

Wm Morrison Supermarkets PLC Company financial statements

under UK GAAP

Company accounting policies

Basis of preparation

These separate financial statements of Wm Morrison Supermarkets PLC (the Company) have been prepared on a going concern basis under the historic cost convention, except for share-based payments and derivative financial instruments which are measured at fair value, and pension scheme liabilities that are measured using actuarial valuations and in accordance with applicable accounting standards under UK GAAP and the Companies Act 1985.

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

Accounting reference date

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

Investments

Investments in subsidiary undertakings are stated at cost less provision for impairment.

Fixed assets

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Costs include directly attributable costs. Annual reviews are made of estimated useful lives and material residual values.

Depreciation

The policy of the Company is to provide depreciation at rates which are calculated to write off the cost less residual value of tangible fixed assets on a straight line basis. The rates applied are:

Freehold land	0%
Freehold and long leasehold buildings	2.5%
Short leasehold improvements	Over lease period
Plant, equipment, fixtures and vehicles	14-33%
Assets under construction	0%

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

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

Financial instruments

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

a) Financial assets

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

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

b) Financial liabilities

Trade and other creditors: Trade and other creditors are stated at cost.

c) Derivative financial instruments

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

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

To minimise the risk from potential movements in commodity prices, the Company has fuel price contracts which are designated as cash flow hedges.

Derivatives are reviewed quarterly for effectiveness. Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or highly probable forecast transaction, the effective part of any gain or loss on the movement in fair value of the derivative financial instrument is recognised directly in equity through the Statement of recognised gains and losses (STRGL).

The gain or loss on any ineffective part of the hedge is immediately recognised in the profit and loss account within cost of sales. If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or liability, the associated cumulative gains or losses that were recognised directly in equity are reclassified into the profit and loss account when the transaction occurs.

Borrowing costs

All borrowing costs are recognised in the Company's profit and loss account on an accruals basis except for interest costs that are directly attributable to the construction of buildings which are capitalised and included within the initial cost of a building. Capitalisation of interest cost ceases when the property is ready for use.

Pension costs

The Company operates defined benefit and defined contribution schemes. The defined benefit scheme is no longer open to new members. A defined contribution scheme is a pension scheme under which the Company pays fixed contributions into a separate entity. A defined benefit scheme is one that is not a defined contribution scheme. Pension benefits under defined benefit schemes are defined on retirement based on age at the date of retirement, years of service and employee's final compensation package.

The Company's defined benefit retirement scheme is funded by contributions from the Company and members. Pension scheme assets, which are held in separate trustee administered funds, are valued at market rates. Pension scheme obligations are measured on a discounted present value basis using assumptions set out in note 39. The operating and financing costs of the scheme are recognised in the profit and loss account in the period in which they arise.

Death-in-service costs are recognised on a straight line basis over their vesting period. Actuarial gains and losses are recognised immediately in the statement of recognised gains and losses.

A liability or asset is recognised in the balance sheet in respect of the Company's net obligations to the scheme and is stated net of deferred tax.

The Company also operates a stakeholder pension scheme and contributions are charged to the profit and loss account as they arise.

Foreign currencies

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

Provisions

Provisions are created where the Company has a present legal or constructive obligation as a result of a past event, where it is probable that it will result in an outflow of economic benefits to settle the obligation from the Company, and where it can be reliably measured. The nature of these provisions are:

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

b) Restructuring provisions: Provisions are established for announced and ongoing restructuring programmes planned and controlled by management where there is an obligation to make changes to the scope of the business undertaken by the Company or the manner in which business is conducted. The provision includes costs of severance to the affected employees, costs of property closure, and other direct expenditures not associated with ongoing activities.

Leases

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

Lessor accounting – operating leases

Assets acquired and held for use under operating leases are recorded as fixed assets and are depreciated on a straight line basis to their estimated residual values over their estimated useful lives. Operating lease income is recognised on a straight line basis to the date of the next rent review.

Lessee accounting – operating leases

Rental payments are taken to the profit and loss account on a straight line basis over the life of the lease.

Deferred and current taxation

Current tax payable is based on the taxable profit for the year using tax rates enacted or substantively enacted at the reporting date. Taxable profit differs from the profit as reported in the profit and loss account as it is adjusted both for items that will never be taxable or deductible and timing differences.

Deferred tax is provided in full on timing differences between the accounting and tax cost bases that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date. Deferred tax is calculated based on tax law enacted or substantively enacted by the balance sheet date and is provided at rates that are expected to apply when the timing differences reverse. Deferred tax assets are recognised to the extent that it is more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Stocks

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

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

Share-based payments

The Company issues equity-settled share-based payments to certain employees in exchange for services rendered by them. The fair value of the share-based award is calculated at the date of grant and is expensed on a straight line basis over the vesting period with a corresponding increase in equity. This is based on the Company's estimate of share options that will eventually vest. This takes into account movement of non-market conditions, being service conditions and financial performance, if relevant. The fair value of equity-settled awards granted is not subsequently revisited.

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

The cost of the share-based award relating to each subsidiary is calculated, based on an appropriate apportionment, at the date of grant and recharged through an intercompany account. The charge to reserves is retained within the Company's retained earnings.

Wm Morrison Supermarkets PLC Company financial statements

Financial contracts

Where the Company enters into financial contracts to guarantee the indebtedness of other companies within its Group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

Share capital

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

Where the Company has purchased its own equity share capital, the consideration paid, including directly attributable incremental costs, is deducted from retained earnings until the shares are cancelled. On cancellation, the nominal value of the shares is deducted from share capital and the amount is transferred to the capital redemption reserve.

Exemptions

The Company has also taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1 *Cash Flow Statement* and exemption from the disclosure requirements of FRS 29 *Financial instruments disclosures*. The cash flows of the Company and financial instruments disclosures are included in the consolidated financial statements.

The Company is also exempt under the terms of FRS 8 *Related Parties* from disclosing related party transactions with entities that are part of the Wm Morrison Supermarkets PLC Group.

Wm Morrison Supermarkets PLC Company balance sheet

1 February 2009

	Note	2009 £m	2008 £m
Fixed assets			
Tangible assets	33	2,496	2,233
Investments	34	3,366	3,366
		5,862	5,599
Current assets			
Stocks – goods for resale		299	325
Debtors – amounts falling due within one year	35	482	620
Cash-in-hand		257	169
		1,038	1,114
Creditors – amounts falling due within one year	36	(2,588)	(2,413)
Net current liabilities		(1,550)	(1,299)
Total assets less current liabilities		4,312	4,300
Creditors – amounts falling due after more than one year	37	(250)	–
Provisions for liabilities	38	(61)	(41)
Net assets – excluding pension liability		4,001	4,259
Net pension liabilities	39	(2)	(22)
Net assets – including pension liability		3,999	4,237
Capital and reserves			
Called-up share capital	41	263	269
Share premium	42	60	57
Capital redemption reserve	42	6	–
Merger reserve	42	2,578	2,578
Profit and loss account	42	1,092	1,333
Equity shareholders' funds		3,999	4,237

The accounting policies on pages 78 to 80 and notes on pages 82 to 89 form part of these financial statements.

The financial statements on pages 78 to 89 were approved by the Board of Directors on 11 March 2009 and signed on its behalf by:

Marc Bolland
Chief Executive

Richard Pennycook
Group Finance Director

Notes to the Company financial statements

52 weeks ended 1 February 2009

31 Profit and loss account

A profit of £66m (2008: £63m) is dealt with in the financial statements of Wm Morrison Supermarkets PLC. The Directors have taken advantage of the exemption available under section 230 of the Companies Act 1985 and not presented a profit and loss account for the Company alone. Audit fees and expenses paid to the Group's auditor were £0.5m (2008: £0.6m). Non-audit fees are disclosed in the consolidated financial statements (note 4).

32 Employees and Directors

	2009 £m	2008 £m
Employee benefit expense for the Company during the period		
Wages and salaries	690	662
Social security costs	54	40
Share-based payments (note 43)	7	7
Pension costs	21	23
Other staff costs	2	5
	774	737
	2009 No.	2008 No.
Average monthly number of people employed	56,629	54,502

Key management represent Executive and Non-Executive Directors as they have the responsibility of planning and controlling the operations of the business as a whole. The aggregate remuneration paid to or accrued for the Directors for services in all capacities during the period is the same as the Group and is shown in note 3.

There are three Directors (2008: four) who have retirement benefits accruing under the Company's defined benefit pension scheme.

	Land and buildings			Plant equipment, fixtures and vehicles £m	Total £m
	Freehold £m	Long leasehold £m	Short leasehold improvements £m		
33 Tangible fixed assets					
Cost					
At 3 February 2008	2,153	272	11	768	3,204
Additions at cost	218	27	7	169	421
Interest capitalised	4	–	–	–	4
Transfer to subsidiary	(12)	–	(4)	(2)	(18)
Disposals	(6)	–	–	–	(6)
At 1 February 2009	2,357	299	14	935	3,605
Accumulated depreciation					
At 3 February 2008	419	44	3	505	971
Charged in the period	58	8	–	72	138
At 1 February 2009	477	52	3	577	1,109
Net book value					
At 1 February 2009	1,880	247	11	358	2,496
At 3 February 2008	1,734	228	8	263	2,233
Assets under construction included above					
At 1 February 2009	129	26	–	73	228
At 3 February 2008	64	15	–	21	100

Included above is an amount of £706m (2008: £661m) relating to non-depreciable land.

The cost of property assets held as lessor included in the above figures is £235m at 1 February 2009 (2008: £219m). The related accumulated depreciation is £48m (2008: £42m).

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 £90m (2008: £86m).

34 Investments

	Investment in subsidiary undertakings £m
Cost	
At 3 February 2008 and 1 February 2009	3,367
Provision for impairment	
At 3 February 2008 and 1 February 2009	(1)
Net book value	
At 3 February 2008 and 1 February 2009	3,366

A list of the Company's principal subsidiaries is shown in note 30.

35 Debtors – amounts falling due within one year

	2009 £m	2008 £m
Trade debtors	93	68
Amounts owed by subsidiary undertakings	255	486
Other debtors	72	7
Prepayments	46	59
Corporation tax	16	–
	482	620

36 Creditors – amounts falling due within one year

	2009 £m	2008 £m
Trade creditors	1,395	1,091
Amounts owed to subsidiary undertakings	873	863
Bank overdrafts	–	73
Other taxes	27	20
Other creditors	95	100
Accruals and deferred income	198	236
Corporation tax	–	30
	2,588	2,413

37 Creditors – amounts falling due after more than one year

	2009 £m	2008 £m
Floating credit facility	250	–

38 Provisions for liabilities

	Deferred taxation £m	Restructuring provision £m	Property provisions £m	Total £m
At 3 February 2008	9	20	12	41
Charge for period	40	–	–	40
Utilisation of provisions	–	(20)	–	(20)
At 1 February 2009	49	–	12	61

Further details of property and restructuring provisions are provided in note 21.

The potential deferred taxation on timing differences, calculated at 28% (2008: 28%), is set out below and has been provided for in full.

	2009 £m	2008 £m
Excess of capital allowances over depreciation	93	83
Provisions and short term timing differences	(38)	(69)
Share-based payments	(6)	(5)
	49	9

Notes to the Company financial statements continued

52 weeks ended 1 February 2009

39 Pensions

a) Defined benefit pension scheme

The Company 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 valuations were carried out at 6 April 2007 and were updated for FRS 17 purposes for the periods to 1 February 2009 by a qualified independent actuary.

The current best estimate of employer contributions to be paid for the year commencing 2 February 2009 is £25m (2008: £50m).

b) Assumptions

The major assumptions used in this valuation to determine the present value of the scheme's liabilities were as follows:

	2009	2008	2007
Rate of increases in salaries	4.75-5.75%	5.00-6.00%	4.25-5.45%
Rate of increase in pensions in payment and deferred pensions	3.50%	3.75%	3.20%
Discount rate applied to scheme liabilities	6.25%	5.75%	5.00%
Inflation assumption	3.50%	3.75%	3.20%

i) Longevity

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

	2009	2008	2007
Male	23.5	23.5	19.9
Female	25.8	25.8	22.8

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

	2009	2008	2007
Male	22.2	22.2	19.9
Female	24.7	24.7	22.8

Assumptions regarding future mortality experience are set based on advice in accordance with published statistics. The current mortality table used is PNX00 YOB LC (2008: PNX00 YOB LC).

The major assumptions used to determine the expected future return on the scheme's assets, were as follows:

	2009	2008	2007
Long term rate of return on:			
Equities	7.00%	7.00%	7.00%
Bonds	6.00%	6.00%	5.00%
Property	6.00%	6.00%	6.00%
Cash	2.50%	5.50%	5.25%

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

c) Valuations

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 are inherently uncertain, were as follows:

	2009 £m	2008 £m	2007 £m
Equities	127	252	288
Bonds	125	57	43
Gilts	119	60	-
Property	25	31	36
Cash	1	7	1
Total market value of assets	397	407	368
Present value of scheme liabilities	(400)	(438)	(406)
Deficit in the scheme – pension liability	(3)	(31)	(38)
Related deferred tax asset	1	9	11
Net pension liability in the balance sheet	(2)	(22)	(27)

39 Pensions continued

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

	2009 £m	2008 £m	2007 £m
Fair value of scheme assets at start of period	407	368	306
Expected return on scheme assets	29	25	21
Actuarial (losses)/gains	(85)	(32)	16
Employer contributions	47	50	25
Employee contributions	5	5	5
Benefits paid	(6)	(9)	(5)
Fair value of scheme assets at end of period	397	407	368

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

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

	2009 £m	2008 £m	2007 £m
Defined benefit obligation at the beginning of the period	(438)	(406)	(381)
Current service cost	(19)	(21)	(24)
Employee contributions	(5)	(5)	(5)
Other finance income	(26)	(21)	(19)
Actuarial gain	82	6	18
Benefits paid	6	9	5
Defined benefit obligation at the end of the period	(400)	(438)	(406)

d) Sensitivities

Below is listed the impact on the liabilities at 1 February 2009 of changing key assumptions whilst holding other assumptions constant:

Discount factor	+/- 0.1%	£11m
Longevity	+/- 1 year	£10m

e) Profit and loss account impact

The following amounts have been charged in arriving at operating profit in respect of pension costs:

	2009 £m	2008 £m	2007 £m
Current service cost	(19)	(21)	(24)

The amounts for current and past service cost have been charged to the following profit and loss account lines:

	2009 £m	2008 £m	2007 £m
Cost of sales	(15)	(17)	(19)
Administrative expenses	(4)	(4)	(5)
	(19)	(21)	(24)

The following amounts have been included in other finance income:

	2009 £m	2008 £m	2007 £m
Expected return on pension scheme assets	29	25	21
Interest on pension scheme liabilities	(26)	(21)	(19)
	3	4	2

Notes to the Company financial statements continued

52 weeks ended 1 February 2009

39 Pensions continued

f) Amounts recognised in Statement of total recognised gains and losses (STRGL)

The amounts included in the STRGL were:

	2009 £m	2008 £m	2007 £m
Actual return less expected return on scheme assets	(85)	(32)	16
Experience gains and losses arising on scheme liabilities	–	12	6
Changes in assumptions underlying the present value of scheme liabilities	82	(6)	12
Actuarial (loss)/gain recognised in the STRGL	(3)	(26)	34
	2009 £m	2008 £m	2007 £m
Cumulative gross actuarial movement recognised in the STRGL	(100)	(97)	(71)
Taxation on cumulative actuarial movement recognised in the STRGL	29	28	21
Cumulative net actuarial movement recognised in the STRGL	(71)	(69)	(50)

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

	2009 £m	2008 £m	2007 £m
Expected return on scheme assets	29	25	21
Actuarial movement recognised in the STRGL reflecting the difference between expected and actual return on assets	(85)	(32)	16
Actual return on scheme assets	(56)	(7)	37

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

g) History of experience gains and losses

	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Difference between the expected and actual return on scheme assets:					
Amount	(85)	(32)	16	35	7
Percentage of scheme assets	(21.4%)	(7.9%)	4.4%	11.6%	3.3%
Experience gains and losses arising on scheme liabilities:					
Amount	–	12	6	4	2
Percentage of present value of scheme liabilities	–	2.9%	1.6%	1.1%	0.6%
Effects to changes in the demographic and financial assumptions underlying the present value of the scheme liabilities:					
Amount	82	(6)	12	(46)	(17)
Percentage of present value of scheme liabilities	20.5%	(1.4%)	2.9%	(12.2%)	(5.6%)
Total amount recognised in STRGL:					
Amount	(3)	(26)	34	(7)	(8)
Percentage of present value of scheme liabilities	(0.8%)	(5.9%)	8.4%	(1.8%)	(2.5%)
Total value of scheme's assets	397	407	368	306	228
Present value of defined benefit obligation	(400)	(438)	(406)	(381)	(300)
Pension liability – deficit in the scheme	(3)	(31)	(38)	(75)	(72)

h) Defined contribution pension scheme

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 for the defined contribution scheme are as follows:

	2009 £m	2008 £m	2007 £m
Stakeholder pension scheme	(2)	(1)	(1)
Life assurance scheme	(1)	(1)	(1)
Total costs	(3)	(2)	(2)

40 Reconciliation of movements in equity shareholders' funds

	2009 £m	2008 £m
Profit for the financial period	66	63
Dividends	(131)	(108)
Retained loss for the financial period	(65)	(45)
Share-based payment	14	6
Deferred tax on share options	-	(2)
Actuarial loss on pension scheme	(3)	(26)
Tax relating to pension scheme	1	7
Shares purchased for cancellation	(146)	-
Own shares acquired by the Safeway Employee Trust	(42)	-
Share options exercised	3	17
Net addition to equity shareholders' funds	(238)	(43)
Opening shareholders' funds	4,237	4,280
Closing equity shareholders' funds	3,999	4,237

Own shares acquired by the Safeway Employee Trust represents 17,641,448 of the Company's ordinary shares that are held by a trust using funds previously provided by Safeway Limited. During the period, the loan obligation in respect of this investment was novated to Wm Morrison Supermarkets PLC. These shares are treated as treasury shares at the balance sheet date. These shares are not treasury shares as defined by the London Stock Exchange or the Companies Act 2006.

41 Share capital**a) Equity**

	2009 £m	2008 £m
Authorised		
Equity share capital		
4,000,000,000 ordinary shares of 10p each (2008: 4,000,000,000)	400	400
Issued and fully paid		
Equity share capital		
2,629,813,268 ordinary shares of 10p each (2008: 2,686,071,130)	263	269

i) Ordinary shares

	2009 £m	2008 £m
At start of period	269	268
Shares purchased for cancellation	(6)	-
Share options exercised	-	1
At end of period	263	269

The Company purchased 57,788,600 of its own shares in the open market for cancellation between 31 March 2008 and 21 November 2008 at a cost of £146m. The shares repurchased represent 2.15% of the ordinary share capital at 3 February 2008.

b) Non-equity

The authorised and issued preference share capital of the Company is as follows:

	2009 £m	2008 £m
5¼% cumulative redeemable non-convertible preference shares of £1 each		
Authorised 50,000,000 (2008: 50,000,000)	50.0	50.0
Issued and fully paid 282,666 (2008: 282,666)	0.3	0.3

The 5¼% cumulative preference shares, which are classified as a current liability in accordance with FRS 25 *Financial instruments: Disclosure and Presentation*, do not carry any voting rights and were issued in 1987 at £1 per share.

Notes to the Company financial statements continued

52 weeks ended 1 February 2009

42 Reserves	Share premium account £m	Capital redemption reserve £m	Merger reserve £m	Profit and loss account £m
At start of period	57	–	2,578	1,333
Retained in the period	–	–	–	(65)
Share options exercised	3	–	–	–
Shares repurchased for cancellation	–	6	–	(146)
Own shares acquired by the Safeway Employee Trust	–	–	–	(42)
Share-based payment reserve	–	–	–	14
Actuarial loss recognised	–	–	–	(3)
Tax arising on actuarial loss	–	–	–	1
At end of period	60	6	2,578	1,092
Net pension liability				(2)
Profit and loss account excluding pension liability				1,090

a) Capital redemption reserve

This arises from the purchase of own shares, see note 41.

b) Merger reserve

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

43 Share-based payments

The disclosure requirements for FRS 20 *Share-based payment* are identical to that of IFRS 2 *Share-based payment*. Full IFRS 2 disclosures are provided in note 26.

44 Capital commitments

	2009 £m	2008 £m
Contracts placed for future capital expenditure not provided in the financial statements	302	86

During the period, Morrisons entered into an agreement with the Co-operative Group to acquire over half a million square feet of additional selling space through the purchase of a number of Co-operative Group and former Somerfield stores, at a cost of £223m. A deposit of £22m was paid during the year and has been classified within debtors.

The completion is dependent on obtaining certain approvals and the transaction and associated payments are expected to complete in the next financial year.

45 Operating lease commitments

Annual commitments under non-cancellable operating leases:

	2009		2008	
	Land and buildings £m	Plant, equipment, fixtures and vehicles £m	Land and buildings £m	Plant, equipment, fixtures and vehicles £m
Expiring within one year	–	–	–	1
Expiring within two to five years inclusive	–	8	–	8
Expiring over five years	3	–	3	2
	3	8	3	11

46 Contingent liabilities

The Company has given an unlimited guarantee in respect of the overdraft of all the subsidiary undertakings. At 1 February 2009, there was a credit balance of £0.5m including uncleared banking items (2008: £0.4m).

The Company has also provided a guarantee in respect of Sterling and Euro Bonds, amounting to £784m (2008: £758m) in respect of a subsidiary undertaking.

Where the Company enters into financial contracts to guarantee the indebtedness of other Companies within its Group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.



46 Contingent liabilities continued

In September 2007, the Office of Fair Trading (OFT) issued a Statement of Objections to a number of grocery retailers and milk producers, alleging collusion in the setting of prices for certain dairy products in 2002 and 2003. Morrisons was accused in relation to one infringement in 2002, and has vigorously denied this. Based on the evidence put forward, the Board does not consider it probable that the Company will ultimately incur a fine and, accordingly, has made no provision for any such liability.

The OFT have also raised a legal issue regarding the sale of tobacco and whether established industry practices represented a breach of competition law. It is likely that this can only be settled through a formal judicial process. The Board has not made a provision for such a liability.

47 Post-balance sheet events

The Directors are proposing a final dividend in respect of the financial period ending 1 February 2009 of 5.0p per share which will absorb an estimated £131m of shareholders' funds. Subject to approval at the AGM, it will be paid on 10 June 2009 to shareholders who are on the register of members on 8 May 2009.

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

The Company has entered into further commodity price contracts since the year end to reduce the Company's exposure to pricing risk arising on the volatility of commodity prices purchased for the Company's own consumption.

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