News Release

Release date: 13 March 2014

PRELIMINARY RESULTS FOR THE YEAR ENDED 2 FEBRUARY 2014 AND STRATEGIC UPDATE

Financial summary

- Turnover down 2% to £17.7bn (2012/13: £18.1bn)
- Like-for-like sales (ex-fuel, ex-VAT) down 2.8% (2012/13: down 2.1%)(1)
- Underlying profit before tax down 13% to £785m (2012/13: £901m)(2)
- Non-recurring exceptional costs of £903m
- Loss before tax £176m (2012/13: profit of £879m)
- Earnings per share (10.2)p (2012/13: 26.7p)
- Underlying earnings per share down 8% to 25.2p (2012/13: 27.3p)
- Final dividend of 9.16p. Total dividend for the year up 10% to 13.0p (2012/13: 11.8p) in line with guidance
- Net debt £2,817m (2012/13: £2,181m) after capital investment of £1,086m (2012/13: £1,016m)

Operating highlights

- Morrisons.com launched in January 2014 – performing ahead of plan
- Over 100 M local convenience stores now trading; second convenience distribution centre now operational
- IT systems programme development progressing well – providing platform for significant future cost savings
- 18 new supermarkets opened(3)
- Fresh Formats – tailored fresh food proposition now in over 200 stores
- 6,500 Own Brand products successfully launched in year; own label conversion programme complete
- Vertical integration – good progress in expanding manufacturing capability
- £300m, three year cost saving targets delivered

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Strategic update

Comprehensive strategic review completed

- Enhanced focus on core supermarket business
    - major investment in proposition; £300m in 2014/15
    - £1bn of self help over three years identified – implementation underway
- Acceleration of new channel development – online and convenience
- Planned exit from non-core activities, including Kiddicare and Fresh Direct
- Property review completed
- New space pipeline reassessed
- Total non-recurring costs of £0.9bn

Resulting in:

- Stronger value leadership and a customer winning proposition
- Rebased profit outlook
- Strong balance sheet
    - strong investment grade credit rating
    - predominantly freehold property estate maintained
- Substantial cash flow generation
    - £1bn over three years from operating improvements, working capital and reduced capex
    - £1bn of property disposals over three years
- Generation of meaningful shareholder value over the medium term
    - commitment to 5% minimum increase in dividend for 2014/15 and a progressive and sustainable dividend thereafter
    - return of surplus capital as appropriate

Commenting on the results, Sir Ian Gibson, Chairman, said:

"In trading terms this has been a disappointing year for Morrisons, with consumer confidence and market conditions continuing to be challenging. It has however been a period of significant strategic progress as we lay the foundations for a stronger future. Our financial position remains strong.

The review of our business undertaken by the Board, underpins our confidence in Morrisons strategic direction and the long-term prospects of the business. This is reflected in an increased dividend for the year ended 2 February 2014, in line with our previous commitment and consistent with our progressive dividend policy.

In respect of the year ending 1 February 2015 the Board anticipates that the total annual dividend will be not less than 13.65p. Thereafter we expect

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dividends to grow more slowly than earnings, as dividend cover rebuilds towards our target level of around two times."

Dalton Philips, Chief Executive, said:

"The strategy we are announcing today is a bold and comprehensive response to the fundamental structural changes that are taking place in grocery retail.

We are significantly reducing our cost base and will invest £1bn into our proposition over the next three years, to improve our value even further and to defend and strengthen our competitive position. Customers will see this in our stores as well as in our fast growing online and convenience offers. At the same time we will exit non-core activities, significantly reduce our capital expenditure and deliver improved operating cashflow and return on capital employed.

Together with the strategic value of our vertically integrated supply chain, these measures will provide a firm foundation from which to provide outstanding value to our customers and to generate meaningful shareholder returns over the medium term.

I'm confident that Morrisons will emerge from this period of necessary change as a more focused, more distinctive value leader and well positioned to compete sustainably in the new grocery landscape."

Outlook

We will continue to implement a wide range of measures to address the sales performance of the business and progress our strategic initiatives. Our expectations are that the challenging consumer and market environment we saw in 2013 will persist through the coming year. Our profit expectations reflect this, and our determination to be a stronger value leader for our customers. At this early stage in the year, we anticipate that underlying profits[(4)] in 2014/15 will be in the range of £325m - £375m, after charging £65m of new business development costs and £70m of one-off, non-recurring costs.

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Management will host an analyst presentation this morning at 09:30. A webcast of this meeting is available at http://www.morrisons-corporate.com/Investor-centre/

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Unless otherwise stated all results for 2013/14 relate to the 52 weeks ended 2 February 2014 and 2012/13 results are for the 53 weeks ended 3 February 2013.

Notes

[1] *52 weeks to 2 February 2013 compared to 52 weeks to 3 February 2013*

[2] *Underlying profit before taxation, property transactions, multi-channel development costs, non-recurring exceptional write downs and IAS19 pension interest*

[3] *Including one replacement store: excluding convenience stores*

[4] *Based on revised definition of underlying profit before tax, which excludes property transactions and IAS19 pension interest only*

The Group's full financial statements (comprising the consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in equity, consolidated cash flow statement and related notes) are available for download on the Group's website at www.morrisons-corporate.com/investor-centre.

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

Chairman's statement

Over the past year, the grocery market[5] has remained challenging. Consumers have had to deal with difficult economic conditions and many have been constrained financially[6]. They have had to make trade offs in their spending, either through their choice of format, their choice of products or simply by buying less food. This was reflected in market growth slowing in the final quarter of the year[5].

In this environment the discount sector has performed strongly, driving much of the market growth. We believe that its strong performance is structural, rather than cyclical, as has been the case in previous cycles. The rest of the market has been working hard to counter this threat, with particular emphasis on loyalty programmes and personalised couponing, areas in which Morrisons has not been able to participate fully to date, due to outdated IT infrastructure and systems.

Whilst these factors, combined with the fact that we do not yet have a meaningful presence in online and convenience - the two fastest growing channels in the grocery market - have clearly held us back, and the overall performance of our core business has been disappointing. We are today announcing a commitment to address this through a significant and sustained investment in our proposition, that underpins our determination to offer the best value, price and quality for our customers. We will reset the profit base of the business to deliver this.

I am pleased to report that we have made considerable progress in advancing the strategic initiatives that we set out at the beginning of the year and which are laying the foundation for the long term future of our business. In particular and over a very short timeframe, we have successfully launched our own innovative, online food proposition which will be available to half of UK households by the end of the current financial year. We have also made considerable progress in developing our convenience network and now have over 100 M locals with dedicated distribution centres serving the North West as well as London and the South East.

The Board's confirmation of a 10% increase in the dividend for the year, in line with its stated target, and its commitment to a minimum 5% increase in 2014/15, demonstrate its confidence in the future of the business.

Results

In the year total turnover of £17.7bn was down 2% (2012/13: £18.1bn)

When compared to the prior year the underlying operating margin of 4.9% fell by 40bps. This increased to 50bps after adjusting for the impact of a lower proportion of fuel sales in the mix this year.

Net finance costs of £82m increased by £12m over the prior period as a result of a planned increase in net debt to accommodate our peak investment of capital expenditure.

Underlying profit is calculated after removing property disposals, IAS19 pension interest, new business development and non-recurring exceptional costs. New business development costs, which totalled £66m in the year (2012/13: £17m), will be included within our definition of underlying profit from 2014/15.

Underlying operating profit(2) of £865m fell by 11% when compared to the prior year, with underlying profit before tax(2) of £785m down by 13%.

Exceptional non-recurring costs of £903m were charged in the year including £163m in relation to Kiddicare, a business whose performance has been disappointing and which is no longer strategic. We will look to sell this business in 2014.

£319m relates to elements of our store pipeline. Following a reassessment of their potential to meet our required investment criteria we have impaired £90m of costs incurred to date and provided for £229m of further costs. A charge of £379m has also been incurred in relation to trading stores, comprising £330m of impairment and £49m of onerous lease provisions.

Loss before tax was £176m (2012/13: profit of £879m).

A further cut in the rate of corporation tax and the positive impact of the Group's equity retirement programme, partly helped offset the impact of the reduction in underlying earnings on earnings per share. Underlying basic earnings per share (EPS) decreased by 8% to 25.2p (2012/13: 27.3p) with statutory basic earnings per share of (10.2)p, (2012/13: 26.7p).

The Board is recommending a final dividend of 9.16p per share, bringing the total dividend for the year to 13.0p, an increase of 10% on 2012/13. This is in line with our policy of increasing our dividend by a minimum of 10% in each of the three years to 2013/14. The dividend is covered 1.9 times by underlying earnings.

As planned, capital expenditure and investments, including joint ventures, rose slightly to £1,086m, an increase of £70m (7%) over prior year. This included capital relating to the launch of our online food operation, in conjunction with Ocado. The programme also reflected an acceleration in our convenience store opening programme, further expansion of our vertical integration capacity and the conclusion of the major phase of our six year IT systems development project.

We are committed to capital discipline. With our ambition for new core grocery space substantially fulfilled, our IT infrastructure close to completion and our online food business now operational, 2013/14 marks the peak of our capital investment. In 2014/15 we expect capital expenditure to reduce by around 50% to £550m. Thereafter we expect it to be maintained at a level of £400m annually.

During the year we concluded the £1bn equity retirement programme we launched in 2011 with a final investment of £53m. The programme has had a positive impact of 3.6% on our reported underlying earnings per share in the year.

The Group's net debt grew, as planned, during the period, to £2,817m, (2012/13: £2,181m). Gearing increased to 60%, which has been impacted by the write down of assets. We anticipate that we will generate significant free cash flow in 2014/15 and that net debt will fall during the year to around £2.4bn - £2.5bn.

The Group continues to maintain a strong balance sheet in line with our stated principles. This is securely financed by a number of long dated bonds and by revolving credit facilities of £1,350m with our banks, of which £775m remained undrawn at the end of the year. In June 2013 we increased the funds available to the Group and further improved the maturity profile of our borrowings, by issuing a €700m Euro bond with institutional investors, repayable in 2020.

Return on Capital Employed (ROCE) is a key performance measure for the Group and underpins our focus on capital discipline. 2013/14 marked a peak year of investment for the business and as a result, ROCE fell to 8.4%, and was impacted by the non-recurring exceptional costs in the year (2012/13: 9.6%). We are committed to delivering improved shareholder returns over time.

Industry recognition

Morrisons is committed to providing its customers with great fresh products from sustainable sources, backed by unrivalled service from our own in-store craft colleagues. We are delighted that this has again been recognised with a number of prestigious industry awards. These include: 'Most sustainable retailer of the year', 'Seafood retailer of the year' and 'Fresh produce retailer of the year' at the 2013 Retail Industry awards and BitC's European CSR award. Our support for our colleagues in making Morrisons a great place to work, has been recognised by the award of 'Employer of the year', for the fourth consecutive year, at the Grocer Gold Awards 2013.

Community and the environment

How we operate as a business is very important to us. We care about where our products come from, the people that make them and how products are bought, made, moved and sold. Our corporate responsibility (CR) programme ensures we work in a way that is right for our customers, colleagues, suppliers and communities, creating longer term sustainable growth. Our customers expect us to trade responsibly and we work within the communities in which we operate, to manage resources carefully whilst maintaining ethical standards.

Morrisons farming programme
Since 2009, the Morrisons farming programme has been at the centre of our relationship with the farming community. The key objective of the programme is to work closely with the UK farming supply base to ensure that it's fit for the future and able to provide high quality, affordable food for our customers from sustainable production practices. The programme encourages best practice in animal husbandry and unlocks efficiencies within the supply chain through applied research and supplier working groups.

Ethical trading
Morrisons is fully committed to sourcing products in an ethical manner and promoting the rights of workers throughout our worldwide supply chain. Our Ethical Trading Code (ETC) is currently incorporated into our terms and conditions with suppliers. Key elements are the payment of a living wage, non-excessive working hours, a safe working environment and that employment is freely chosen.

Groceries Supply Code of Practice ('GSCOP')
GSCOP came into effect in February 2010 and applies to all grocery retailers with an annual turnover in excess of £1bn. The Group has undertaken a number of measures to ensure compliance with the code and is committed to ensuring that it adheres to best practice.

Payment to creditors
Supplier credit is an important factor in the success of the business. The Group's policy is to ensure that all payments are made within mutually agreed credit terms.

Avoiding food waste
In addition to our retail stores, the Group owns and operates a substantial fresh food manufacturing business. We therefore effectively control a greater proportion of our fresh food supply chain than most major grocery retailers in the UK, which enables us to manage and reduce associated waste. Consumer food waste is best tackled through consistent communication, delivered in a positive way. We've operated our own 'Great Taste, Less Waste' campaign for a number of years delivering simple, effective and regular messages to our customers.

Let's Grow
Our award winning Let's Grow programme has been in operation for six years and helps teach children about the lifecycle of food through the practical experience of growing fresh fruit and vegetables in an outdoor environment. Let's Grow provides UK schools with free gardening equipment, cooking equipment and key teaching resources. Since the scheme began in 2008, we have now given away over £18m worth of equipment. This year, our newly appointed in-store Community Champions helped to engage with local schools taking part in the Let's Grow programme, encouraging tours of Morrisons Market Street and hosting school assemblies to explain where food comes from.

Charity partnerships
Our colleagues, customers and suppliers always go the extra mile to support our selected charity partner which, for the third and final year, was Save the Children. In addition to continuing to support the Families and Schools Together (FAST) programme, in March we also began raising funds for Eat, Sleep, Learn, Play! an initiative which provides crisis grants for families to purchase the basic items they need for the home such as cookers, beds, toys and books. To date we have raised over £1.8m for the programme, taking our partnership total since inception in 2011, to £7m.

Our colleagues

Our industry awards were only achieved through the dedication, hard work and commitment to the cause of our 125,000 colleagues across the business who every day seek to delight the nearly twelve million customers on average who visit our stores each week. I am pleased that their efforts, in what has been a challenging year for the business, have enabled them to share in a profit share pool of £28m this year.

Colleagues are key to being able to fulfil our promises and provide the best service to our customers. We believe in providing our colleagues with the time, support and the qualifications they need to develop their skills. We engage with them on a consistent basis and through regular ‘climate surveys’, we’re able to establish the effectiveness of our communications programmes and their views. We believe in building a healthy, high-performance culture and providing equal opportunities for all.

On behalf of the Board I wish to thank every one of our colleagues for their dedication, professionalism, service and commitment to our business throughout the year.

Outlook

We will continue to implement a wide range of measures to address the sales performance of the business and progress our strategic initiatives. Our expectations are that the challenging consumer and market environment we saw in 2013 will persist through the coming year. Our profit expectations reflect this and our determination to be a stronger value leader for our customers. At this early stage in the year, we anticipate that underlying profits[(4)] in 2014/15 will be in the range of £325m - £375m, after charging £65m of new business development costs and £70m of one-off, non-recurring costs.

Chief Executive's business and strategy review

Turnover

Total turnover in the period fell by 2% to £17.7bn (2012/13: £18.1bn). Store sales excluding fuel, which included a contribution from our new online food business for the first time, increased slightly by 0.1%. Of this, new store openings contributed 2.9%, with like-for-like sales decreasing by 2.8%(1). Fuel sales fell by 6.3%(1) reflecting both a fall in the average price paid for fuel at the pump as oil prices eased during the year, and a reduction in volumes as consumers continued to manage their budgets carefully. Other sales increased by 30% to £262m (2012/13: £201m) as we developed external sales channels to absorb surplus capacity in our manufacturing operations.

Turnover analysis

£m	Like-for-like stores	Other	**2013/14 Total**	2012/13 Total
In-store	12,990	444	**13,434**	13,674
Fuel	3,878	106	**3,984**	4,241
Other sales	-	262	**262**	201
Total turnover (ex-VAT)	16,868	812	**17,680**	18,116
In-store sales				
Sales per square foot (£)	19.20	11.50	**18.78**	19.84
Customers numbers per week (m)	11.2	0.6	**11.8**	11.4
Customer spend (£)	22.36	14.47	**21.96**	22.63

Operating results

	2013/14 £m	2012/13 £m	Change %
Turnover	**17,680**	18,116	(2)
Gross profit	**1,074**	1,206	(11)
Gross profit margin	***6.1%***	*6.7%*	*(0.6)bps*
Other operating income	**81**	80	1
Administrative expenses	**(356)**	(336)	(6)
Non-recurring exceptional costs	**(903)**	-	(100)
Property disposals	**9**	(1)	1000
Operating (loss)/profit	**(95)**	949	(110)
New business development costs	**66**	17	288
Non-recurring exceptional costs	**903**	-	100
Property disposals	**(9)**	1	1000
Underlying operating profit	**865**	967	(11)
Underlying operating margin	***4.9%***	*5.3%*	*(0.4)bps*

With Group turnover falling by 2% and with inflation a continuing cost headwind, we have had to manage our cost base very tightly across the whole of the business. Cost control has been a key focus throughout the year, particularly in store wages and distribution costs, our two largest cost areas after cost of goods sold. We have therefore worked hard to make these areas more efficient whilst continuing to ensure that we provide high levels of service to our customers throughout. In doing this we have been able to further take advantage of the efficiency opportunities afforded by the investment we have made in our IT systems. This has enabled us to improve processes significantly across the business, reducing our in-store labour costs and delivering further productivity improvements in distribution. We have successfully met our target of delivering £300m from our efficiency initiatives over the three years to 2013/14.

Exceptional non-recurring costs of £903m were charged in the year. This includes £163m in relation to Kiddicare, £319m relating to elements of our store pipeline and £379m in respect of trading stores.

We generated £9m profits on the disposal of investment properties.

Total operating loss was £95m compared to a profit of £949m in the prior year.

New business development costs, which include the trading losses of our new channels, online and convenience, as well as the losses associated with the new stores in Kiddicare, increased as planned to £66m (2012/13: £17m).

Underlying profit of £865m fell by 11% compared to prior year. The underlying operating profit margin was 4.9%, 40bps below prior year or 50bps, after adjusting for the mix of fuel in our overall sales mix.

Kiddicare

In 2011 Morrisons acquired Kiddicare, an online baby and infant merchandising retailer, to establish itself in online retail, with the objective of using Kiddicare's technology and management expertise as the basis for Morrisons own online food offer. In 2012 we expanded the business as a multi-channel retailer, acquiring ten stores from Best Buy which have been converted into Kiddicare showrooms to support its online proposition.

Whilst customer feedback to the Kiddicare proposition has been very positive, the performance of the business, particularly the trading stores, has been disappointing and has not met its financial targets. The strategic rationale for the acquisition has been superseded by our decision to launch our online food operation through Ocado, rather than using the Kiddicare infrastructure. A £27m write-off of online costs incurred in setting up an independent online operation was recognised in the first half of the year.

It is imperative that Morrisons focuses very clearly on its core grocery channel. Kiddicare no longer fits our strategy and its poor financial performance will take time to address. Accordingly the assets of the business have been impaired and a charge of £163m, including provision for onerous leases, has been taken in the current financial year. We will seek to sell the business in 2014.

Space

In line with guidance we opened a further 18 new core stores to our estate during the year, one of which was a replacement, as well as 90 M local convenience format stores. Overall we now have an estate of some 14.2m square feet of net retail space in total and 605 stores, including 102 convenience stores. Our total net selling space increased by 812,000 square feet (6.1%), of which 37,000 square feet came from extensions.

We are committed to capital discipline and as a result have further reduced the capital expenditure targets we established at the Interims in September 2013. As a consequence, our investment in new space will be primarily concentrated on building out our existing core grocery space pipeline and on the development of our M local convenience format.

In 2014/15 we expect to open a total of 540,000 square feet of new space, of which c330,000 square feet will be core grocery as we build out our existing pipeline. We will open a further c300,000 square feet of core space in 2015/16 as we complete the development of the remaining pipeline. Thereafter we will only acquire new supermarket sites in exceptional circumstances. We expect to open around 250,000 square feet of convenience space annually.

Market overview

Over the past year, the grocery market and consumers have continued to face challenging economic conditions. Many customers have been constrained financially and have had to choose carefully where they shopped, which products they bought and in what quantity. Personalised value is playing an ever-increasing role in consumers' choice of store, as customers seek out the best value.

In the year the UK grocery market grew by 3.4% and was worth £104bn(5). This growth was primarily driven by inflation as volume growth continued to be flat to negative. Growth fell from c4% over the first half of the year to just under 3% in the second half(5), in line with a fall in inflation. Over the year the Consumer Price Index (CPI) fell from 2.7% to 1.9%, with the food and drink sector a strong contributor to this decrease(7). Across all categories the picture was mixed with some, such as meat and fish, seeing a lower than average decrease and others, including many dairy products, oils and fats, increasing.

Consumer confidence started 2013 at a relatively low point, but improved slightly through the year with fewer consumers now expecting to cut back in areas that in recent years have been badly affected by the challenging economy. In January 2014, 46% of consumers were expecting to cut back on eating out and 31% on holidays, which compares to 53% and 38% a year earlier(6). However that trend has not been reflected in food shopping where the proportion that expects to cut back, has remained broadly stable at around 23%.

Consumers saw an erosion in real earnings and although consumer confidence improved during the year, this was driven by perceptions of the economic situation, rather than a marked improvement in how they viewed their own financial situation. As a result the family budget continued to be under pressure. Consumers managed their spend carefully, wasted less, put fewer items in their baskets and took time to look around for value. This has resulted in baskets being spread across multiple formats and multiple retailers, and a continuing shift in the market away from core supermarkets.

Convenience, online and the discount channels are the fastest growing sectors of the market and this trend is expected to continue. This will be reflected in changing format development as retailers look to align with ever evolving customer needs, behaviours and attitudes.

The UK online food market is worth £6.5bn today(5). By the end of 2014, the online grocery market is expected to grow to £7.7bn, up 18% on 2013 and is forecast to grow to £14.6bn by 2018(8), when it is projected to account for 7.1% of the total UK grocery market, almost double what it is today(8). It presents an exciting opportunity for Morrisons.

This strong growth trend is also evident in the convenience market, as shoppers adopt more of a “little and often” approach at the expense of big basket weekly shops. The convenience market, which is growing at 4.9%(8), represents a huge opportunity for Morrisons. It is currently worth £36bn in the UK and is expected to grow by 30%(8) to £46m over the five years to 2018(8), well ahead of the grocery market.

The year also marked the emergence of the grocery discount sector as a significant and growing force in the market. It is currently worth £9.5bn(8), up 20%(8) over prior year. This reflects a fundamental shift in the market and one that is likely to be structural rather than cyclical. It is a challenge that we will address in 2014/15.

Strategy

Our vision is to be a multi-format, multi-channel grocer. We are, and always have been a value-led grocer. We are committed to consistently low prices, great fresh food quality with friendly, skilled, service at the heart of our business.

Morrisons is different; building on our unique heritage, we provide a distinctive fresh food offer to our customers based around our craft skills and our vertically integrated manufacturing business. These differences set us apart from all our competitors and position us to succeed.

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We constantly seek to improve the way we do business, doing more of the things that matter for our customers: making outstanding fresh food; offering outstanding service and delivering great value.

We also seek opportunities to develop the business profitably through new formats, channels and categories, to meet the evolving needs of our existing customers and to attract new customers.

Our strategy reflects our view of how the market will evolve, what will be most appealing to our customers and how we make best use of our existing capabilities. It is based on six convictions about the type of business that our customers want us to be:

- Value is for ever
- Food focused not generalist
- Experiential over purely functional
- Skills not just drills
- General merchandise – clicks not bricks
- Multi-format and multi-channel

Whilst these convictions, which form the basis of the business we are building today, are as relevant now as when we first set them out in 2012, the grocery market is undergoing a structural shift. The online and convenience channels continue to grow rapidly, the discount sector is expanding at pace and core supermarkets are under pressure.

We will address these challenges. Our strategy to compete in this intense market is to invest significantly in our core value proposition whilst accelerating our presence in the online and convenience channels.

Accelerating our presence in new channels

Online: food
Having spent two years building up our management expertise and researching the market in depth, including acquiring a small stake in Fresh Direct, we announced in July 2013 that we had completed an agreement with Ocado to launch our own distinctive online food offer, utilising their technology platform. This partnership route, with an established industry leader, has enabled us to move quickly towards fulfilling our ambition to be a true, multi-channel, food retailer.

Using the best technology and logistics operation in the sector, we've created Morrisons.com - an innovative and distinctive value offer, with fresh food at its heart. We achieved this far earlier than would have been possible had we elected to develop our own solution in-house, and with much less execution risk.

The first deliveries were received by our customers in Warwickshire in January 2014, just seven months after we concluded our agreement. Feedback from our new customers has been extremely positive and trading to date has surpassed our initial expectations. Utilising our unique craft skills and manufacturing capability, we've taken Market Street online, providing our customers with a distinctively Morrisons experience combining our expertise in fresh food and craft skills with the best in technology and logistics.

We differentiate our fresh offer, just as we do in store, addressing our customers' demand for freshness by offering an expert review quality rating and by allowing them to check the freshness of products on their doorstep, before accepting them.

This is one of many learning points from our association with Fresh Direct, a leading, New York based, online food business, in which we took a stake in 2011. We have learnt a huge amount from this association and have incorporated many of their concepts into our new food online proposition. With an experienced management team in place and Morrisons.com now successfully launched, we no longer need to retain this investment and will therefore dispose of it at the appropriate time.

Our online operation will help us to serve more customers than ever before, and will enable us to access areas in which we are under-represented today, such as London and the South East. We are already operating in Warwickshire and Yorkshire and will extend our offer during this year to even more customers. During the year we will trial an innovative "click and collect" format.

Convenience
With time-poor customers shopping more frequently in convenience stores, retailers are now targeting new locations and developing ranges to fit local catchments, which are key drivers of basket spend. Convenience is a key growth area for Morrisons.

Morrisons only entered this market relatively recently, with just 12 stores at the beginning of the financial year, well behind our sector peers. Being late into the market has been an advantage, enabling us to take account of our customers' evolving needs and to leverage our great fresh and value credentials, to develop a truly compelling new fresh food experience at the heart of local communities.

During the year we elected to change our convenience brand from M local to Morrisons M local in order to develop better recognition with the wider Morrisons brand. This was supported by an enhanced look and feel inside the stores through improved signage and colour schemes and by emphasising our fresh credentials which are supported by our unique vertically integrated business model.

In February 2013 we announced that we had acquired 62 stores from a number of other retailers and during the year we converted them to the M local format. We supplemented these through the acquisition of a number of additional sites, acquired organically. By the end of the year we had met our ambitious target of trading 100 stores across both neighbourhood and city centre locations.

Morrisons is significantly under-represented in London and the South East, where we have a limited presence through our core supermarkets. Our convenience format is an opportunity to address that and we are committed to increasing our presence there. In the year, as planned, around 70% of our new convenience store openings were in the South and we are now represented in key locations such as New Oxford Street, Ealing and Reading.

To facilitate this rapid expansion we acquired and opened a dedicated 100,000 square feet convenience distribution centre (CDC) in Feltham, West London, which became operational in the first quarter of the year. We now have our M local formats operating across the country serving some 500,000 customers each week.

In October 2013 we opened our second dedicated CDC in Bury, Lancashire. It is currently serving some 20 stores across the North West of England but will be able to support up to 150 stores in all, over time. We now have the infrastructure in place that allows us to access over 45% of the UK population. Our growth in 2014/15 will seek to optimise the capacity of our existing CDCs.

The format is proving a success and is a key element in being able to provide our customers with a true multi-channel offer. In 2014/15 we will continue the rapid expansion of our convenience network and expect to open up to 100 additional stores during the year. By the end of the year, we expect the annualised sales from our convenience format to reach around £350m.

Investing in our core value proposition

Whilst we have made excellent progress in online and convenience, we must address the other key structural development in the market, discounter growth. This is an issue which is affecting us and all the traditional grocery players. Consumers have started to shop the discounters in the same way they would a traditional supermarket - their perception of them has changed.

Price is not the only determinant of store choice, but it is the most important factor. Whilst Morrisons offers so much more by way of the provenance and range of its fresh food, in-store craft skills and great service, it is essential that in pricing terms, we are close to the market leader.

In 2014/15 we will respond to this changing market place by reinforcing our core proposition including:

- investing significantly in our pricing
- supporting that investment with a strong and focused promotional programme
- making our stores easier to shop, and simplifying our range
- introducing a loyalty programme

We will do this whilst continuing to leverage our unique vertical integration to offer great quality fresh food across our stores. Our Fresh Format concept is now in over 200 stores and we will continue to roll out the programme, tailored to local market and customers' needs.

Saving to invest - Increasing efficiency

The programme we are launching is radical and requires significant investment. We will fund this through accelerating our programme of self help initiatives.

We constantly look for better ways of working, removing unnecessary costs in the context of our guiding principle that great customer service and value is core to our business, and our customers. We need to take cost out of our business continually, the essential self help we need to reinvest for the benefit of our customers, to meet the structural cost headwinds we face and to support earnings growth. We have a good track record and have made great progress during the year. We have exceeded the £300m cost savings target we set out to deliver through three key initiatives.

Utilising our systems
For the past six years we have been engaged in a major IT investment programme to replace our legacy IT systems with an industry leading software capability. It has been a challenging process affecting every aspect of our business. We have managed it carefully through a comprehensive Board level governance process, to ensure that we identify and mitigate risk. As we come to the end of this long journey we are delighted with the improvements that this programme has brought to our business.

The prime focus for the past year has been on improving our supply chain planning and forecasting through the introduction of new tools. The solution replaces legacy systems for the management of the warehouse, updates core systems for the management of product information and implements new systems to enable electronic communication with our suppliers. This technology has provided us with the ability to track stock at every stage during its journey through the warehouse, improving accuracy and enabling us to improve our service levels and availability in-store.

We also concluded the roll out of new systems for our meat manufacturing operations in Spalding and Colne. These have resulted in a further improvement in manufacturing yields, traceability and compliance whilst realising significant efficiency improvements.

This comprehensive and business transforming project has enabled us to exceed our three year savings target of £100m. More importantly it has provided us with an outstanding IT infrastructure, that will allow us to drive even more efficiencies into the business in the years ahead and we will soon be in a position to decommission our legacy IT systems.

Indirect procurement
Our indirect procurement programme was established in 2011 to help us reduce the cost of the goods and services we use in our business whilst ensuring that our customers were not affected by the process. In this exercise our colleagues have been extremely supportive by helping us identify areas of significant opportunity.

The programme involves reviewing every area of spend in the business, both revenue and capital expenditure, looking for ways to sensibly reduce cost, including the use of e-auctions, rate negotiations and consolidating spend. Some of the initiatives, such as improved property maintenance, consolidated energy savings and the purchase of consumables, were significant. Others, including changing the specification of till rolls were smaller, but they have all contributed. Over the three years to 2013/14 we have generated savings in excess of the £100m target we set at the inception of the programme.

In-store productivity
In our stores we have automated our cash office processes, removing the need for manual counting at the checkouts and streamlining our back office processes. Our ‘First Class Filling’ initiative has enabled us to replenish our shelves quicker and more easily, by moving many tasks outside of trading hours. We also implemented new technology to most of our tills that has reduced the overall checkout transaction time. A further significant change to a long established process was the introduction of an electronic order pad that allows colleagues to place orders via a tablet, replacing paper based systems in all our stores.

We will also be updating and improving our merchandising in our stores, including using more bulk pallets and merchandise display units for high volume items as well as optimising replenishment. Individually each of these initiatives, and the many others we have implemented - delivers a relatively small benefit but in aggregate they are significant. We have exceeded our three year target of delivering £100m of benefits by 2013/14.

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Accelerating our future opportunities

Looking forward we have clear opportunities across the business to accelerate this process in the years ahead and make us fit for the future. Utilising the significant systems capacity we now have we will accelerate our self help programme to realise £1bn of savings over three years, focusing on three key areas:

1. Improving our end-to-end supply operations
2. Indirect procurement and loss prevention
3. Promotional investment and sourcing

1. Improving our end-to-end supply operations

1.1 *Leveraging vertical integration*
We are the second largest food manufacturer in the UK. In the past three years we have invested over £200m in expanding and modernising our manufacturing operations and now have outstanding facilities across many categories. Our leadership in fresh food is based firmly on our vertical integration. Sourcing and processing fresh food through our own facilities has long been a key point of difference for Morrisons. In addition to the flexibility that controlling our own supply chain brings to the business, it is a true source of competitive advantage which enables us to offer great quality products at great prices. It also enables us to have control over the provenance, safety and quality of our fresh products. The flexibility we have also allows us to support our growth in the online and convenience channels through the delivery of dedicated products direct into those channels.

It is becoming even more important to consumers that they are able to understand and trust where their food comes from. With slightly over half of the fresh products we sell in store being processed through our own factories, Morrisons is uniquely placed to offer customers the reassurance they seek.

In recent years we have invested to improve the quality and to broaden the scope of the food we process. During the year we further established our new seafood processing facility in Grimsby, expanded our Colne abattoir, added further capacity through an expansion of our bakery in Wakefield and opened a modern banana ripening facility in Boston.

We will look at further opportunities to broaden the scope of our activities by expanding into new and relevant categories in the coming years. We will also build on the success we had in the year by seeking to generate further external sales across our manufacturing operations, utilising available spare capacity.

As a result of the investments we have made in our manufacturing facilities in recent years, we now have the capacity that will enable us to transfer low value adding processes, which are currently carried out by skilled craftsmen in our stores, back into our manufacturing operations. This will both save costs and allow our customer-serving colleagues to do what they do best - serve customers.

1.2 Product flow and processes
The bulk of our productivity improvements to date have concentrated on our core stores. Utilising our new systems, we believe there are further opportunities to review our end-to-end productivity all the way from supplier to store, which will also support the continuing development of our multi-channel, multi-format operating model.

To improve our overall product flow we will build on the successful introduction of electronic order pads, a process that was completed in the year. We will further simplify a process to display products in shelf order and increase the number of lines that are automatically re-ordered. By 2017 we'll move to sales based ordering to increase availability and accuracy, and increase the centralisation of stock in our network.

We will take a different approach to how we operate in-store, replacing manual scheduling with dynamic allocation of hours to more accurately reflect changing trading patterns throughout the day. We will introduce technology improvements at our checkouts and enhance the ease, service and shopping experience in our stores.

We expect to generate a total of £300m of savings from improving our end to end operations over the next three years.

2. Indirect procurement and loss prevention

*The investment we have made over the pas*t few years in developing our IT systems, has provided us with the essential tools we need to be able to build further on the savings we have generated from indirect procurement in recent years. We have an experienced, specialist procurement team in place who will continue to focus rigorously on all areas of cost, including the maintenance of our checkouts.

In addition, tackling losses in our stores is an area in which we will deliver further major savings. Losses today, including retail shrink, waste and markdown, cost us around £450m annually. We are now in a position to use system enabled performance tracking to focus on high risk categories.

Over the three years to 2016/17 we plan to deliver savings of £200m from these activities.

3. Promotional investment and sourcing

The new systems-enabled tools we have will enable us to be far more focused on how we allocate our promotional spend so that it is invested where it can make a real impact. The tail of promotions that don't add incremental benefit will be cut and we will cut duplicative deals, simplifying the shopping experience for our customers. The number of promoted items will be reduced by 10%.

Over the next three years we will simplify our range and reduce it by 20%, making it even easier for customers to find the products they want. Carrying fewer lines will simplify our operation, reduce our end-to-end supply chain costs and drive increased volume for our suppliers.

We will work with our key branded suppliers through our M Partners programme, to drive improved category management. In addition we'll use our dedicated Own Brand sourcing team to work directly with our suppliers, optimising price and quality across our range, a process we've already started.

In total we expect these commercial initiatives to deliver £500m savings over the next three years.

Investing in our core proposition

We will utilise the benefit of the self help opportunities we have to strengthen our business and reinforce our position as a value led fresh food grocer.

Lowering price on a permanent basis
Our customers want great value for money. We will therefore make a significant investment in permanently lowering our prices, re-enforcing our position as a value-led fresh food grocer. This process has already started with our core fresh Market Street categories, where we are leveraging our vertical integration to significantly cut prices on key produce lines. Alongside our investment in fresh, we will also reduce prices on our core grocery lines to make our offer really competitive.

Fewer more impactful promotions
Promotions are important for our customers and we will deliver a more compelling promotional package; cutting confusing and duplicative promotions and investing in fewer, deeper promotions that create excitement and drive footfall. We will support this through our manufacturing capability with outstanding and consistent deals across Market Street.

Making Own Brand a competitive advantage
Over the last two years we have been engaged on a comprehensive and category wide programme to establish an outstanding range of Own Brand products. By the final quarter of 2013 that programme had been completed with over 10,000 products re-launched and we now have a range that is recognised and valued by our customers. Own Brand penetration of our sales mix has increased through the life of the programme and now accounts for some 49% of our total sales in store, up from 47% when the re-launch process started.

With own brand participation continuing to grow in the UK market and it being a strong proxy for overall retailer value offered, there is still more to do. The market is continually evolving, along with customers' perception of value. The differences between the tiers are becoming blurred; customers now expect mid-tier quality at value opening price points.

Looking ahead therefore we will simplify our range, reduce excessive pack variants and varieties, making it more productive as well as easier for customers to shop. We will also re-engineer and invest significantly in our value proposition, offering good quality at truly great prices, making our Own Brand range a source of competitive advantage.

Improving product quality, making our stores even easier to shop
Our great, fresh quality food is a key strength of this business.

Further investment in our chill chain, combined with our improvements to product flow and range reductions will drive higher volumes, leading to even better availability, longer shelf life, and better quality.

Our store environment is a fundamental point of difference for us. In our Fresh Formats stores we have dramatically increased the visibility of our fresh food proposition. There are, however, areas where we can do more and which matter to our customers. We will remove unnecessary aisle clutter and make our products even easier to find.

Launching a Morrisons card
For many years we have been at a significant disadvantage to our competitors, because of a lack of IT systems capability, an essential prerequisite to really understanding customers at an individual level. We will be able to match our competitors in offering our customers tailored offers.

We do already have a loyalty scheme, Morrisons Miles, which rewards the over five million customers who buy fuel from us. In the first quarter of the year we will start to build on that asset, by registering our Morrisons Miles cardholders.

The bigger opportunity lies in the 12m customers who shop with us in store. Getting to know them – who they are and what they want – will enable an even greater opportunity to focus where we invest. We now have the necessary systems capability and have commenced trialling a distinctive and customer-focused Morrisons card, which we expect to roll out before the end of the 2014/15 financial year. This is an outstanding opportunity to interact with our customers and will enable an even greater step change to the way in which we invest in our commercial proposition.

Focussed and consistent communications
This year we will focus our communication on our substantially low prices and stunning deals. We'll link that communication to the Morrisons brand, so that it's clear what we offer beyond price and promotions. Great value, supported by unrivalled service and skill in producing and selling great quality fresh food - value without compromise.

Financial strategy

Morrisons business has traditionally been based on strong financial principles: conservative and prudent accounting policies, well funded pension schemes, a robust balance sheet and a strong, investment grade credit rating.

We have identified significant opportunities to generate substantial free cash flow through growth, meaningful reductions in capital expenditure, improved management of our working capital and from property disposals. We will maintain our balance sheet strength, underpinned by a disciplined approach to capital management, supported by a commitment to a strong, investment-grade, credit rating over the medium term.

Capital expenditure
Our capital expenditure programme has three elements: the maintenance of our asset base; the development of our infrastructure and the growth of our new channels and manufacturing capability. The total of £1.1bn that we spent in 2013/14 represents the peak level of our capital expenditure investment and will reduce significantly in the years ahead.

Our future top line growth will be driven principally through the fast growing online and convenience channels, both of which are relatively capital-light compared to developing new supermarket space. Accordingly our investment focus in future will be on these channels. We will only acquire new supermarket sites in exceptional circumstances.

As a result of these measures, our requirement for capital expenditure has been reduced significantly from its current year level of £1.1bn, and from previous guidance, to £550m in 2014/15, reducing to around £400m annually thereafter.

Working Capital
Our ongoing investment in upgrading IT systems across the whole business continues to progress and will provide significant opportunities to optimise our control of working capital, particularly in relation to inventory and the management of our supply chain. We are committed to efficient working capital management and believe that we have opportunities to generate £600m from this area over the next three years.

Property
Morrisons property portfolio has an estimated market value of around £9bn. Over 90% of our core estate is freehold, a considerably greater proportion than our major competitors. As indicated at our Interim Results we have been reviewing opportunities to manage our property portfolio more actively than we have historically, in order to release surplus cash whilst improving shareholder returns. This review has been undertaken on the basis that we will:

- value the clear control and flexibility benefits associated with freehold ownership of stores

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- retain an overwhelmingly freehold position in our core estate – strongest in the sector
- maintain a strong, conservative and prudent capital structure
- not change the risk profile of the Company

It is expected that the freehold element of our core estate will not fall below 80%, the highest ratio in the sector.

In line with these criteria we plan to monetise some £1bn of property value by 2016/17. We will do this through the disposal of our development assets, our newer distribution assets and our investment properties including, in a small number of cases where it makes sense to do so, the associated stores. We expect to realise £400m-£500m of disposals in 2014/15.

Shareholder returns
The current year is the final year of a three year commitment, made in March 2011, to provide a minimum annual dividend increase of 10%.

The Board's confidence in Morrisons strategic direction and the long-term prospects of the business is reflected by its commitment to a progressive dividend policy, moving to two times cover over time. This is underpinned by a commitment to a minimum 5% increase in 2014/15.

Capital allocation
At our Interim Results announcement in September 2013 we set out a framework by which we would allocate capital within our business. Our first priority is to invest to support our estate and infrastructure and to reduce our cost base. Thereafter we will seek to maintain debt ratios which support a strong investment grade credit rating, before investing in profitable growth opportunities and paying dividends in line with policy. Any capital which is surplus to these requirements will be returned to shareholders over time.

We anticipate that the combination of a reduction in capital investment, improvements in our working capital and an active property estate management programme as set out above, will lead to the generation of significant free cash flow. Subject to our commitment to an investment grade credit rating over the medium term, this will be returned to shareholders in an appropriate form, to be determined at the start of each financial year.

Our balance sheet is strong. We have a valuable real estate portfolio, which provides great flexibility to the business. We will realise value from our property portfolio, whilst retaining a significantly higher freehold mix than our peers. We have substantial free cash flow generation opportunities. Overall, we expect to generate £2bn of free cashflow in the three years to 2016/17.

Notes

[1] *52 weeks to 2 February 2013 compared to 52 weeks to 3 February 2013*

[2] *Underlying profit before taxation, property transactions, multi-channel development costs, non-recurring exceptional write downs and IAS19 pension interest*

[3] *Including one replacement store: excluding convenience stores*

[4] *Based on revised definition of underlying profit before tax, which excludes property transactions and IAS19 pension interest only*

[5] *Kantar Worldpanel Total Grocery*

[6] *IGD Shoppertrends Q1 2014*

[7] *Office of National Statistics*

[8] *IGD UK Channel Forecast 2013-18*

[9] *IGD*

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Consolidated statement of comprehensive income

52 weeks ended 2 February 2014

	Note	2014 £m	2013 £m
Turnover	3	**17,680**	18,116
Cost of sales		**(16,606)**	(16,910)
Gross profit		**1,074**	1,206
Other operating income		**81**	80
Administrative expenses		**(1,250)**	(337)
Administrative expenses include:			
- Recurring		**(347)**	(337)
- Non-recurring exceptional costs		**(903)**	-
Operating (loss)/ profit		**(95)**	949
Finance costs	4	**(87)**	(75)
Finance income	4	**5**	5
Share of profit of joint venture (net of tax)		**1**	-
(Loss)/ profit before taxation		**(176)**	879
Taxation	5	**(62)**	(232)
(Loss)/ profit for the period attributable to the owners of the Company		**(238)**	647
Other comprehensive income/(expense)			
Items that will not be reclassified to profit or loss:			
Remeasurements of defined benefit pension schemes	**10**	**11**	(6)
Tax on defined benefit schemes	**5**	**(8)**	(2)
		3	(8)
Items that may be reclassified subsequently to profit or loss:			
Cash flow hedging movement		**-**	(2)
Tax on cash flow hedging movement	**5**	**(1)**	-
		(1)	(2)
Other comprehensive expense for the period, net of tax		**2**	(10)
Total comprehensive income for the period attributable to the owners of the Company		**(236)**	637
Earnings per share (pence)			
- basic	7	**(10.23)**	26.65
- diluted	7	**(10.23)**	26.57

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Consolidated balance sheet

2 February 2014

	Note	2014 £m	2013 £m
Assets			
Non-current assets			
Goodwill and intangible assets	8	**458**	415
Property, plant and equipment	9	**8,625**	8,616
Investment property		**119**	123
Investment in joint venture		**66**	-
Investments		**31**	31
		9,299	9,185
Current assets			
Stocks		**852**	781
Debtors		**316**	291
Derivative financial assets		**1**	5
Cash and cash equivalents		**261**	265
		1,430	1,342
Liabilities			
Current liabilities			
Creditors		**(2,272)**	(2,130)
Short term borrowings		**(553)**	(52)
Derivative financial liabilities		**(10)**	(3)
Current tax liabilities		**(38)**	(149)
		(2,873)	(2,334)
Non-current liabilities			
Borrowings		**(2,480)**	(2,380)
Derivative financial instruments		**(36)**	(16)
Deferred tax liabilities		**(430)**	(471)
Net pension liabilities	10	**(11)**	(20)
Provisions		**(207)**	(76)
		(3,164)	(2,963)
Net assets		**4,692**	5,230
Shareholders' equity			
Called-up share capital		**234**	235
Share premium		**127**	107
Capital redemption reserve		**39**	37
Merger reserve		**2,578**	2,578
Retained earnings and hedging reserve		**1,714**	2,273
Total equity attributable to the owners of the Company		**4,692**	5,230

Consolidated cash flow statement

52 weeks ended 2 February 2014

	Note	2014 £m	2013 £m
Cash flows from operating activities			
Cash generated from operations	11	**1,031**	1,432
Net interest paid		**(89)**	(82)
Taxation paid		**(220)**	(243)
Net cash inflow from operating activities		**722**	1,107
Cash flows from investing activities			
Investment in joint venture		**(66)**	-
Proceeds from sale of property, plant and equipment		**34**	5
Purchase of property, plant and equipment, investment property and software		**(835)**	(846)
Purchase of intangible assets		**(185)**	(134)
Cash outflow from acquisition of businesses, net of cash acquired		**-**	(36)
Net cash outflow from investing activities		**(1,052)**	(1,011)
Cash flows from financing activities			
Purchase of own shares		**(53)**	(514)
Purchase of treasury shares		**-**	(65)
Proceeds from exercise of share options		**28**	42
New borrowings		**790**	843
Repayment of borrowings		**(157)**	(81)
Dividends paid to equity shareholders		**(283)**	(270)
Net cash inflow/(outflow) from financing activities		**325**	(45)
Net (decrease)/increase in cash and cash equivalents		**(5)**	51
Cash and cash equivalents at start of period		**263**	212
Cash and cash equivalents at end of period	12	**258**	263

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

	Note	2014 £m	2013 £m
Net (decrease)/increase in cash and cash equivalents		**(5)**	51
Cash outflow from decrease in debt and lease financing		**157**	81
Cash inflow from increase in loans		**(790)**	(843)
Other non-cash movements		**2**	1
Opening net debt		**(2,181)**	(1,471)
Closing net debt	12	**(2,817)**	(2,181)

Consolidated statement of changes in equity

52 weeks ended 2 February 2014

	Share capital	Share premium	Capital redemption reserve	Merger reserve	Hedging reserve	Retained earnings	Total equity
	Attributable to the owners of the Company						
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Current period							
At 4 February 2013	235	107	37	2,578	(14)	2,287	5,230
Loss for the period	-	-	-	-	-	(238)	(238)
Other comprehensive income:							
Pension remeasurements	-	-	-	-	-	11	11
Tax in relation to components of other comprehensive income	-	-	-	-	(1)	(8)	(9)
Total comprehensive income for the period	-	-	-	-	(1)	(235)	(236)
Shares purchased for cancellation	(2)	-	2	-	-	(53)	(53)
Employees share options schemes:							
Issue of shares and utilisation of treasury shares	1	20	-	-	-	7	28
Share-based payments	-	-	-	-	-	6	6
Dividends	-	-	-	-	-	(283)	(283)
Total transactions with owners	(1)	20	2	-	-	(323)	(302)
At 2 February 2014	**234**	**127**	**39**	**2,578**	**(15)**	**1,729**	**4,692**

	Share capital	Share premium	Capital redemption reserve	Merger reserve	Hedging reserve	Retained earnings	Total equity
	Attributable to the owners of the Company						
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Prior period							
At 29 January 2012	253	107	19	2,578	(12)	2,452	5,397
Profit for the period	-	-	-	-	-	647	647
Other comprehensive income:							
Actuarial loss arising in the pension scheme	-	-	-	-	-	(6)	(6)
Cash flow hedging movement	-	-	-	-	(2)	-	(2)
Tax in relation to components of other comprehensive income	-	-	-	-	-	(2)	(2)
Total comprehensive income for the period	-	-	-	-	(2)	639	637
Shares purchased for cancellation	(18)	-	18	-	-	(514)	(514)
Employees share options schemes:							
Treasury share scheme purchases and utilisation for share options	-	-	-	-	-	(24)	(24)
Share-based payments	-	-	-	-	-	4	4
Dividends	-	-	-	-	-	(270)	(270)
Total transactions with owners	(18)	-	18	-	-	(804)	(804)
At 3 February 2013	235	107	37	2,578	(14)	2,287	5,230

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1. General information and basis of preparation

The financial information, which comprises the consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in equity, consolidated cash flow statement and related notes, is derived from the full Group financial statements for the 52 week period ended 2 February 2014, which have been prepared under European Union endorsed International Financial Reporting Standards (IFRS) and those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

It does not constitute full accounts within the meaning of section 434 of the Companies Act 2006. This financial information has been agreed with the auditor for release. The Group's full financial statements (comprising the consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in equity, consolidated cash flow statement and related notes) are available for download on the Group's website at www.morrisons-corporate.com.

The full annual report and financial statements for the year ended 2 February 2014 on which the auditor has given an unqualified report and which does not contain a statement under section 498 of the Companies Act 2006, will be delivered to the Registrar of Companies in due course. The annual report and financial statements will be made available to shareholders from 21 April 2014.

The accounting policies used in completing this financial information have been consistently applied in all periods shown, except as shown below. These accounting policies are detailed in the Group's financial statements for the 52 week period ended 2 February 2014 which can be found on the Group's website (www.morrisons-corporate.com).

IAS 19 (2011) Employee benefits

As a result of IAS 19 (2011), the Group has changed its accounting policy with respect to the basis for determining the income or expense related to the net pension liability. Under IAS 19 (2011), the Group determines the net interest expense (or income) for the period on the net pension liability (or asset) by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net pension liability (or asset) at the end of the annual period, taking into account any changes in the net pension liability (or asset) during the period as a result of contributions and benefit payments. Previously, the Group determined interest income on plan assets based on their long term rate of return.

The effect of this change in the 52 weeks ending 2 February 2014 is to reduce net interest income on the net pension liability by £17m (3 February 2013: £5m) and increase administration costs in operating loss by £3m (3 February 2013: £2m). Actuarial gains in other comprehensive income are reduced by £20m (3 February 2013: actuarial losses increased by £3m). There is no effect on the net pension liability in the balance sheet. The results for the 53 weeks ended 3 February 2013 have not been restated for the change described above because the change is immaterial to the Group's results in that comparative period.

IAS 1 (amendment) Presentation of items of other comprehensive income

As a result of the amendments to IAS 1, the Group has modified the presentation of items of other comprehensive income in order to present separately items that would be reclassified to profit or loss in the future from those that would not be. Comparative information has been represented accordingly.

IFRS 13 Fair value measurement

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurement, when such measurements are required or permitted by other IFRSs. The standard had no impact on the measurement of the Group's assets and liabilities, but has introduced some new disclosures. In accordance with the transitional provisions of IFRS 13, the Group has applied the new fair value measurement guidance prospectively and has not provided any comparative information for new disclosures.

New IFRS and amendments to IAS and interpretations

There are a number of standards and interpretations issued by the IASB that are effective for financial statements after this reporting period. The application of these standards and interpretations, which include IFRSs 10–12, is not anticipated to have a material effect on the Group's financial statements.

Principal risks

As with all businesses, we face risk and uncertainty, which could impact the delivery of our strategy. The Board has overall accountability for ensuring that risks are effectively managed across the Group, and that there is a system for internal control. The Management Board is responsible for implementing and maintaining the system of controls. In accordance with the Companies Act 2006, a description of the principal risks (and the mitigating factors in place in respect of these) is included below.

Risk	Description	Mitigation
Business change	In order to drive productivity and adapt to structural changes in the market we are undertaking a number of major change programmes that will significantly impact on existing ways of working. There is a risk that the business fails to build the capacity and capability to support the volume of business change, resulting in service disruption or unintended costs.	• Organisation Design structures and support established for all strategic change initiatives; and • Comprehensive governance embedded across the business including Business and Technical Design Authorities.
Business interruption	Our distribution and systems infrastructures are fundamental to ensuring the normal continuity of trading, whether that is via our stores or online. If a major incident occurred to this infrastructure or another key facility, this could have a detrimental impact on our ability to operate effectively.	• Recovery plans exist for sites and systems; • Investment in remote IT disaster recovery site and regular testing of recovery plans; • Adherence to a stringent process for evaluating new suppliers/third parties; and • Contingency arrangements confirmed for key suppliers.
Business strategy	Effective long term management of the Group's strategic risks will deliver benefits to all our stakeholders. The Board understands that, if the strategy and vision are not properly formulated, communicated or implemented, then the long term aims of the Group may not be met and the business may suffer.	• Strategy development led by the Chief Executive and senior management with Board scrutiny and approval; • Engagement with a wide group of stakeholders to ensure the strategy remains current; • Communication of strategy via numerous channels; • Clear link between strategic targets and business plans to drive implementation; and • Close Board monitoring of business performance.
Colleague engagement and retention	We are a people business and our 125,000 colleagues are key to being able to fulfil our promises. If we fail to retain, develop and motivate our colleagues, we will not provide the quality of service that we are expected to.	• Competitive employment policies, remuneration and benefits packages established; • Significant investment in training and development, including Morrisons Academy and Coaching for Performance programmes; • Regular talent reviews and refresh of succession plans to meet the future needs of the business; and • Climate and pulse surveys undertaken to understand and respond to colleague concerns.

Principal risks (continued)

Risk	Description	Mitigation
Customer proposition	We operate in a highly competitive industry and our customers' shopping habits are influenced by broader economic factors that our business does not control. If we fail to keep our proposition aligned with customers' expectations, by not analysing long term market trends and maximising on opportunities, then they may choose not to shop with us and sales will suffer.	• The Insight team provide the business with data and analysis to helps explain customer needs and wants to inform product ranging, marketing, advertising and also the location of new stores; • Regular review of positioning against competitors; and • Introduction of a customer focussed Morrisons loyalty offer before the end of 2014/15
Financial and treasury	The main financial risks that the Group is exposed to relate to the cost of funding, the loss of a financial counterparty and the uncertainty produced by fluctuations in interest and foreign exchange rates. All of these things have the potential to undermine the Group's ability to finance its trading activities and its financial results.	• Treasury Committee controls activities in line with Board approved policies and procedures and reports twice a year to the Audit Committee; • Hedging and derivatives used to control risk and protect the business rather than create profit; and • Board approval of budgets and business plans.
Food and product safety	If we fail to deliver excellent standards of hygiene and safety in our products, there is a potential to harm our customers and damage our business reputation. Our business focuses on fresh food and we have a vertically integrated business model; therefore, food safety is of paramount importance.	• Strict standards and monitoring processes established to manage food safety risks throughout the Group and supply chain; • ISO22000 accreditation of food manufacturing businesses; • Regular supplier assessments undertaken to ensure adherence to standards; • Stock withdrawal procedures operate throughout our supply chain to minimise the impact to customers of any supplier recalls; and • Food Safety Steering Group, Management Board and Main Board provide oversight of operational activities.
IT systems	We have replaced and upgraded systems in our business to provide industry-leading software capability. We continue to roll out new systems and decommission legacy IT systems. We are aware of the risks and potential for delays and increased costs associated with delivery.	• We partner with some of the world's leading technology companies for key projects; • Project management methodology is applied to all IT projects and programmes; and. • Regular reviews are undertaken by Risk and Internal Audit and other specialists to provide assurance over significant IT projects and programmes delivering into the business.

Principal risks (continued)

Risk	Description	Mitigation
Regulation	The Group operates in an environment governed by strict regulations to ensure the safety and protection of customers, shareholders, colleagues and other stakeholders, and the operation of an open and competitive market. These regulations include alcohol licensing, health and safety, the handling of hazardous materials, data protection, the rules of the stock exchange and competition law. In all cases, the Board takes its responsibilities very seriously, and recognises that breach of regulation can lead to reputational and financial damage to the Group.	• Clear accountabilities for compliance with all areas of regulation exist; • Policies and procedures designed to accord with relevant laws and regulations, including GSCOP and Competition Law training; and • Health and Safety and Compliance Steering Group together with the Management Board and Corporate Compliance and Responsibility Committee oversee compliance with regulatory requirements.
Reputation	We are committed to taking good care and, if we fail to act as a responsible corporate citizen or misjudge the 'mood of the nation', this could damage our reputation and, therefore, potentially lose the trust of our stakeholders and increase costs.	• Morrisons Values embedded into colleague Performance Development Review process; • Corporate Responsibility policies, targets and key performance measures clearly defined and integrated into operational management activities; • Responsible Sourcing Group, Management Board and Corporate Compliance and Responsibility Committee oversee delivery against targets; and • External assurance of Morrisons' Corporate Responsibility report. Further information is available in our Corporate Responsibility report at www.morrisons-corporate.com/CR/
Space optimisation	The business is committed to capital discipline. Within this it acquires, develops and disposes of properties. If we fail to adequately optimise our space profitably, our earnings will suffer.	• Property strategy develops stores to a well proven format; • Formal capital approval process, overseen by the Investment Board, which reports into the Management Board; • Increasing experience of opening and developing convenience stores; and • The operation of a robust impairment review process.
Trading optimisation	We operate in a competitive market and our trading teams continually make decisions that affect the offer to our customers whilst managing the relationships with our suppliers. If the business fails to optimise these trading decisions we increase the chances of missing commercial opportunities and potentially decreasing sales and margins.	• Investment in core commercial processes and ways of working; • Scenario modelling; and • Buyer development programmes.

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Responsibility statement

This statement is given pursuant to Rule 4 of the Disclosure and Transparency Rules. It is given by each of the Directors.

To the best of each Director's knowledge:

a) the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole; and

b) the strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

2. Underlying profit

The Directors consider that underlying earnings per share measures referred to in the preliminary announcement provide useful information for shareholders on underlying trends and performance and reflects how the business is monitored internally. The adjustments are made to reported profit to (a) remove the impact of pension interest income volatility; (b) remove losses or profits arising on property transactions since they do not form part of the Group's principal activities; (c) remove costs of new business development activity; (d) remove significant one-off costs that do not relate to the Group's principal activities; and (e) apply a tax rate of 25.3% (2013: 26.5%), being an estimated normalised tax rate.

	2014 £m	2013 £m
(Loss)/profit after tax	**(238)**	647
Add back: tax charge for the period[1]	**62**	232
(Loss)/profit before tax	**(176)**	879
Adjustments for:		
Net pension interest income expense[1]	**1**	4
(Profit)/loss arising on property transactions[1]	**(9)**	1
New business development costs[1]	**66**	17
	58	22
Non-recurring exceptional costs :		
Kiddicare impairment[1]	**163**	-
Trading stores[1]	**379**	-
Pipeline[1]	**319**	-
Other impairment[1]	**42**	-
	903	-
Underlying profit before tax	**785**	901
Taxation[1]	**(199)**	(239)
Underlying profit after tax charge	**586**	662
Underlying earnings per share (pence)		
- basic	**25.18**	27.26
- diluted	**25.09**	27.17

[1] Adjustments equal £824m (2013: £15m) as shown in the reconciliation of earnings disclosed in note 7(b).

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3. Sales analysis

	Like-for-like stores £m	Other £m	2014 Total £m	2013 Total £m
Sale of goods in-stores	12,990	444	**13,434**	13,674
Fuel	3,878	106	**3,984**	4,241
Total store based sales	16,868	550	**17,418**	17,915
Other sales	-	262	**262**	201
Total turnover	16,868	812	**17,680**	18,116

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

4. Finance costs and income

	2014 £m	2013 £m
Interest payable on short term loans and bank overdrafts	**(12)**	(11)
Interest payable on bonds	**(86)**	(69)
Interest capitalised	**17**	15
Total interest payable	**(81)**	(65)
Provisions: unwinding of discount	**(3)**	(4)
Other finance costs	**(2)**	(2)
Net pension interest expense	**(1)**	(4)
Finance costs	**(87)**	(75)
Bank interest received	**3**	3
Amortisation of bonds	**2**	2
Finance income	**5**	5
Net finance cost	**(82)**	(70)

5. Taxation

	2014 £m	2013 £m
Corporation tax		
- current period	**158**	261
- adjustment in respect of prior period	**(46)**	(32)
	112	229
Deferred tax		
- origination and reversal of timing differences	**(12)**	(3)
- adjustment in respect of prior period	**30**	47
- impact of change in tax rate	**(68)**	(41)
	(50)	3
Tax charge for the period	**62**	232

Legislation to reduce the rate of corporation tax from 23% to 20% was included in the Finance Act 2013. As it had been substantively enacted at the balance sheet date the deferred tax balances as at 2 February 2014 have been measured at this rate. The impact of this change in tax rate results in a credit of £66m to the Income statement, and a debit of £6m to Other comprehensive income. There have been no indications of any further changes in the rate of corporation tax from 20%.

6. Dividends

Amounts recognised as distributed to equity holders in the period:

	2014 £m	2013 £m
Interim dividend for the period ended 2 February 2014 of 3.84p (2013: 3.49p)	**90**	84
Final dividend for the period ended 3 February 2013 of 8.31p (2012: 7.53p)	**193**	186
	283	270

The Directors are proposing a final dividend in respect of the financial period ending 2 February 2014 of 9.16p per share which will absorb an estimated £214m of shareholders' funds. Subject to approval at the Annual General Meeting, it will be paid on 11 June 2014 to shareholders who are on the register on 9 May 2014.

7. Earnings per share

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

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all potentially dilutive ordinary shares. The Company has two (2013: two) classes of instrument that are potentially dilutive: those share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the period and contingently issuable shares under the Group's long term incentive plan (LTIPs).

a) Basic and diluted earnings per share (unadjusted)
Reconciliations of the earnings and weighted average number of shares used in the calculations are set out below:

	2014			**2013**		
	Earnings £m	**Weighted average number of shares millions**	**EPS pence**	**Earnings £m**	**Weighted average number of shares millions**	**EPS pence**
Unadjusted EPS						
Basic EPS						
Earnings attributable to ordinary shareholders	**(238)**	**2,327.0**	**(10.23)**	647	2,428.0	26.65
Effect of dilutive instruments						
Share options and LTIPs	**-**	**-**	**-**	-	7.0	(0.08)
Diluted EPS	**(238)**	**2,327.0**	**(10.23)**	647	2,435.0	26.57

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

	2014			**2013**		
	Earnings £m	**Weighted average number of shares millions**	**EPS pence**	**Earnings £m**	**Weighted average number of shares millions**	**EPS pence**
Underlying EPS						
Basic EPS						
Earnings attributable to ordinary shareholders	**(238)**	**2,327.0**	**(10.23)**	647	2,428.0	26.65
Adjustments to determine underlying profit (note 2)	**824**	**-**	**35.41**	15	-	0.61
	586	**2,327.0**	**25.18**	662	2,428.0	27.26
Effect of dilutive instruments						
Share options and LTIPs	**-**	**9.0**	**(0.09)**	-	8.5	(0.09)
Diluted EPS	**586**	**2,336.0**	**25.09**	662	2,436.5	27.17

The weighted average number of shares has decreased compared to the prior period as a result of the Group's equity retirement programme.

8. Goodwill and intangible assets

	2014 £m	2013 £m
Net book value		
At beginning of the period	**415**	303
Additions at cost	**178**	134
Interest capitalised	**7**	7
Amortisation	**(53)**	(29)
Impairment	**(89)**	-
At end of the period	**458**	415

9. Capital expenditure and commitments

a) Property, plant and equipment

	2014 £m	2013 £m
Net book value		
At beginning of the period	**8,616**	7,943
Acquired in a business combination	**-**	20
Transfer (to)/from investment property	**(15)**	132
Additions at cost	**807**	854
Interest capitalised	**10**	8
Disposals	**-**	(6)
Depreciation charge for the period	**(336)**	(335)
Impairment	**(457)**	
At end of the period	**8,625**	8,616

b) Investment property
In addition to the depreciation charge above of £336m, £5m (2013: £4m) is charged on investment properties.

Contracts placed for future capital expenditure not provided in the financial statements amount to £179m (2013: £77m)

10. Pensions

The Group operates three defined benefit retirement schemes (together ‘the Schemes’) providing benefits based on a benefit formula that depends on factors including the employee’s age and number of years of service. The Morrison and Safeway Schemes provide pension benefits based on either the employee’s compensation package or career average revalued earnings (CARE) (the ‘CARE Schemes’). The CARE Schemes are generally not open to new members. The Retirement Saver Plan (‘RSP’) is a cash balance scheme, which provides a lump sum benefit based upon a defined proportion of an employee’s annual earnings, which is revalued each year in line with inflation.

The latest full actuarial valuations are being carried out as at 1 April 2013 for the Safeway Scheme and 5 April 2013 for the Morrison Scheme and the RSP. The preliminary results of these valuations have been used and updated for IAS 19 ‘Employee benefits’ purposes for the period to 2 February 2014 by a qualified independent actuary.

10. Pensions (continued)

The movement in the net pension liability during the period was as follows:

	2014 £m	2013 £m
Net pension liability at start of the period	**(20)**	(11)
Expected return on scheme assets	**-**	120
Interest cost	**-**	(124)
Net interest cost	**(1)**	-
Actuarial loss recognised in other comprehensive income	**-**	(6)
Remeasurements in Other Comprehensive Income	**11**	-
Employer contributions	**34**	33
Current service cost	**(32)**	(32)
Administrative cost	**(3)**	-
Net pension liability at end of the period	**(11)**	(20)

On 24 September 2012, the Group opened a new post retirement benefit plan, the Morrisons Retirement Saver Plan. The scheme provides a lump sum benefit based upon a defined proportion of an employee's earnings each year, revalued in line with a guaranteed rate prior to retirement. All employees joining the Group after 24 September 2012 are automatically enrolled.

11. Cash flow from operating activities

	2014 £m	2013 £m
(Loss)/profit for the period	**(238)**	647
Adjustments for:		
Taxation	**62**	232
Depreciation and amortisation	**394**	339
Impairment	**546**	29
(Profit)/loss on disposal of property, plant and equipment	**(9)**	1
Net finance cost (note 4)	**82**	70
Other non-cash charges	**3**	1
Excess of contributions over pension service cost	**2**	-
Increase in stocks	**(71)**	(22)
(Increase)/decrease in debtors	**(25)**	29
Increase in creditors	**154**	114
Increase/(decrease) in provisions	**131**	(8)
Cash generated from operations	**1,031**	1,432

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12. Analysis of net debt

	2014 £m	2013 £m
Cash and cash equivalents per balance sheet	**261**	265
Bank overdrafts	**(3)**	(2)
Cash and cash equivalents per cash flow	**258**	263
Foreign exchange forward contracts	**1**	4
Energy price contracts	**-**	1
Other financial assets	**1**	5
Short term borrowings and current bonds	**(550)**	(50)
Energy price contracts	**(6)**	(3)
Forward foreign exchange contracts	**(4)**	-
Current financial liabilities	**(560)**	(53)
Bonds	**(1,759)**	(1,346)
Private placement loan notes	**(149)**	(156)
Floating credit facility	**(572)**	(671)
Other unsecured loans	**-**	(200)
Forward foreign exchange contracts and interest rate swaps	**(34)**	(12)
Energy price contracts	**(2)**	(4)
Finance lease obligations	**-**	(7)
Non-current financial liabilities	**(2,516)**	(2,396)
Net debt	**(2,817)**	(2,181)

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