,392		156,178	
Non-equity share capital		1,445		4,702	
			158,837		160,880
Share premium account	17		15,900		12,836
Profit and loss account	18		1,085,747		1,021,440
Shareholders' funds	36				
Equity		1,259,039		1,190,454	
Non-equity		1,445		4,702	
			1,260,484		1,195,156

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

The financial statements on pages 21 to 38 were approved by the board of directors on 18 March 2004 and signed on its behalf by:

SIR KENNETH MORRISON CBE
MARTIN ACKROYD
} *Directors*

Notes on the financial statements

1 Turnover

	2004 £000's	2004 £000's	2003 As restated £000's	2003 As restated £000's
Supermarket takings	5,299,666		4,594,804	
VAT	(397,891)		(339,428)	
Supermarket sales		4,901,775		4,255,376
Internal adjustments		(38,532)		(33,073)
Other turnover		80,182		67,333
Total UK sales		4,943,425		4,289,636
Export sales		650		278
Turnover		4,944,075		4,289,914
Internal adjustments comprise of:				
Goods for own use		(28,283)		(23,915)
Self financed coupons		(10,116)		(9,044)
Staff discount		(133)		(114)
		(38,532)		(33,073)
Other turnover comprises of:				
Income received from tenants		22,208		20,332
Coin operation receipts		13,513		9,851
Commission income		5,473		4,294
UK third party turnover from subsidiaries		37,765		31,496
Sundry		1,223		1,360
		80,182		67,333

All exports were to countries within the European Union.

The 2003 group turnover has been restated following the introduction of FRS 5 Application note G. This has resulted in turnover being restated to £4,289,914,000 from £4,288,503,000, other operating income restated to £1,870,000 from £36,156,000, and raw materials and consumables restated to £3,196,310,000 from £3,229,185,000. This restatement has not altered the previously reported group profit for 2003.

2 Other operating income

	2004 £000's	2003 As restated £000's
Profit on sale of tangible fixed assets	96	150
Sundry income	789	1,720
	885	1,870

3 Staff costs

Staff costs, including those of the directors were as follows:		As restated
Wages and salaries	503,563	443,408
Profit related pay	15,991	14,218
Social security costs	31,486	25,352
Share option costs	450	—
Pension costs	18,346	14,405
Other staff costs	887	764
	570,723	498,147

Particulars of staff

The average weekly number of persons employed by the group was as follows:	No.	No.
Full time	23,296	21,136
Part time	19,308	17,658
Casual	9,780	7,984
	52,384	46,778

Directors' remuneration

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

Notes on the financial statements continued

3 Staff costs—continued

Pension costs

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

Pension costs comprise of:	2004	2003 As restated
	£000's	£000's
Pension schemes	17,109	13,414
Stakeholder pension scheme	804	615
Life assurance scheme	433	376
	18,346	14,405

Profit related pay

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

		As restated
Profit before profit related pay	335,886	296,724
Excluded items per scheme rules	(16,068)	(12,358)
Eligible profit	319,818	284,366
5% of eligible profit	15,991	14,218

4 Acquisition costs

These represent advisory costs in relation to the acquisition of Safeway plc.

5 Operating profit

Operating profit is stated after charging:

Auditors' remuneration—group	140	138
—company	109	108
Fees paid to auditors in respect of other services	1,184	1,031
Operating leases—property	1,514	1,412
—plant, machinery and vehicles	2,322	2,388

Of the additional fees paid to the auditors, £1,056,000 (2003 £903,000) relates to advisory fees in connection with the acquisition of Safeway plc. The remainder relates to tax compliance and advisory work.

6 Net interest receivable

Interest payable on short term loans and bank overdrafts	(5,885)	(6,123)
Interest capitalised	5,421	5,228
	(464)	(895)
Interest receivable on short term deposits	14,618	13,818
	14,154	12,923

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

7 Other finance (costs)/income

		As restated
Expected return on pension scheme assets	8,822	9,787
Interest on pension scheme liabilities	(8,907)	(7,818)
	(85)	1,969

Notes on the financial statements continued

8 Taxation

	2004		2003 As restated	
	£000's	£000's	£000's	£000's
Corporation tax at 30%				
Current period	118,884		104,047	
Prior periods	431		(5,492)	
		119,315		98,555
Deferred tax at 30%				
Current period	1,568		1,769	
Prior periods	535		(4,756)	
		2,103		(2,987)
UK taxation		121,418		95,568
Overseas taxation				
Current period	792		600	
Prior periods	50		—	
		842		600
Taxation charge		122,260		96,168

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

	2004			2003 As restated		
	£000's	£000's	% of PBT	£000's	£000's	% of PBT
Profit before taxation		319,895			282,506	
Tax on profit before taxation at 30%		95,969	30·00		84,752	30·00
Current period adjustments						
Expenses not deductible for tax purposes	5,164		1·61	2,240		0·79
Non-qualifying depreciation	21,607		6·75	20,900		7·40
Capitalised interest deductible for tax purposes	(1,626)		(0·50)	(1,568)		(0·56)
Controlled foreign company not subject to UK tax	(4)		—	26		0·01
Overseas tax in excess of UK rate	134		0·04	65		0·02
Timing differences – fixed assets	(5,840)		(1·82)	(5,707)		(2·02)
– other	4,272		1·33	3,939		1·40
Current tax on pension scheme	(2,966)		(0·93)	(1,787)		(0·63)
Total		20,741	6·48		18,108	6·41
Current period corporation tax (including overseas)		116,710	36·48		102,860	36·41
Deferred tax		4,534	1·42		3,556	1·26
Current period taxation		121,244	37·90		106,416	37·67
Prior period adjustments		1,016	0·32		(10,248)	(3·63)
Taxation charge		122,260	38·22		96,168	34·04

9 Profit for the financial period

As permitted by Section 230(2) of the Companies Act 1985 the holding company profit and loss account has not been presented. The profit for the financial period includes a total of £178,526,000 (2003 £169,509,000 as restated) dealt with in the financial statements of the holding company (see also note 36).

10 Dividends

	2004 £000's	2003 £000's
Non-equity dividends	95	272
Equity dividends	80,226	42,238
	80,321	42,510

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

Dividend payable in half yearly instalments on 15 March and 15 September each year	95	272

Notes on the financial statements continued

10 Dividends—continued

Equity dividends

	2004 No. of shares	2004 p per share	2004 £000's	2003 No. of shares	2003 p per share	2003 £000's
Interim dividend	1,573,905,630	0·55	8,647	1,561,300,102	0·45	7,026
Final dividend (proposed)	2,651,065,199	2·70	71,579	1,562,332,574	2·25	35,212
Total dividend		3·25	80,226		2·70	42,238

The interim dividend was paid on 10 November 2003 and, subject to approval at the annual general meeting, the final dividend will be paid on 24 May 2004.

The number of ordinary shares eligible for the final dividend was 1,573,919,745 on 1 February 2004 and 2,651,065,199 on 18 March 2004, which includes shares issued on 8 March 2004 in respect of the acquisition of Safeway plc.

11 Basic earnings per share

The calculation of basic earnings per share is based on a total of 1,569,246,000 (2003 1,554,853,000) ordinary shares (being the weighted average number in issue during the period) and the following adjusted earnings.

	2004 £000's	2004 EPS (p)	2003 As restated £000's	2003 As restated EPS (p)
Profit for the financial period	197,635	12·59	183,656	11·81
Preference dividends	(95)	—	(272)	(0·02)
Profit attributable to ordinary shareholders	197,540	12·59	183,384	11·79

Diluted earnings per share

The calculation of diluted earnings per share is based on the profit for the financial period of £197,635,000 (2003 £183,656,000) and the following number of ordinary shares.

	2004 000's	2003 000's
Weighted average number of ordinary shares in issue	1,569,246	1,554,853
Ordinary shares created by full conversion of preference shares	4,854	15,800
Average ordinary shares on option throughout the period	31,321	29,212
Number of shares which would have been issued at fair value	(21,817)	(18,634)
Adjusted number of ordinary shares in issue	1,583,604	1,581,231

		As restated
Diluted earnings per share	12·48p	11·61p

12 Tangible fixed assets (group)

	Land and buildings Freehold £000's	Land and buildings Long lease £000's	Land and buildings Short lease £000's	Plant, equipment & vehicles £000's	Total £000's
Tangible fixed assets not in use					
At 2 February 2003	95,806	18,945	—	—	114,751
Additions at cost	137,984	55,866	—	51,917	245,767
Interest capitalised	3,822	1,599	—	—	5,421
Brought into use	(141,080)	(50,081)	—	(51,917)	(243,078)
At 1 February 2004	96,532	26,329	—	—	122,861
Tangible fixed assets in use					
At 2 February 2003	1,614,315	153,887	3,004	337,512	2,108,718
Brought into use	141,080	50,081	—	51,917	243,078
Transfers	—	—	—	—	—
Disposals	(13,979)	—	—	(23,552)	(37,531)
At 1 February 2004	1,741,416	203,968	3,004	365,877	2,314,265
Total at cost					
At 2 February 2003	1,710,121	172,832	3,004	337,512	2,223,469
At 1 February 2004	1,837,948	230,297	3,004	365,877	2,437,126

Depreciation	2004 £000's	2003 £000's
Charged on tangible fixed assets during the period	120,339	111,173
Provision against equity investment (see note 32)	28	—
	120,367	111,173

Notes on the financial statements continued

12 Tangible fixed assets (group)—continued

	Land and buildings Freehold £000's	Long lease £000's	Short lease £000's	Plant, equipment & vehicles £000's	Total £000's
Accumulated depreciation					
At 2 February 2003	322,404	21,462	2,794	268,164	614,824
Disposals	(13,183)	—	—	(23,530)	(36,713)
Charged during the period	74,518	5,757	210	39,854	120,339
At 1 February 2004	383,739	27,219	3,004	284,488	698,450
Net book value					
At 2 February 2003	1,387,717	151,370	210	69,348	1,608,645
At 1 February 2004	1,454,209	203,078	—	81,389	1,738,676

The cost of property assets held for use in operating leases included in the above figures is £139,177,000 at 1 February 2004 (2003 £133,724,000). The related accumulated depreciation is £21,584,000 (2003 £18,800,000).

Since 3 February 1985 the cost of financing property developments prior to their opening date has been included in the cost of the project. Accumulated interest capitalised is £59,630,000 (2003 £54,209,000).

13 Debtors—due within one year (group)

	2004 £000's	2003 £000's
Trade debtors	7,425	7,914
Trade prepayments	18,776	14,556
Other debtors	6	5
Operating debtors	26,207	22,475
Interest prepayments	48	168
	26,255	22,643

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

	2004 £000's	2004 £000's	2003 £000's	2003 £000's
Bank balance/overdraft	(21)		189	
Uncleared banking items	108,836		59,081	
		108,815		59,270
Trade creditors	515,081		493,819	
Payments received on account	28,862		22,066	
Other taxes and social security	29,192		19,655	
Operating creditors		573,135		535,540
Corporation tax		53,274		45,459
Fixed asset creditors		7,453		15,229
Accrued non-equity dividend	29		58	
Proposed equity dividend	71,579		35,212	
Dividend accrual		71,608		35,270
		814,285		690,768

15 Provisions for liabilities and charges (group)

	Deferred taxation £000's	Other £000's	Total £000's
At 2 February 2003	36,813	12,122	48,935
Utilisation of provisions	—	(375)	(375)
Charge for the period	1,568	804	2,372
Prior year adjustment	535	—	535
At 1 February 2004	38,916	12,551	51,467

Analysis of other provisions	2004 £000's	2003 £000's
Petrol filling station decommissioning reserve	7,731	6,927
Onerous contracts re leases	4,820	5,195
	12,551	12,122

Notes on the financial statements continued

15 Provisions for liabilities and charges (group)—continued

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

	2004 £000's	2003 As restated £000's
Excess of capital allowances over depreciation	58,143	52,711
Other timing differences	(19,227)	(15,898)
Deferred tax liability	38,916	36,813
Deferred tax asset on pension scheme liability (see note 16)	(20,357)	(8,602)
	18,559	28,211

The movements in deferred taxation balance were as follows:

At 2 February 2003	28,211
Amount charged in the profit and loss account	2,103
Amount credited in the statement of total recognised gains and losses	(11,755)
At 1 February 2004	18,559

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

16 Pension liability (group and company)

The adoption of FRS 17 "Retirement Benefits" has required a change to the accounting treatment of pensions and the prior year results have been restated as follows:

Consolidated and company balance sheet

	Deferred tax asset £000's	Pension liability £000's	Consolidated profit and loss account £000's	Company profit and loss account £000's
2 February 2003 as previously reported	—	—	1,079,282	1,041,513
Adoption of FRS 17	8,602	(28,675)	(20,073)	(20,073)
2 February 2003 restated	8,602	(28,675)	1,059,209	1,021,440

Consolidated profit and loss account

	Staff costs £000's	Other finance income £000's	Taxation £000's	Profit for the financial period £000's
2 February 2003 as previously reported	(502,132)	—	(94,381)	179,489
Adoption of FRS 17	3,985	1,969	(1,787)	4,167
2 February 2003 restated	(498,147)	1,969	(96,168)	183,656

If FRS 17 had not been adopted in 2004, profit before taxation would have decreased to £310,007,000 and profit after taxation would have decreased to £190,713,000.

The group operates a pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held in a separate trustee administered fund. The latest full actuarial valuation was carried out at 6 April 2003 and was updated for FRS 17 purposes for the periods to 1 February 2004 and 2 February 2003 by a qualified independent actuary.

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

The major assumptions used in this valuation were:

	2004	2003	2002
Rate of increase in salaries	4·25–5·25%	3·75–4·75%	3·75–4·75%
Rate of increase in pensions in payment and deferred pensions	3·00%	2·50%	2·50%
Discount rate applied to scheme liabilities	5·50%	5·75%	5·75%
Inflation assumption	3·00%	2·50%	2·50%

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

Notes on the financial statements continued

16 Pension liability (group and company)—continued

Scheme assets

Long term rate of return	2004	2003	2002
Equities	7·00%	7·00%	7·00%
Bonds	5·25%	5·25%	5·25%
Cash	4·00%	3·75%	4·00%

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

	2004 £000's	2003 £000's	2002 £000's
Equities	163,879	103,012	119,697
Bonds	11,460	10,520	10,233
Cash	3,523	4,360	4,712
Total market value of assets	178,862	117,892	134,642
Present value of scheme liabilities	(246,718)	(146,567)	(127,851)
(Deficit)/surplus in the scheme—pension (liability)/asset	(67,856)	(28,675)	6,791
Related deferred tax asset/(liability)	20,357	8,602	(2,037)
Net pension (liability)/asset	(47,499)	(20,073)	4,754

Movement in (deficit)/surplus during the period			
(Deficit)/surplus in the scheme at beginning of period	(28,675)	6,791	30,748
Current service cost	(13,588)	(13,289)	(13,789)
Contributions	23,561	17,274	14,032
Other finance (costs)/income	(85)	1,969	3,237
Actuarial loss	(49,069)	(41,420)	(27,437)
(Deficit)/surplus in the scheme at the end of the period	(67,856)	(28,675)	6,791

	2004 £000's	2003 As restated £000's
Analysis of other pension costs charged in arriving at operating profit		
Current service cost	13,588	13,289
Analysis of amounts included in other finance income		
Expected return on pension scheme assets	8,822	9,787
Interest on pension scheme liabilities	(8,907)	(7,818)
	(85)	1,969
Analysis of amounts recognised in statement of total recognised gains and losses		
Actual return less expected return on scheme assets	24,897	(44,003)
Experience gains and losses arising on scheme liabilities	(3,361)	2,583
Changes in assumptions underlying the present value of scheme liabilities	(70,605)	—
Actuarial loss recognised in statement of total recognised gains and losses	(49,069)	(41,420)

History of experience gains and losses	2004 £000's	2003 £000's	2002 £000's
Difference between the expected and actual return on scheme assets			
Amount	24,897	(44,003)	(29,387)
Percentage of scheme assets	13·9%	(37·3%)	(21·8%)
Experience gains and losses on scheme liabilities			
Amount	(3,361)	2,583	(2,420)
Percentage of present value of scheme liabilities	(1·4%)	1·8%	(1·9%)
Effects to changes in the demographic and financial assumptions underlying the present value of the scheme liabilities			
Amount	(70,605)	—	4,370
Percentage of present value of scheme liabilities	(28·6%)	—	3·4%
Total amount recognised in statement of total recognised gains and losses			
Amount	(49,069)	(41,420)	(27,437)
Percentage of present value of scheme liabilities	(19·9%)	(28·3%)	(21·5%)

Notes on the financial statements continued

17 Share capital (group and company)

	2004 £000's	2003 £000's
Authorised		
Equity share capital		
2,000,000,000 ordinary shares of 10p each (2003 2,000,000,000)	200,000	200,000
Non-equity share capital		
50,000,000 5¼% cumulative redeemable convertible preference shares of £1 each (2003 50,000,000)	50,000	50,000
	250,000	250,000
Issued and fully paid		
Equity share capital		
1,573,919,745 ordinary shares of 10p each (2003 1,561,776,955)	157,392	156,178
Non-equity share capital		
1,444,776 5¼% cumulative redeemable convertible preference shares of £1 each (2003 4,702,363)	1,445	4,702
	158,837	160,880

Movement in period	Ordinary shares £000's	5¼% crc pref. shares £000's	Share premium account £000's
At 2 February 2003	156,178	4,702	12,836
Options exercised	120	—	901
Preference shares converted	1,094	(3,257)	2,163
At 1 February 2004	157,392	1,445	15,900

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

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

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

Particulars of contingent rights to the allotment of shares are set out in the directors report (share options).

18 Profit and loss account

	Group £000's	Company £000's
At 2 February 2003	1,079,282	1,041,513
Prior year adjustment	(20,073)	(20,073)
As at 2 February 2003 as restated	1,059,209	1,021,440
Retained in the period	117,314	98,205
Share option costs	450	450
Actuarial loss recognised	(49,069)	(49,069)
Tax arising on actuarial losses	14,721	14,721
At 1 February 2004	1,142,625	1,085,747

Notes on the financial statements continued

19 Reconciliation of movements in shareholders' funds (group)

	2004 £000's	2003 As restated £000's
Profit for the financial period	197,635	183,656
Dividends payable	(80,321)	(42,510)
Retained profit for the financial period	117,314	141,146
Share option costs	450	—
Other recognised gains and losses for the financial period	(34,348)	(28,994)
New share capital subscribed	1,021	2,360
Net addition to shareholders' funds	84,437	114,512
Opening shareholders' funds (originally £1,252,998,000 before deducting prior year adjustment of £20,073,000)	1,232,925	1,118,413
Closing shareholders' funds	1,317,362	1,232,925

20 Capital commitments (group)

	2004	2003
Amounts contracted for	38,201	88,617

21 Lease commitments (group)

At 1 February 2004 the group had annual commitments under operating leases as follows:

	2004 Land and buildings £000's	2004 Plant, equipment and vehicles £000's	2003 Land and buildings £000's	2003 Plant, equipment and vehicles £000's
Expiring within one year	40	651	—	355
Expiring within two and five years inclusive	—	1,147	40	1,648
Expiring over five years	2,082	—	1,451	—
	2,122	1,798	1,491	2,003

22 Cash inflow from operating activities

	2004 £000's	2003 £000's
Operating profit	305,066	266,438
Depreciation	120,367	111,173
Profit on sale of tangible fixed assets	(96)	(150)
Share option costs	450	—
Excess of contributions over pension service cost	(9,973)	(3,985)
Increase in stock	(13,850)	(10,959)
Increase in debtors	(3,732)	(8,918)
Increase in creditors	37,595	84,602
Increase in operating provisions	429	2,166
	436,256	440,367

23 Net cash inflow for returns on investments and servicing of finance

	2004	2003
Interest received	14,618	13,818
Interest paid	(5,885)	(6,123)
Decrease in interest prepayment	120	53
	8,853	7,748

24 Taxation paid

	2004	2003
Taxation charge	(122,260)	(96,168)
Increase/(decrease) in accrual	7,815	(6,855)
Increase/(decrease) in deferred taxation	2,103	(2,987)
Current tax on pension liability	2,966	1,787
	(109,376)	(104,223)

Notes on the financial statements continued

25 Capital expenditure

	2004 £000's	2003 £000's
Purchase of tangible fixed assets	(245,767)	(263,334)
Proceeds from sale of tangible fixed assets	1,674	2,518
(Decrease)/increase in fixed asset creditors	(7,776)	6,492
Purchase of equity investment	(28)	—
	(251,897)	(254,324)

26 Acquisition of minority interest

Purchase of equity	—	(1,300)
Special dividend	—	(3,700)
	—	(5,000)

27 Dividends paid

Equity dividend	(80,226)	(42,238)
Non-equity dividend	(95)	(272)
Increase in accrual	36,338	6,673
	(43,983)	(35,837)

28 Management of liquid resources

Increase in longer term deposits	(47,200)	(39,760)

29 Net cash (group)

Bank balance/overdraft	21	(189)
Uncleared banking items	(108,836)	(59,081)
Debt repayable within one year	(108,815)	(59,270)
Cash	8,855	7,876
Overnight deposits	85,860	43,620
Longer term deposits	220,700	173,500
Net cash	206,600	165,726

30 Financial instruments (group)

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

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

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

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

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

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

Exemptions
In reporting the numerical information below, the group has excluded short term debtors and creditors as provided for under the financial reporting standard.

Interest rate risk profile of financial assets and financial liabilities

Financial assets
The group has financial assets of bank deposits, including overnight and longer term of £306,560,000 held at fixed rates and cash floats of £8,855,000 at 1 February 2004.

Financial liabilities
The interest rate profile of the group's financial liabilities was:

	2004 £000's	2003 £000's
Floating rate		
Due within one year	—	189

30 Financial instruments (group)—continued

Currency exposures

At 1 February 2004 the group had no material currency exposures.

Borrowing facilities

In December 2003 the group entered into an agreement with ABN Amro Bank NV for a £1,750,000,000 credit facility.

The maturity profile of this facility at 1 February 2004 was a follows:

	£000's
In more than one year, but not more than two years	750,000
In more than two years, but not more than five years	1,000,000
	1,750,000

Interest on the facility is the aggregate of LIBOR and a margin of 0·375% and as at 1 February 2004 the facility had not been drawn down.

Various uncommitted facilities are available and are used for working capital purposes.

Fair values of financial assets and financial liabilities

The book values of the financial assets and financial liabilities are the same as the fair values as at 1 February 2004.

31 Tangible fixed assets (company)

	Land and buildings			Plant, equipment & vehicles	Total
	Freehold £000's	Long lease £000's	Short lease £000's	£000's	£000's
Tangible fixed assets not in use					
At 2 February 2003	95,806	18,945	—	—	114,751
Additions at cost	137,028	55,866	—	46,025	238,919
Interest capitalised	3,822	1,599	—	—	5,421
Brought into use	(140,124)	(50,081)	—	(46,025)	(236,230)
At 1 February 2004	96,532	26,329	—	—	122,861
Tangible fixed assets in use					
At 2 February 2003	1,609,724	153,887	3,004	295,736	2,062,351
Brought into use	140,124	50,081	—	46,025	236,230
Transfers	—	—	—	94	94
Disposals	(13,979)	—	—	(23,028)	(37,007)
At 1 February 2004	1,735,869	203,968	3,004	318,827	2,261,668
Total cost					
At 2 February 2003	1,705,530	172,832	3,004	295,736	2,177,102
At 1 February 2004	1,832,401	230,297	3,004	318,827	2,384,529

Depreciation	2004 £000's	2003 £000's
Charged on tangible fixed assets during the period	115,871	106,064
Provision against equity investment (see note 32)	28	—
	115,899	106,064

	Land and buildings			Plant, equipment & vehicles	Total
	Freehold £000's	Long lease £000's	Short lease £000's	£000's	£000's
Accumulated depreciation					
At 2 February 2003	319,580	21,462	2,794	233,610	577,446
Disposals	(13,183)	—	—	(23,022)	(36,205)
Transfers	—	—	—	94	94
Charged during the period	74,354	5,757	210	35,550	115,871
At 1 February 2004	380,751	27,219	3,004	246,232	657,206
Net book value					
At 2 February 2003	1,385,950	151,370	210	62,126	1,599,656
At 1 February 2004	1,451,650	203,078	—	72,595	1,727,323

The cost of property assets held for use in operating leases included in the above figures is £139,177,000 at 1 February 2004 (2003 £133,724,000). The related accumulated depreciation is £21,584,000 (2003 £18,800,000).

Since 3 February 1985 the cost of financing property developments prior to their opening date has been included in the cost of the project. Accumulated interest capitalised is £59,630,000 (2003 £54,209,000).

Notes on the financial statements continued

32 Fixed asset investments

	Group	Company		
	Equity investments £000's	Equity investments £000's	Investment in subsidiary undertakings £000's	Total £000's
Cash				
As at 2 February 2003	167	102	6,224	6,326
Acquisitions	28	28	—	28
As at 1 February 2004	195	130	6,224	6,354
Provision				
As at 2 February 2003	(167)	(102)	(1,303)	(1,405)
Charged during the period	(28)	(28)	—	(28)
As at 1 February 2004	(195)	(130)	(1,303)	(1,433)
Net book value				
As at 2 February 2003 and 1 February 2004	—	—	4,921	4,921

33 Debtors—due within one year (company)

	2004 £000's	2003 £000's
Trade debtors	6,075	6,789
Prepayments	18,567	14,427
Other debtors	6	5
Operating debtors	24,648	21,221
Interest prepayment	—	41
	24,648	21,262

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

	2004 £000's	2004 £000's	2003 £000's	2003 £000's
Bank overdrafts	1,065		860	
Uncleared banking items	105,716		56,555	
		106,781		57,415
Trade creditors	480,132		466,585	
Payments received on account	20,117		16,685	
Other taxes and social security	29,738		19,069	
Amounts owed to subsidiary undertakings	64,564		48,503	
Operating creditors		594,551		550,842
Corporation tax		45,808		39,362
Fixed asset creditors		7,453		15,229
Accrued non-equity dividend	29		58	
Proposed equity dividend	71,579		35,212	
Dividend accrual		71,608		35,270
		826,201		698,118

35 Provisions for liabilities and charges (company)

	Deferred taxation £000's	Other £000's	Total £000's
At 2 February 2003	40,020	12,122	52,142
Utilisation of provisions	—	(375)	(375)
Charge for the period	2,211	804	3,015
Prior year adjustment	109	—	109
At 1 February 2004	42,340	12,551	54,891

	2004 £000's	2003 £000's
Analysis of other provisions		
Petrol filling station decommissioning reserve	7,731	6,927
Onerous contracts re leases	4,820	5,195
	12,551	12,122

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

Excess of capital allowances over depreciation	60,358	55,266
Other timing differences	(18,018)	(15,246)
	42,340	40,020

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

Notes on the financial statements continued

36 Reconciliation of movements in shareholders' funds (company)

	2004 £000's	2003 As restated £000's
Profit before intra group dividends	165,368	158,237
Intra group dividends received	13,158	11,272
Profit for the financial period	178,526	169,509
Dividends payable	(80,321)	(42,510)
Retained profit for the financial period	98,205	126,999
Share option costs	450	—
Other recognised gains and losses for the financial period	(34,348)	(28,994)
New share capital subscribed	1,021	2,360
Net addition to shareholders' funds	65,328	100,365
Opening shareholders' funds (originally £1,215,229,000 before deducting prior year adjustment of £20,073,000)	1,195,156	1,094,791
Closing shareholders' funds	1,260,484	1,195,156

37 Capital commitments (company)

	2004	2003
Amounts contracted for	38,201	88,617

38 Lease commitments (company)

At 1 February 2004 the holding company had annual commitments under operating leases as follows:

	2004		2003	
	Land and buildings £000's	Plant, equipment and vehicles £000's	Land and buildings £000's	Plant, equipment and vehicles £000's
Expiring within one year	40	651	—	355
Expiring within two and five years inclusive	—	1,147	40	1,648
Expiring over five years	1,802	—	1,451	—
	1,842	1,798	1,491	2,003

39 Contingent liability (company)

The company has given an unlimited guarantee in respect of the overdraft of all the subsidiary undertakings which at 1 February 2004 amounted to £2,967,000 including uncleared banking items (2003 £2,368,000).

40 Post balance sheet event

On 8 March 2004 Wm Morrison Supermarkets plc acquired Safeway plc.

41 Subsidiary undertakings

	Principal activity	% Equity holding
Trading		
BOS BROTHERS FRUIT AND VEGETABLES B.V.	produce wholesaler	100
DE MANDEVILLE GATE MANAGEMENT LIMITED	site administrator	51
FARMERS BOY LIMITED	manufacture and distribution of fresh food products	100
FAROCK INSURANCE COMPANY LIMITED	insurance	100
HOLSA LIMITED	polythene bag manufacturer	100
Wm MORRISON PRODUCE LIMITED	produce packers	100
NATHANSPIRE LIMITED	financial services	100
NEEROCK LIMITED	fresh meat processor	100
Non-trading		
ERITH PIER COMPANY LIMITED	—	100
LIFESTYLE WHOLESALE DISTRIBUTION LIMITED	—	100
M1 DISCOUNT STORES LIMITED	—	100
REECEWAY LIMITED	—	100
RETURNVITAL LIMITED	—	100

All the above companies are registered in England and Wales except Bos Brothers Fruit and Vegetables B.V. which is incorporated in Holland and Farock Insurance Company Limited which is incorporated in the Isle of Man. In each case the equity is directly held by Wm Morrison Supermarkets plc. The principal area of trading of all the above companies is the United Kingdom.

Financial review
52 weeks ended 1 February 2004

Turnover
The analysis of group turnover is as follows:

	2004 £m	2003 As restated £m	% Increase
Till transaction values	5,665·9	4,911·9	15·4
Multisave deductions	(366·2)	(317·1)	15·5
Supermarket takings	5,299·7	4,594·8	15·3
VAT	(397·9)	(339·4)	17·2
Supermarket sales	4,901·8	4,255·4	15·2
Internal adjustments	(38·6)	(33·1)	16·6
Other turnover	80·2	67·3	19·2
Total UK turnover	4,943·4	4,289·6	15·2
Export sales	0·7	0·3	—
Turnover	4,944·1	4,289·9	15·2
Internal adjustments comprise of:			
Goods for own use	(28·3)	(23·9)	18·4
Self financed coupons	(10·2)	(9·1)	12·1
Staff discount	(0·1)	(0·1)	—
	(38·6)	(33·1)	16·6
Other turnover comprises of:			
Income received from tenants	22·2	20·3	9·4
Coin operation receipts	13·5	9·8	37·8
Commission income	5·5	4·3	27·9
UK third party turnover from subsidiaries	37·7	31·5	19·7
Sundry	1·3	1·4	(7·1)
	80·2	67·3	19·2

Multisave deductions represented 6·5% of till transactions in both years. The departmental analysis of the increase in supermarket takings is shown below. Also shown, purely for comparative purposes, are the increases in supermarket takings in the first 8 weeks of the current financial period.

	% increase 52 weeks to 1 February 2004		% increase 8 weeks to 28 March 2004	
	Overall	Like for like	Overall	Like for like
Food	14·2	8·6	14·0	9·0
Off licence	13·1	8·2	12·6	8·1
Home & leisure	14·6	8·1	20·1	13·4
Total excluding petrol	14·1	8·5	14·2	9·2
Petrol	23·5	15·0	18·9	10·3
Supermarket takings	15·3	9·3	14·9	9·4

After excluding VAT supermarket sales rose 15·2% from £4,255·4m to £4,901·8m. Group turnover, after allowing for internal adjustments, other turnover and exports, increased to £4,944·1m from £4,289·9m. This represents an overall improvement of 15·2%.

One of the best ways of measuring the success of the company is the ability to attract and retain new customers.The following shows the average weekly transactions per store and their value over the past 5 years. All figures exclude petrol.

	Average weekly customers per store No.	% increase	Average transaction value £	% increase	Average weekly takings per store £000's	% increase
1999	25,700	–1·6	20·78	3·3	534	1·7
2000	26,211	2·0	21·23	2·2	556	4·1
2001	26,481	1·0	22·06	3·9	584	5·0
2002	27,645	4·4	22·77	3·2	629	7·7
2003	28,277	2·3	23·57	3·5	666	5·9
2004	29,242	3·4	24·48	3·9	716	7·5
Cumulative increase		13·8		17·8		34·1

Other operating income
The company generates additional income through ancillary operations and this can be analysed as follows:

	2004 £m	2003 As restated £m
Profit on sale of tangible fixed assets	0·1	0·2
Sundry income	0·8	1·7
	0·9	1·9

Financial review continued

Margins

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

	2004	2003	2002	2001	2000
Gross operating profit	25·5	25·8	24·8	24·6	25·2
Staff costs	(11·5)	(11·6)	(11·3)	(11·2)	(11·4)
Depreciation	(2·4)	(2·6)	(2·5)	(2·6)	(2·6)
Other operating charges	(5·2)	(5·3)	(5·1)	(5·0)	(5·0)
Operating profit pre acquisition costs	6·4	6·3	5·9	5·8	6·2
Acquisition costs	(0·2)	(0·1)	—	—	—
Operating profit	6·2	6·2	5·9	5·8	6·2
Interest and sundry items	0·3	0·4	0·3	0·5	0·2
Profit before taxation	6·5	6·6	6·2	6·3	6·4

Overall the operating margin has remained at 6·2% and operating profit has increased from £266·4m to £305·1m, a rise of 14·5%.

Turnover, pre tax profit, earnings per share and dividends

Over the past 5 years turnover has increased from £2,535m to £4,944m, pre tax profit from £170·3m to £319·9m and diluted earnings per share from 6·55p to 12·48p. Ordinary dividends have increased from the equivalent of 1·225p per share in 1999 to 3·25p this year. The annual progression is as follows:

	Turnover**		Pre tax profit		Diluted earnings per share		Dividend per ordinary share	
	£m	% Inc.	£000's	% Inc.	p	% Inc.	p	% Inc.
1999	2,535	10·3	170,309	11·1	6·55	6·0	1·225	16·7
2000	2,969	17·1	189,236	11·1	7·57	15·6	1·50	22·4
2001*	3,496	17·8	219,141	15·8	9·05	19·6	1·80	20·0
2002	3,915	12·0	243,020	10·9	9·79	8·2	2·20	22·2
2003	4,290	9·6	282,506**	16·2	11·61**	18·6	2·70	22·7
2004	4,944	15·2	319,895	13·2	12·48	7·5	3·25	20·4
Cumulative increase		95·0		87·8		90·5		165·3

* 53 weeks
** As restated

The analysis of pre tax profit by operating company activity is as follows:

	2004 £000's	2003 As restated £000's
Retailing/financial services	290,784	261,982
Meat processing	2,455	2,123
Fresh food production	4,789	934
Produce packing	20,849	16,495
Insurance	134	331
Polythene bag manufacture	884	641
	319,895	282,506

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

The ordinary dividend of 3·25p per share will lead to a total distribution of £80·2m which is covered 2·5 times (and 3·9 times when excluding the amount payable on the newly issued shares on 8 March 2004) by the profit attributable to ordinary shareholders of £197·5m.

Financial review continued

Fixed assets

The expansion and revamp programme has been fully outlined in the chairman's statement and during the year the written down value of tangible fixed assets rose from £1,609m to £1,739m, an increase of £130m.

The analysis of that increase is as follows:

	Cost £000's	Depreciation £000's	Written down value £000's
Additions	245,767	—	245,767
Interest capitalised	5,421	—	5,421
Disposals	(37,531)	36,713	(818)
Depreciation charged	—	(120,339)	(120,339)
Increase in year	213,657	(83,626)	130,031
Brought forward	2,223,469	(614,824)	1,608,645
	2,437,126	(698,450)	1,738,676
Proceeds from sales of tangible fixed assets			1,674
Profit on sales of fixtures and fittings and vehicles			(96)
Profit on sales of land and buildings			(760)
Disposals at written down value			818

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

	Stores £000's	Central £000's	Total £000's
On facilities opened/opening			
Prior to 2 February 2003	54,002	14,436	68,438
In year ended 1 February 2004	96,822	—	96,822
After 1 February 2004	75,278	10,650	85,928
	226,102	25,086	251,188

Cash

During the period there was an increase in net cash of £41m as shown in the consolidated cash flow statement. The movement during the period was as follows:

	At 1 February 2004 £000's	At 2 February 2003 £000's	Movement in period £000's
Bank balance/overdraft	21	(189)	210
Uncleared banking items	(108,836)	(59,081)	(49,755)
Gross debt (repayable within one year)	(108,815)	(59,270)	(49,545)
Cash	8,855	7,876	979
Overnight deposits	85,860	43,620	42,240
Longer term deposits	220,700	173,500	47,200
Net cash	206,600	165,726	40,874

Gearing

The gross amount of interest paid by the group was £5·9m which was covered 54 times by the profit before taxation.

Shareholders' funds of the group have increased from £1,233m to £1,317m. Gross borrowings represented 8·2% of shareholders' funds on 1 February 2004 compared to 4·8% on 2 February 2003.

The directors are confident that the company has sufficient available funds to cover anticipated capital expenditure.

Seven year summary of results

	2004 £000's	2003 £000's	2002 £000's	2001* £000's	2000 £000's	1999 £000's	1998 £000's
Consolidated profit and loss account							
Turnover	4,944,075	4,289,914	3,915,014	3,496,242	2,968,944	2,535,472	2,298,258
Change in stocks	13,850	10,959	(504)	14,035	3,952	(1,254)	18,412
Other operating income	885	1,870	1,150	1,106	424	598	618
	4,958,810	4,302,743	3,915,660	3,511,383	2,973,320	2,534,816	2,317,288
Raw materials and consumables	(3,695,570)	(3,196,310)	(2,944,037)	(2,651,482)	(2,225,399)	(1,886,654)	(1,746,859)
Staff costs	(570,723)	(498,147)	(444,588)	(391,118)	(339,503)	(281,934)	(242,164)
Depreciation	(120,367)	(111,173)	(98,583)	(89,455)	(76,454)	(68,197)	(57,185)
Other operating charges	(256,136)	(227,161)	(198,627)	(174,977)	(148,875)	(132,468)	(121,720)
Operating profit pre acquisition costs	316,014	269,952	229,825	204,351	183,089	165,563	149,360
Acquisition costs	(10,948)	(3,514)	—	—	—	—	—
Operating profit	305,066	266,438	229,825	204,351	183,089	165,563	149,360
Sundry	760	1,176	376	5,360	—	—	—
Net interest	14,154	12,923	12,819	9,430	6,147	4,746	3,958
Other finance (costs)/income	(85)	1,969	—	—	—	—	—
Profit before taxation	319,895	282,506	243,020	219,141	189,236	170,309	153,318
Taxation	(122,260)	(96,168)	(87,770)	(75,478)	(69,361)	(67,164)	(56,494)
Profit after taxation	197,635	186,338	155,250	143,663	119,875	103,145	96,824
Minority interest—equity	—	(2,682)	(618)	(790)	(676)	(324)	(176)
Profit for the period	197,635	183,656	154,632	142,873	119,199	102,821	96,648
Dividends	(80,321)	(42,510)	(34,475)	(28,246)	(23,636)	(19,466)	(16,866)
Profit retained	117,314	141,146	120,157	114,627	95,563	83,355	79,782
Basic earnings per share (p)	12·59	11·79	10·02	9·31	7·78	6·74	6·39
Diluted eps (p)	12·48	11·61	9·79	9·05	7·57	6·55	6·18
Dividends per ord. share (p)	3·25	2·70	2·20	1·80	1·50	1·225	1·05
Dividend cover (x)	2·46**	4·34	4·54	5·17	5·18	5·48	6·05
Consolidated balance sheet							
Tangible fixed assets							
—cost	2,437,126	2,223,469	1,971,650	1,812,432	1,597,216	1,428,431	1,270,589
—depreciation	(698,450)	(614,824)	(519,202)	(441,439)	(368,177)	(299,285)	(259,072)
—net book value	1,738,676	1,608,645	1,452,448	1,370,993	1,229,039	1,129,146	1,011,517
Net current liabilities	(322,348)	(306,712)	(286,715)	(324,165)	(303,267)	(226,179)	(202,364)
	1,416,328	1,301,933	1,165,733	1,046,828	925,772	902,967	809,153
Creditors falling due after more than one year	—	—	—	—	—	(75,000)	(75,000)
Provisions for liabilities and charges	(51,467)	(48,935)	(49,756)	(51,993)	(46,955)	(44,506)	(35,514)
Minority interest	—	—	(2,318)	(1,700)	(1,400)	(1,704)	(1,380)
Net assets—excluding pension liability	1,364,861	1,252,998	1,113,659	993,135	877,417	781,757	697,259
Pension liability	(47,499)	(20,073)	—	—	—	—	—
Net assets—including pension liability	1,317,362	1,232,925	1,113,659	993,135	877,417	781,757	697,259
Equity share capital	157,392	156,178	154,386	152,802	152,395	75,986	75,288
Non-equity share capital	1,445	4,702	9,262	13,825	14,587	15,768	19,382
Share premium account	15,900	12,836	7,708	4,362	2,916	78,047	73,988
Profit and loss account	1,142,625	1,059,209	942,303	822,146	707,519	611,956	528,601
Shareholders' funds	1,317,362	1,232,925	1,113,659	993,135	877,417	781,757	697,259

* 53 weeks

All turnover figures have been restated to take account of FRS 5 application note G. These restatements have not altered the previously reported group profits. Only 2003 has been restated following the adoption of FRS 17 "Retirement Benefits".

**Dividend cover is 3·9 times when excluding amount payable on newly issued shares relating to acquisition of Safeway plc.

Supplementary information

	2004	2003	2002	2001*	2000	1999	1998
Increase on previous year %							
Turnover	15·25	9·58	11·98	17·76	17·10	10·32	5·56
Operating profit	14·50	15·93	12·47	11·61	10·59	10·85	9·50
Profit before taxation	13·23	16·25	10·90	15·80	11·11	11·08	10·81
Profit after taxation	6·06	20·02	8·06	19·84	16·22	6·53	13·27
EPS (diluted)	7.49	18.59	8·18	19·55	15·57	5·99	13·60
Dividend per ord. share	20·37	22·73	22·22	20·00	22·45	16·67	23·53
Shareholder funds	6·85	10·71	12·14	13·19	12·24	12·12	12·98
% of turnover							
Operating profit	6·17	6·21	5·87	5·84	6·16	6·53	6·50
Profit before taxation	6·47	6·59	6·20	6·26	6·37	6·72	6·67
Profit after taxation	4·00	4·34	3·96	4·10	4·04	4·07	4·22
Retail portfolio							
Size 000's sq ft (net sales area)			Number of stores at year end				
15-25	8	9	9	11	10	7	7
25-40	93	86	83	80	74	70	63
40+	24	24	21	19	17	18	15
Total	125	119	113	110	101	95	85
Petrol filling stations	112	98	89	82	73	70	64
Total sales area (000's sq ft)	4,526	4,241	4,039	3,907	3,572	3,398	3,058
Average store size	36·2	35·6	35·7	35·5	35·4	35·8	36·0
Average sales area 000's sq ft	4,399	4,113	3,964	3,729	3,482	3,226	2,980
Total supermarket takings ex petrol (gross) £m	4,550	3,988	3,644	3,267	2,841	2,494	2,274
Average per sq ft per week (£)	19·94	18·65	17·68	16·53	15·69	14·87	14·67
Average per store per week (£000)	716	666	629	584	556	534	525
Average number of customers per store per week	29,242	28,277	27,645	26,481	26,211	25,700	26,130
Average take per customer (£)	24·48	23·57	22·77	22·06	21·23	20·78	20·11
Employees							
Full time	23,296	21,136	18,931	16,530	14,899	13,326	12,175
Part time	19,308	17,658	16,814	15,184	13,920	11,845	10,314
Casual	9,780	7,984	7,214	6,186	5,742	5,457	5,685
Total	52,384	46,778	42,959	37,900	34,561	30,628	28,174
Full time equivalent (2 part time or 4 casual=1 full time)	35,395	31,961	29,141	25,668	23,294	20,613	18,753
Average per employee							
Turnover (£000's)	140	134	134	136	127	123	123
Operating profit (£)	8,722	8,212	7,887	7,961	7,860	8,032	7,964
Staff costs (£)	16,331	15,711	15,256	15,238	14,574	13,678	12,913
No. of participants in profit related pay scheme	30,943	28,570	26,399	24,329	22,067	19,351	17,383
Average profit related pay received (£)	517	498	472	450	447	466	446

* 53 weeks

List of branches

MORRISONS

ANLABY
BANBURY
BARNSLEY
BARROW IN FURNESS
BARRY
BEVERLEY
BIRMINGHAM
BISHOP AUCKLAND
BLACKBURN
BLACKPOOL
BOLTON (2)
BOROUGHBRIDGE
BRADFORD (5)
BRAMPTON
BRISTOL
BURTON UPON TRENT
CAMBOURNE
CARLISLE
CHADDERTON
CHEADLE HEATH
CHESTER
CHORLEY
CLEETHORPES
COALVILLE
COVENTRY
CREWE
DARLINGTON (2)
DERBY
DEREHAM
DONCASTER
DUKINFIELD
EBBW VALE
ECCLES
FAILSWORTH
GAINSBOROUGH
GRANTHAM
GRAYS
HALIFAX
HARROGATE
HARTLEPOOL
HECKMONDWIKE
HEYWOOD
HUDDERSFIELD
HULL
HYDE
INCE IN MAKERFIELD
IPSWICH
JARROW
KEIGHLEY
KENDAL
KETTERING
KILMARNOCK
KINGS LYNN
LEEDS (9)
LETCHWORTH
LINCOLN
LIVERPOOL
LONDON (3)
MANSFIELD
MIDDLESBROUGH
MORECAMBE
NELSON
NEWARK-ON-TRENT
NEWCASTLE-UNDER-LYME
NEWCASTLE UPON TYNE (2)
NEWPORT (Gwent)
NORTHAMPTON
NORWICH
NOTTINGHAM (2)
PONTEFRACT
PORT TALBOT
PRESTON
REDCAR
RETFORD
RHYL
RIPON
ROCHDALE
ROTHERHAM (3)
SCARBOROUGH
SCUNTHORPE
SHEFFIELD (3)
SHREWSBURY
SKIPTON
SOUTHPORT
SPALDING
ST HELENS (2)
STAMFORD
STAVELEY
STOCKTON-ON-TEES
STOKE-ON-TRENT
SUNDERLAND (2)
TAMWORTH
TYNEMOUTH
WAKEFIELD (2)
WALSALL
WARRINGTON
WELLINGBOROUGH
WELLINGTON
WETHERBY
WIDNES
WIGAN
WINSFORD
WOLVERHAMPTON

SAFEWAY

ABERDEEN (4)
ABERGAVENNY
ABERYSTWYTH
AIRDRIE
ALDRIDGE
ALEXANDRIA
ALLOA
ALNESS
ALNWICK
ANDOVER
ANNAN
ARBROATH
AYLESBURY
AYR
BALLYCLARE
BANCHORY
BANGOR
BANGOR (NI)
BARNARD CASTLE
BARRY
BASINGSTOKE
BATH
BATHGATE
BECCLES
BEDLINGTON
BELFAST (2)
BELPER
BERWICK UPON TWEED
BEVERLEY (2)
BIDEFORD
BIGGIN HILL
BINGLEY
BIRMINGHAM (4)
BIRTLEY
BLANDFORD FORUM
BLYTH
BODMIN
BOGNOR REGIS
BOLTON (2)
BRACKNELL
BRECHIN
BRECON
BRIDGE OF WEIR
BRIDGWATER
BRIDLINGTON (2)
BRIDPORT
BRIGHTON
BRISTOL
BROMSGROVE
BROUGH
BROUGHTY FERRY
BUCKIE
BUDE
BURNTWOOD
BURTON UPON TRENT
BUXTON
CAERNARFON
CAERPHILLY
CANNOCK
CANTERBURY (2)
CANVEY ISLAND
CARDIFF
CARLUKE
CARMARTHEN
CARNFORTH
CASTLE BROMWICH
CATERHAM
CHAPEL EN LE FRITH
CHATHAM
CHELTENHAM
CHESTER
CHESTERFIELD
CHIPPENHAM
CHORLTON CUM HARDY
CLACTON (2)
CLEVEDON
COLERAINE
COLWYN BAY
CONGLETON
CONSETT
COOKSTOWN
CORBY
COTTINGHAM
COVENTRY (2)
CRAMLINGTON
CREWE
CROMER
CROWBOROUGH
CROYDON
CUMNOCK
DAGENHAM
DARLINGTON (2)
DARTFORD
DENBIGH
DERBY
DEVIZES
DEWSBURY
DINNINGTON
DISS
DONCASTER
DOWNPATRICK
DROITWICH
DUDLEY (2)
DUMBARTON
DUMFRIES
DUNDEE
DUNDONALD
DUNFERMLINE
DUNOON
DURHAM
EAST GRINSTEAD
EAST KILBRIDE (4)
EASTBOURNE
EASTLEIGH (2)
EDINBURGH (10)
ELGIN
ELLESMERE PORT
ELLON
ENNISKILLEN
ERSKINE
EVESHAM
FAKENHAM
FARNBOROUGH
FARNHAM
FELIXSTOWE
FERRYHILL
FILEY
FLEET
FOLKESTONE
FORMBY
FORT WILLIAM
FRASERBURGH
FROME
GARFORTH
GARSTANG
GATESHEAD
GIBRALTER
GIRVAN
GLASGOW (16)
GLASTONBURY
GLENROTHES
GLOUCESTER
GOSPORT
GRANTHAM
GRAVESEND
GRAYS
GREENOCK
GUERNSEY
GUISBOROUGH
HADLEIGH
HALE
HALESOWEN
HAMILTON
HARROGATE
HARWICH
HASTINGS
HAVERFORDWEST
HAWICK
HAXBY
HEDON
HEREFORD
HERNE BAY
HERSHAM
HEXHAM
HIGH WYCOMBE
HINCKLEY
HITCHIN
HORNDEAN
HOUNSLOW
HUCKNALL
HULL
ILKESTON
INVERNESS (2)
INVERURIE
IRVINE
ISLE OF BUTE
ISLE OF LEWIS
ISLE OF MAN (2)
ISLE OF SKYE
JERSEY
JOHNSTONE
KELSO
KIDDERMINSTER
KILBIRNIE
KILKEEL
KILLWINNING
KILMARNOCK
KILSYTH
KINROSS
KIRKCUDBRIGHT
KIRKHAM
LARGS
LEEDS (5)
LEEK
LEICESTER
LEIGH-ON-SEA
LEIGHTON BUZZARD
LEOMINSTER
LEWES
LICHFIELD
LINCOLN
LISKEARD
LITTLEHAMPTON
LIVINGSTON (2)
LOCKERBIE
LOFTUS
LONDON (36)
LONGRIDGE
LOUGHBOROUGH
LOUGHTON
LOWESTOFT
LUTTERWORTH
LYMINGTON
LYTHAM ST ANNES
MAIDSTONE (2)
MALDON
MALTON
MALVERN
MANSFIELD
MARKET DRAYTON
MAYBOLE
MELTHAM
MELTON MOWBRAY
MIDDLESBROUGH (3)
MIDSOMER NORTON
MILLOM
MILTON KEYNES
MORDEN
MORPETH
MOTHERWELL
NAIRN
NANTWICH
NEATH
NEW MALDEN
NEW MILTON
NEWARK
NEWCASTLE-UNDER-LYME
NEWCASTLE UPON TYNE (4)
NEWPORT (Isle of Wight)
NEWPORT (Shropshire)
NEWQUAY
NEWTON-LE-WILLOWS
NEWTON STEWART
NEWTONARDS
NEWTOWN
NORTH BERWICK
NORTHALLERTON
NORTHAMPTON (2)
NOTTINGHAM (2)
OMAGH
ORKNEY
ORMSKIRK
OTLEY
OXTED
PAIGNTON
PAISLEY (2)
PEEBLES
PENICUIK
PENRITH
PENZANCE
PERTH
PETERBOROUGH
PETERHEAD
PETERLEE
PICKERING
PLYMOUTH (2)
POCKLINGTON
PONTELAND
POOLE (2)
PORT GLASGOW
PORTSMOUTH (2)
PRESTON PANS
PRESTWICK
READING
REDCAR
REDDITCH
REDRUTH
REIGATE
RENFREW
RINGWOOD
RIPON
ROSS ON WYE
RUBERY
RUGELEY
RUSHDEN
RYTON
SALTCOATS
SANDBACH
SANDHURST
SANDOWN
SCARBOROUGH
SCUNTHORPE
SEAFORD
SELBY
SELKIRK
SHEFFIELD (3)
SHETLAND
SHREWSBURY
SIDCUP (2)
SKEGNESS
SLOUGH
SMETHWICK
SOLIHULL (2)
SOUTH SHIELDS
SOUTHAMPTON (2)
SOUTHEND ON SEA
SOUTHPORT
SPALDING
ST ALBANS
ST ANDREWS
ST HELENS
STEVENSTON
STEWARTON
STIRLING
STOCKPORT (2)
STOCKTON ON TEES (2)
STOKESLEY
STONE
STOURBRIDGE
STRABANE
STRANRAER
STRATFORD UPON AVON
STROOD
SUNDERLAND
SUTTON
SWAFFHAM
SWINDON
SWINTON
TADCASTER
TAUNTON
TAVISTOCK
TEWKESBURY
THORNBURY
THORNTON CLEVELEYS
THURSO
TIVERTON
TODMORDEN
TOTNES
TOTTON
TOWCESTER
TROON
TUNBRIDGE WELLS
TURRIFF
UDDINGSTON
ULLAPOOL
VERWOOD
WALSALL
WALTON ON THAMES
WARMINSTER
WELSHPOOL
WELWYN GARDEN CITY
WEST BROMWICH
WEST KIRBY
WESTON SUPER MARE
WEYMOUTH
WHICKHAM
WHITBURN
WHITBY
WHITEHAVEN
WHITLEY BAY
WICK
WILMSLOW
WIMBORNE
WINCANTON
WISHAW
WITHAM
WOKING
WOKINGHAM
WOLVERHAMPTON (2)
WORKINGTON
WORTHING
YARM
YATE
YEOVIL
YORK

PROJECTED STORE OPENINGS

FALKIRK	JUNE 2004
KNOTTINGLEY	OCTOBER 2004
SWANSEA	OCTOBER 2004
DENTON	NOVEMBER 2004

Safeway stores acquired on 8 March 2004

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