

General information

The Directors' report and business review

Pages 2 to 44 inclusive of this Annual report consist of a Directors' report and business review that has been drawn up and presented in accordance with, and in reliance on, English company law. The liabilities of the Directors in connection with that Directors' report and business review shall be subject to the limitations and restrictions provided by the Companies Act 2006.

There are no persons with whom the Group has contractual or other arrangements which are essential to the business of the Group.

Forward-looking statements

The Directors' report and business review is prepared for the members of the Company and should not be relied upon by any other party or for any other purpose. Where the Directors' report and business review includes forward-looking statements, these are made by the Directors in good faith based on the information available to them at the time of their approval of this report. Consequently, such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying such forward-looking statements and information.

Result and dividend

The profit for the period after taxation amounted to £460m. The Directors have declared and recommended the following dividends:

	£m
Paid interim dividend of 0.8p per share (2008: 0.675p)	21
Recommended final dividend of 5.0p per share (2008: 4.125p)	131

The final dividend, if approved by shareholders at the Annual General Meeting (AGM), is to be paid on 10 June 2009 to ordinary shareholders on the register of members at close of business on 8 May 2009. If the final dividend is approved by shareholders, the total ordinary dividend for the year will be 5.8p per share.

Auditor

A resolution to reappoint KPMG Audit Plc as auditor and to authorise the Directors to set their remuneration is to be proposed at the forthcoming AGM.

Annual General Meeting

The notice of the 2009 AGM of the Company (to be held at the Company's headquarters at Gain Lane in Bradford on 4 June 2009) is sent to shareholders with an accompanying explanatory letter from the Chairman. The Directors believe each of the resolutions to be proposed at the AGM is in the best interests of the Group and recommend shareholders to vote in favour of each of them. Shareholders will also receive notification of the availability of the results to view on the Group's website, unless they have elected to receive a printed version.

Share capital

The authorised and called-up share capital of the Company, together with details of shares allotted during the year, is shown in note 22 of the financial statements.

At the AGM of the Company held in 2008, a special resolution was passed to renew the authority given at the AGM held on 24 May 2007 to the purchase by the Company of up to 268,361,042 ordinary shares representing approximately 10% of the issued ordinary share capital at that time. This authority remained valid on 1 February 2009. During the period, the Company purchased and cancelled 57,788,600 of its ordinary shares pursuant to that authority which will expire at the close of the 2009 AGM. Further details appear in note 41 of the financial statements.

In addition, 1,530,738 ordinary shares were issued during the period to employees exercising share options.

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.

Substantial shareholdings

As at 11 March 2009, the Company had been notified by the following shareholders (excluding Directors) that they have interests in 3% or more of the issued share capital of the Company:

	Number of shares	% of holding
Ameriprise Financial Inc	173,736,469	6.6%
Sir KD Morrison	171,346,034	6.5%
AR Wilson	155,758,573	5.9%
Legal & General Group Plc	137,128,838	5.2%
Brandes Investment Partners LP	132,155,077	5.0%
Walter Scott & Partners Ltd	107,775,155	4.1%
Susan & Nigel Pritchard	106,405,539	4.0%
Zurich Financial Services	81,286,130	3.1%

The number of shares appearing above is that appearing in the relevant notification to the Company. The percentage appearing above is the percentage that number represents of the issued share capital of the Company as at 11 March 2009.

Beneficial owners of shares with 'information rights'

Beneficial owners of shares who have been nominated by the registered holder of those shares to receive information rights under section 146 of the Companies Act 2006 are required to direct all enquiries and communications to the registered holder of their shares rather than to the Company's registrar, Capita Registrars, or to the Group directly.

Directors

The current Directors of the Group and their biographies are shown on pages 28 to 29.

Sir Ken Morrison and Roger Owen retired from the Board on 13 March 2008 and 1 February 2009 respectively.

Philip Cox will join the Board on 1 April 2009 as a Non-Executive Director.

Brian Flanagan (aged 56), Paul Manduca (aged 57), Susan Murray (aged 52) and Nigel Robertson (aged 49) retire by rotation and Philip Cox (aged 57) retires at the first AGM following his appointment. All of them, being eligible, offer themselves for re-election at the AGM.

The interests of the Executive and Non-Executive Directors of the Company and their immediate families in the shares of the Company, along with share options, are contained in the Directors' remuneration report set out on pages 34 to 41.

At no time during the year did any of the Directors have a material interest in any significant contract with the Company or any of its subsidiaries.

Political and charitable donations

During the period the Group made charitable donations amounting to £0.3m. In addition, the Group sponsored various charities and in the year over £0.9m was raised by customers and staff. No political donations were made, which is Group policy.

Disclosure of information to auditors

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Group's auditor is unaware; and each Director has taken all steps that he or she ought to have taken as a Director to make himself or herself aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

Going concern

The Directors' assessment of the Group and Company's ability to continue as a going concern has taken into consideration the effect that the current economic climate has on the Group.

The Group's ability to borrow cash has not been adversely affected by the lack of liquidity in the financial markets and the Group has already negotiated and has available committed, competitive facilities that will meet the Group's needs in the medium term.

The principal risks that the Group are challenged with have been set out on page 22 to 23 including such risks as the loss of a key supplier, along with how the Directors mitigate these risks in the current economic climate.

After reviewing the Group's Optimisation Plan, financial forecasts including an assessment of working capital and other medium term plans, the Directors are confident that the Company and the Group have adequate financial resources available to continue in operational existence for the foreseeable future. The going concern basis has continued to be adopted in the preparation of the financial statements.

Payment to creditors

Supplier credit is an important factor in the success of the business. The Group works within the spirit and letter of the supermarkets' code of practice. It is Group policy to ensure all payments are made within mutually agreed credit terms. Where disputes arise, the Group attempts to sort these out promptly and amicably to ensure delays in payment are kept to a minimum. Trade creditors for the Group at the financial year end represented 33 days of purchases (2008: 34 days).

Health and safety policy

It is the Group's intention, so far as is reasonably practicable, to ensure the health, safety and welfare of all its employees, customers and visitors to its premises. In order to achieve this, a comprehensive health and safety manual is in place for each division of the Company and subsidiary companies within the Group. Each health and safety manual contains the policy and procedures for complying with the Health and Safety at Work Act 1974, including the provision, based on risk assessment, of safe working practices for all work activities across the Group. The Group's health and safety policy is approved by the Executive Board. The Group has adopted the national targets set by the Health and Safety Commission for the reduction of workplace accidents and work-related ill health, and is on course to meet or exceed these targets. Health and safety performance is monitored to ensure continuous improvement in all areas.

Additional shareholder information

Additional information for shareholders is required by the implementation of the EU Takeover Directive into UK Law.

Pursuant to Part VII of Schedule 7 of the Companies Act 1985 and section 992 of the Companies Act 2006, the Company is required to disclose certain additional information. Such disclosures, which are not covered elsewhere in this report, include the following paragraphs. Where reference is made to the Company's Articles of Association, this refers to the existing set of Articles, although the changes proposed to be made at the Company's 2009 AGM will not change the relevant sections. The disclosures below are in some cases a summary of the relevant provisions of the Company's Articles of Association and the relevant full provisions can be found in the Articles which are available for inspection at the Company's registered office.

Share capital and rights attaching to the Company's shares

Under the Company's Articles of Association, any share in the Company may be issued with such rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise as the Company may from time-to-time by ordinary resolution determine (or, in the absence of any such determination, as the Directors may determine).

At a general meeting of the Company, every member has one vote on a show of hands and on a poll, one vote for each share held. The notice of general meeting specifies deadlines for exercising voting rights either by proxy or present in person in relation to resolutions to be passed at a general meeting.

No member is, unless the Board decides otherwise, entitled to attend or vote either personally or by proxy at a general meeting or to exercise any other right conferred by being a shareholder if he or any person with an interest in shares has been sent a notice under section 793 of the Companies Act 2006 (which confers upon public companies the power to require information with respect to interests in their voting shares) and he or any interested person failed to supply the Company with the information requested within 14 days after delivery of that notice. The Board may also decide that

General information continued

no dividend is payable in respect of those default shares and that no transfer of any default shares shall be registered. These restrictions end seven days after receipt by the Company of a notice of an approved transfer of the shares or all the information required by the relevant section 793 notice, whichever is the earlier.

The Directors may refuse to register any transfer of any share which is not a fully-paid share, although such discretion may not be exercised in a way which the Financial Services Authority regards as preventing dealings in the shares of the relevant class or classes from taking place on an open or proper basis. The Directors may likewise refuse to register any transfer of a share in favour of more than four persons jointly.

The Company is not aware of any other restrictions on the transfer of shares in the Company other than certain restrictions that may from time-to-time be imposed by laws and regulations (for example, insider trading laws).

The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities or voting rights.

Appointment and powers of Directors

Directors are appointed by ordinary resolution at a general meeting of ordinary shareholders. The Directors have the power to appoint a Director during the year but any person so appointed must be put up for appointment at the next AGM.

Subject to its Articles of Association and relevant statutory law and to such direction as may be given by the Company in general meeting by special resolution, the business of the Company shall be managed by the Directors, who may exercise all powers of the Company which are not required to be exercised by the Company in general meeting.

Articles of Association

The Company's Articles of Association may only be amended by a special resolution at a general meeting of shareholders. At the Company's AGM to be held on 4 June 2009, a resolution will be put to shareholders proposing amendments to the existing Articles of Association to incorporate changes introduced by the new Companies Act 2006.

Other disclosures

The Company is not party to any significant arrangements which take effect, alter or terminate upon a change of control of the Company following a takeover bid.

The Company does not have any employee share schemes where the shares to which the scheme relates have rights with regard to the control of the Company which are not exercisable by employees.

By the order of the Board

Jonathan Burke

Company Secretary

11 March 2009