News Release

Release date: 12th March 2015

PRELIMINARY RESULTS FOR THE YEAR TO 1 FEBRUARY 2015
A focus on building momentum

Financial summary

- Free cash flow pre-dividend of £785m
- Generated £42m of cash post-dividend and pre-property disposals
- Total turnover down 4.9% to £16.8bn (2013/14: £17.7bn)
- Like-for-like (LFL) sales (ex-fuel/ex-VAT) down 5.9% (2013/14: down 2.8%)
- Underlying profit before tax(1) down 52% to £345m (2013/14: £719m(2)), around the mid-point of the guidance range set in March 2014
- Underlying earnings per share(1) down 53% to 10.9p (2013/14: 23.1p(2))
- Property impairment £1,273m, primarily due to market conditions
- Loss before tax £792m (2013/14: Loss of £176m)
- Final dividend of 9.62p. Total dividend up 5% to 13.65p (2013/14: 13.0p), in line with commitment given in March 2014
- Operating working capital improvement of £206m, in line with guidance
- Property disposal proceeds of £448m as guided, profits of £131m achieved
- Net debt reduced by £477m to £2,340m (2013/14: £2,817m)

Strategic and operating highlights

For 2014/15:

- Initiated price re-set in March 2014, with a series of price cuts since
- £315m invested in the customer proposition
- Improving trend in LFL and volume KPIs through the year
- £224m cost savings achieved, £1bn three-year target on track
- Match & More card launched

From 2015/16:

- New CEO, David Potts, starts in the business on 16 March
- Focus on improving the customer offer and building trading momentum
- Increased investment in customer proposition planned for 2015/16
- Continue to prioritise capital discipline, with plans for further cost savings, improvement in working capital and lower capital expenditure
- Ongoing development of IT platform, including first sales-based ordering trials
- Further development of online model
- M local roll-out slowed significantly, proposition and site selection criteria to be reviewed. Proposed closure of 23 M local stores during 2015/16
- Dividend of not less than 5p per share for 2015/16

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Andrew Higginson, Chairman, said:

“Last year’s trading environment was tough, and we don’t expect any change this year. However, Morrisons is a strong, distinctive business – we own most of our supermarkets, have strong cash flow, and are famous with customers for great quality fresh food at low prices. This gives us a good platform.

“David Potts joins as Chief Executive next week. Under his leadership, we will focus on building trading momentum and being more like the Morrisons our customers expect. We will invest more into the proposition and put customers at the heart of everything we do. We will listen and respond to our customers, and work hard every day to improve the shopping trip.

“Success measures will be simple – more customers buying more from us. More customers means more volume growth which, ultimately, will lead to better like-for-like, profitability and shareholder returns.”

Trevor Strain, Chief Financial Officer, said:

“We are making good progress on the plan to generate £2bn of cash while making £1bn of cost savings to invest in the business, and are determined to keep lowering prices and keep them consistently low for our customers.

“Some of the changes at Morrisons are beginning to bite. Although some key measures showed progress, particularly in the final quarter, there is still much more to do.

“Today we are providing enhanced disclosure around commercial income and more detail on depreciation. We believe this new financial disclosure is appropriate for shareholders.”

Outlook

In the year ahead, we will invest more for customers in order to build trading momentum.

We expect further cash flow progress, and target lower net debt in the £1.9-£2.1bn range.

The 2015/16 dividend will be not less than 5p per share, which the Board believes reflects the commitment to the capital allocation framework, and maintains flexibility around cash flow to enable the investment to build trading momentum.

A more detailed outlook will be provided once the new CEO has reviewed the components of the strategy.

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Sales Performance (ex-VAT)

	2013/14	2014/15			
	Q4	Q1	Q2	Q3	Q4
Group LFL:					
Sales ex-fuel *	-5.7%	-7.1%	-7.6%	-6.3%	-2.6%
Sales inc-fuel *	-6.4%	-8.2%	-7.5%	-8.0%	-5.1%

** For supermarkets, online and convenience stores, reported ex-VAT and in accordance with IFRIC 13*

Summary of operational key performance indicators (KPIs)

	2013/14	2014/15			
	Q4	Q1	Q2	Q3	Q4
LFL Items per Basket *y-on-y change**	-6.9%	-5.9%	-3.2%	-2.4%	-0.1%
LFL Number of Transactions *y-on-y change**	-1.4%	-3.6%	-5.0%	-3.3%	-1.9%
Number of SKUs**	24,500	23,600	22,400	22,150	21,950
Items on Promotion *y-on-y change*	+6.0%	-5.0%	-12.9%	-13.6%	-8.1%
Promotional Participation *y-on-y change (bps)*	+140	-30	-140	-240	-160

** Excludes online and convenience*
*** Q4 2013/14 number is for SKU count as at start of programme*

Notes:

[1] Underlying profit before tax includes new business development costs, but excludes profit/loss relating to property disposals and sale of businesses, IAS 19 pension interest, impairments, and onerous lease provisions. For 2014/15, there were £68m of one-off costs relating to Kiddicare trading losses, restructuring, and the launch of the Match & More card which are included in underlying profit before tax.

[2] 2013/14 restated in line with the definition of underlying profit before tax.

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

Financial overview

Morrisons achieved or beat all components of its 2014/15 guidance on: underlying profit, cash flow, working capital, capital expenditure and cost savings. This was despite lower sales year-on-year.

Total turnover during the period was £16.8bn, down 4.9% year-on-year. Store turnover of £13.0bn, excluding fuel, was down by 3.2%, which comprised a like-for-like (LFL) decrease of 5.9% (including a contribution of 0.6% from online) and 2.7% from new stores. Fuel sales fell by 10.2% to £3.6bn, with deflation a key feature as we passed the lower oil price on to customers.

For Q4, LFL sales excluding fuel were down 2.6%, including a contribution of 1.0% from online. Operational KPIs improved further, with Items per Basket virtually flat year-on-year in Q4. During both the key Christmas trading period and Q4 as a whole, we grew volume market share in Food (source: Nielsen).

Underlying operating profit, which excludes impairment and property disposal profits, was £442m, with operating margin down 189bps year-on-year, as anticipated, primarily due to our investment in the customer proposition. Operating loss, including impairment and property disposal profits, was £696m.

Net finance costs were £98m, up £16m on last year reflecting the new bonds and a change in the mix towards longer-dated debt. There was £1m IAS 19 pension interest income in the period.

One-off costs were £68m (2013/14: nil), comprising Kiddicare trading losses, restructuring costs, and the launch costs of the Match & More card. New business development (NBD) costs for online and convenience were £71m (2013/14: £66m). Both of these costs were broadly in line with 2014/15 guidance of £70m and £65m respectively, and are included within underlying profit.

Underlying profit before tax(1) reduced to £345m, compared to £719m(2) for 2013/14, (or £785m as reported under the previous definition, which excluded £66m of NBD costs).

Underlying basic earnings per share(1) (EPS) fell by 53% to 10.9p (2013/14: 23.1p(2)) reflecting the decrease in underlying profit.

Morrisons tests for property impairment by comparing every store's recoverable amount to its book value. The recoverable amount is the higher of value in use, and market value less cost to sell. Where book value is greater than the recoverable value, the asset is impaired. There are two key drivers of the impairment charge. Firstly, a change in some forward-looking assumptions, including performance and an increase in the discount rate. Secondly, a prudent assessment of market value. This has resulted in an impairment charge of £1,273m.

After impairment, the Loss before tax was £792m (2013/14: Loss of £176m).

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Group operating cash flow of £1,044m, excluding onerous property payments, was slightly up year-on-year despite both lower profit and the tough trading conditions that impacted all UK food retailers. Operating working capital improved by £206m, driven by various factors including four days less stock cover and the successful launch of supply-chain financing. Within creditors, the outflow for onerous property payments was £74m, which was below the £100m guided last March.

Capital expenditure fell by over 50%, to £520m, from £1,086m for 2013/14, as we cut back on new store expansion and there was no repeat of last year's online launch expenditure. This was lower than the £550m guidance.

Overall, post-dividend and pre-property disposal proceeds, Morrisons was £42m cash flow positive.

Property disposals were £448m, in line with our guidance of £400m-£500m. Property profits were £131m.

Morrisons third-party property valuation is £8.5bn, down from £9bn in 2013/14.

Group net debt fell £477m to £2,340m, from £2,817m at the end of 2013/14, which was better than initial guidance (£2.4bn-£2.5bn) and in line with updated guidance issued at the time of our Q3 interim management statement (£2.3bn-£2.4bn). This represents a £1.1bn improvement in cash flow year-on-year, and free cash flow pre-dividend of £785m.

During 2014/15, we issued a 15-year (2029) £300m bond (4.75% coupon), and replaced our £1.2bn revolving credit facility with a five-year £1.35bn facility, which means we now have £350m of debt maturities over the next three years compared to around £2bn twelve months ago.

The final dividend has been increased to 9.62p. It will be paid on 10 June 2015 to shareholders on the register on 8 May 2015. This brings the full year dividend to 13.65p, an increase of 5% in line with the commitment made last year (2013/14: 13.0p).

We opened 11 new supermarkets (356,000 square feet) and 57 M locals (154,000 square feet) during the year. We also closed six underperforming M locals, and announced a proposal to close ten smaller supermarkets in 2015.

The triennial pension valuation was completed in July 2014. At the time of the last triennial valuation in 2010, the pension schemes were almost fully funded, and that position is virtually unchanged, with the deficit falling to £40m and the schemes being over 97% funded.

In January 2015, we announced a proposal, subject to a consultation process, to harmonise our various pension schemes and close the two career average defined benefit schemes to future accrual.

Return on Capital Employed (ROCE) fell to 5.6% from 8.2% in 2013/14, primarily due to the fall in profit.

Market and strategy update

Consumer confidence has started to recover in recent months. The reduction in oil and energy prices, together with continued low interest rates and real wage increases, could sustain this recovery. However, real disposable income has some way to go to reach pre-2008 levels, and customers tell us that they are unlikely to return to old shopping habits in the near term. Shopping around for the best value and shopping more frequently are trends that look set to continue. Also, as we lowered prices during last year, deflation has become a feature of our LFL, which is another trend we expect to continue.

Unsurprisingly, customers tell us that price remains the biggest driver of store choice. More importantly, price consistency and trust are key. However, our research also shows that other factors such as range, quality, ease of shop and service all play key parts in a customer deciding where to shop.

Our strategy embraces all these trends and our fresh/value credentials position us well to compete in what we expect will remain a highly competitive market during the year ahead.

However, while our strategy is broadly correct and our £1bn Saves and £1bn Invests programmes are unchanged, we now believe it is right to increase the pace of change, especially in our core supermarkets, to build trading momentum. This will be achieved via a relentless focus on some of the key components of our value proposition.

Investing in our core value proposition

Customers

All aspects of our strategy will start with the customer. We will work harder to restore the Morrisons value offer and improve all the everyday details of the customer shopping trip.

Initial success will be measured by winning back customers and encouraging them to spend more. More customers means more volume growth, so KPIs such as Number of Transactions and Items per Basket remain important. Ultimately, more customers and more volume will lead to better LFLs and profitability.

We have already had some success in driving volume KPIs, which improved consistently through the year and particularly towards the end of the second half. For Q4, LFL Items per Basket was -0.1% year-on-year, a significant improvement on the -6.9% for the same quarter last year. Q4 LFL Number of Transactions was -1.9%, compared to a low of -5.0% in Q2 2014/15. We will look to continue this volume momentum into 2015/16.

Price

Improving the Morrisons value offer starts with lower prices. We are committed to consistently lowering prices and keeping them low.

In 2014/15, we invested a net £315m into our proposition, the majority of which was in price. We started in Q1 with a programme of price cuts in Produce and Meat. In May, we launched the '*I'm Cheaper*' campaign, cutting 1,200 Morrisons Brand and branded everyday products by an average of 17%, and we followed these with more cuts in June. During October, we launched Match & More, our new price match and points card which provides a unique price guarantee against Aldi and Lidl, as well as Tesco, Sainsbury's and Asda. In February 2015, we reduced the price of 130 high volume everyday lines by an average of 22%.

We are just one year in to our plan, and are determined to keep lowering prices for customers. During 2015/16 and 2016/17, we are targeting almost £800m more cost savings, the majority of which we expect to invest back into the customer proposition.

Promotions
As well as low, consistent and transparent pricing, we are focussing on fewer but more impactful promotions. This will help make our business simpler for customers, and cheaper for us to operate. Good progress was made during 2014/15. The number of weekly Items on Promotion fell by 10.6% year-on-year in H2. Overall, year-on-year Promotional Participation was down 200bps in H2, which was 340bps better than the +140bps in Q4 2013/14. We intend to keep simplifying and improving promotions for customers.

Communication
During 2015/16, our communication to customers will prioritise our low prices, great promotions and fresh food strengths. We will also begin to leverage the new Match & More data in many ways across our business, including more personalised offers for customers.

As well as everyday low prices, we will also focus on other key attributes of the Morrisons brand – Market Street and the provenance provided by our food production facilities.

Not all supermarkets are the same. Morrisons is the most distinctive of the 'Big 4'. We manufacture much of our fresh food and Morrisons Brand product – in Meat, Produce, Deli, Fish and Bakery – in factories that we own and operate ourselves in the UK. This is unique and gives Morrisons a flexibility, speed-to-market, and provenance not available to our competitors.

Market Street is also a distinctive part of the Morrisons offer that helps set us apart. Our people are different too – we have more qualified butchers, fishmongers, bakers, and other craftspeople than any of our competitors – they are the heart of the business and are what helps make Morrisons unique.

Morrisons Brand products
Morrisons Brand is a big opportunity, especially where we can leverage our manufacturing capabilities. Our new Morrisons Brand sourcing team is beginning to make real progress in the areas of product development, reducing complexity and removing duplication.

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During the period, we developed hundreds of products, with some very good results. Household Paper sales up over 130%, and Tea up nearly 20% are two examples of the results of successful Morrisons Brand innovation.

Morrisons Brand progress is being independently recognised. We won nearly 200 product awards during 2014/15, over three times the number for 2013/14.

At the same time, we continued to make our ranges simpler and more relevant for customers. During the year, we reduced Morrisons Brand SKUs in some of our categories by over 20%, with an average reduction across all categories of more than 10%.

During 2015/16, we will continue to refine our Morrisons Brand, with the focus on improving the value we offer customers and product innovation. We will continue to leverage our fresh and Market Street credentials, and will utilise Match & More by tailoring More points to our Morrisons Brand offer.

Saving to invest – increasing efficiency

Good progress during 2014/15
The investment in our value proposition is being funded by a £1bn three-year self-help programme. This is an ambitious plan, however many cost savings are initiatives that other retailers have benefitted from for some time, and will be accessed as we develop our IT infrastructure. We remain confident that, with these opportunities ahead, we will deliver our £1bn plan.

During 2014/15, we delivered £224m of savings from our £1bn three-year target. This comprised three components:

1. End-to-end: £70m delivered; £300m target.
2. Indirect procurement: £50m delivered; £200m target.
3. Promotional investment and sourcing: £104m delivered; £500m target

End-to-end
£70m of savings were delivered during the period, and we confirm our three-year target of £300m.

During 2014/15, we announced plans to restructure our in-store teams to make them more efficient, with clearer lines of responsibility and fewer layers of management. The changes are currently in progress. This will not affect the number of colleagues in customer-facing roles.

As planned, we are increasingly leveraging our manufacturing capabilities by moving many non-customer-facing, non-value added, in-store tasks to our manufacturing businesses. Most of these tasks are invisible to our customers and have freed-up our skilled in-store colleagues to serve customers better.

During the period, we moved production of almost 120 beef and pork lines from in-store to our manufacturing facilities, which has led to longer shelf life with less waste and higher sales. For example, sales of our Signature Beef range are up 100% year-on-year since we started cutting and skin-packing the product in our meat processing plants. With more of our butchers' time freed up to do what they do best – serve customers – counter sales are up by more than 10%.

There are several similar initiatives planned for 2015/16, many of which are opportunities around our unique Market Street and manufacturing capabilities. For example, lamb will follow beef and pork in benefitting from moving some production to our manufacturing facilities, and our counters will become even more of a focus for our unique butchers' skills.

Our plans for the introduction of sales-based ordering (SBO) are well on track. The first category, Frozen, will go live soon, with a phased roll-out across the range over coming quarters. Both during implementation and once operational, we expect significant cost savings and stock reduction opportunities.

Several competencies that we are building ahead of SBO are already beginning to benefit the business and our customers. For example, we have recently introduced Availability Champions to over 400 stores, giving colleagues extra responsibility in key product areas to ensure best levels of customer service and product display. We are also working in-store to optimise labour scheduling and better phasing of promotions. Within the supply chain, we are working on initiatives such as improving warehouse operations, increasing shelf-ready packaging and improving the processes around replenishment management.

We will continue to introduce initiatives that improve efficiency and productivity throughout 2015/16, whilst at the same time enhancing the customer offer.

Indirect procurement and loss prevention
£50m of savings were delivered during the period, and we confirm our three-year target of £200m.

During the period we saved an annualised £9m in packaging costs across various in-store and manufacturing initiatives. Energy consumption initiatives and different buying strategies saved in excess of £15m.

Promotional investment and sourcing
£104m of savings were delivered during the period, and we confirm our three-year target of £500m.

As highlighted above, we made substantial progress in reducing the number of weekly Items on Promotion and Promotional Participation, two KPIs that we now measure and report externally every quarter.

Another KPI, Number of SKUs, also moved very favourably during the year, with a reduction of more than 2,500 SKUs (over 10%). Range reduction and streamlined promotions remains a key future cost saving opportunity, as are the related areas of refining our marketing spend and utilising Match & More data.

New channels

Online

We are pleased with our first year online. From a standing start and first delivery in January 2014, we exited 2014/15 with around £200m of annualised sales and near-50% coverage of all UK households, in line with our ambitious initial targets. On our first online anniversary, we delivered our one millionth order.

Alongside our partner Ocado, we started to operate out of Dordon, initially servicing Warwickshire and Yorkshire. During the year, we began trading from spokes in Leeds, Manchester, North London, Sheffield, Merseyside and Bristol.

Although our growth is strong, we are most pleased with our consistently high levels of customer service. We continued to achieve industry-leading customer service metrics throughout our first year. Even during the busiest week of the year pre-Christmas, Morrisons on-time delivery was 97.5% and product substitutions were just 1.4%.

During 2015/16, we will open at least one additional spoke. Our focus will be on increasing our delivery density within our extensive and highly populated existing coverage area. We will also trial other methods of customer delivery.

Convenience

For M local, we opened 57 stores and closed six underperforming stores during the period, bringing the total to 153.

Convenience is a channel that we expect will continue to grow in future. Over recent years, we have been working to grow M local at pace in order to quickly gain critical mass and learn. However, for stores now in their second year, we are not seeing the level of trading performance we had anticipated. We have a number of stores that are not performing, and are informing colleagues today of a proposal to close 23 stores during 2015/16.

We will also slow new openings significantly, and review the M local proposition and approach to site selection rather than pursue store number and turnover targets. We will update our future M local plans once the review is complete.

Kiddicare exit

In July, we announced the sale of Kiddicare. The exit from the business is now almost complete. All but two of the ten leases have been assigned. As reported at the interims, profit on disposal was £4m.

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Financial Strategy and guidance

Capital allocation framework
Our overall capital allocation framework is unchanged. We are committed to an investment grade credit rating. In the current food retail market, a strong investment grade rating is not considered realistic near-term, despite our predominantly freehold supermarket estate and strong free cash flow.

Reflecting the commitments to both the capital allocation framework and investment in building the trading momentum of the business, we will again reduce capital expenditure in 2015/16 as previously guided, particularly in new channels and new stores. We will also reduce the dividend payment.

Shareholder returns
The 2015/16 dividend will be not less than 5p per share, which the Board believes reflects the commitment to the capital allocation framework, and maintains flexibility around cash flow to enable the investment to build trading momentum.

Beyond 2015/16, the dividend policy will be determined and communicated as appropriate by the Board and new CEO.

Morrisons is committed to generating strong operational free cash flow. For the medium-term, the priority will be to further reduce the level of debt.

Cash flow and working capital
All components of our free cash flow generation plans are progressing well, and we remain on track to generate £2bn operating free cash flow by 2016/17 including a £600m improvement in working capital.

Capital expenditure
During 2015/16, we expect capital expenditure to fall further to around £400m as previously guided. This will comprise fewer new convenience store openings than initially planned, with more capital allocated to maintaining and updating the core estate. As announced, in future we will only add new core supermarkets to the space pipeline in exceptional circumstances. This guidance excludes any additional capital we may commit to a new online facility. In addition, we expect £100m of onerous property payments during 2015/16.

Property disposals
Morrisons values the flexibility and control associated with a predominantly freehold property portfolio. While maintaining that approach, over the last year we have managed our property portfolio more actively than in the past in order to release some cash and improve shareholder returns.

Over the remaining two years of the plan, we will continue towards our three-year target of £1bn of property disposals, and are committed to the freehold component of our supermarket estate remaining above 80%, which is by far the highest ratio in the sector. The sale and leaseback element of the programme is mostly complete, and future focus will be on property development opportunities and non-core disposals.

Overall, we expect the annualised net rent impact of disposals will be £20m-£25m, as previously guided.

Debt
We expect net debt to fall to £1.9bn-£2.1bn by the end of 2015/16.

New stores
In 2015/16, we expect to open three new supermarkets (106,000 square feet). After the closure of ten supermarkets and the proposed closure of 23 M local stores, we expect net new space to be negative prior to new M local openings.

Store closures
We continually review the performance of all stores and remain committed to rigorous and optimal capital discipline. We undertake an annual store closures review. However, we have no current plans to close any more supermarkets.

ROCE
We remain committed to ROCE as a KPI, and remain focused on growing future returns and optimising our capital base.

Enhanced disclosure

Commercial Income
The industry context around commercial income has changed significantly in recent months. Morrisons notes that the Financial Reporting Council (FRC) has urged companies to provide clarity in this area, and the Board considers greater transparency appropriate.

Commercial income is a deduction from cost of sales. It is not consistently defined. Our definition comprises marketing contributions from suppliers and volume-based rebates. It does not include promotional funding, as these are automatic deductions from costs, and are triggered as units are sold or purchased with no subjectivity or judgement applied.

For most marketing contributions and volume-based rebates, there is also little or no subjectivity or judgement. However, we have chosen to provide full income statement and balance sheet disclosure. For 2014/15, commercial income was £425m (2013/14: £396m). By its nature, a proportion of commercial income will only become billable towards the end of the year. We expect the majority to be collected during Q1.

Depreciation
In previous years, fully depreciated assets have been retained in the Group's fixed asset register. In order to provide greater understanding of the annual depreciation charge, these have been removed from both cost and accumulated depreciation. At balance sheet date, fully depreciated assets were £1,656m.

Corporate responsibility and community

How we operate is very important to us. 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. In June, we will publish our 2014/15 CR Review, which will be independently verified by our assurance providers, DNV GL. In the meantime, our 2013/14 CR Review is available to download at www.morrisons-corporate.com/cr/

Supporting British
100% of our Morrisons Brand fresh beef, lamb, pork, chicken, milk and eggs are British. We have a strong connection with British livestock farmers and long-standing relationships with our suppliers. Being both a leading fresh food manufacturer as well as a major British retailer allows us to work with local farmers and suppliers to create shorter, more efficient supply chains. By sourcing British we can better control the quality and traceability of our products, reduce food miles, add to the national economy, strengthen agricultural industries and support our rural communities. Details on our work to help ensure the sustainability of British farming can be found at www.morrisons-farming.com

Sustainable seafood
100% of our UK wild caught and landed seafood is from Responsible Fishing Scheme vessels. 100% of our Morrisons Brand tuna is pole and line caught not using fish aggregation devices. We know that our customers want their fish to be responsibly sourced. We have a decision tree in place to ensure each species we sell meets an important set of sustainability criteria before entering our stores. These criteria include stock levels, fisheries management practices, location of catch and method of catch.

In addition to our commitment to buy all UK caught and landed seafood from RFS certified vessels, we aim to make this standard available to our international supply chains as well.

Managing and reducing food waste
We are a proud supporter of WRAP's Love Food Hate Waste campaign and we work with redistribution partners to prevent food waste.

Morrisons is different from other retailers because we make as well as sell food. This gives us unrivalled opportunities to reduce waste in the supply chain and pass savings to customers. We prepare more food in store than any other supermarket and our butchers and fishmongers can prepare exactly the cuts our customers want, whatever the size, helping customers to minimize their waste.

In addition to helping our customers reduce waste, we work with organisations such as Company Shop, Community Shop, FoodCycle, His Church and FareShare to prevent surplus food within our supply chain and stores from going to waste.

Let's Grow
£20m of gardening equipment has been donated to over five million UK schoolchildren. Let's Grow teaches children about the story of fresh food through the practical experience of growing fresh fruit and vegetables in an outdoor environment. This year, we've worked with FoodShare to provide local charities access to produce grown through Let's Grow schools.

Sue Ryder
We have raised £2.2m in the first year of our partnership with Sue Ryder. We're working with Sue Ryder to help and support families throughout the UK. At the heart of the partnership is a shared belief that everyone should be able to get the care they want when they need it most, and that their families should be supported through the most difficult times.

The partnership will enable us to establish community clinics, end-of-life-care online support communities, and family support teams for Sue Ryder.

Colleagues

With our continued focus on delivering a great experience for our customers, it is essential our people feel engaged and empowered to do their best. We actively involve our teams to continually improve the service we provide, and have built new channels to ensure the voice of our employees is heard and the views of our customers represented.

This year saw us building momentum around colleague development, creating a strong suite of learning opportunities and qualifications across the business. We launched our new Higher Apprenticeship in Leadership and Management Programme for our future Store Management, along with a number of nationally recognised qualifications. Our Apprenticeship Programmes have been recognised industry-wide through a number of prestigious awards including Apprenticeship Programme of the Year, Business-Led Youth Training Scheme, Management Trainee Programme and the Our Club pre-employment programme.

At Morrisons we believe that a healthy, high performance culture and a merit-based approach to the recruitment and development of our people will continue to be a key success factor for the future. We are proud of our achievements and continue to work hard to support our people and our communities.

Notes:

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[2] 2013/14 restated in line with the definition of underlying profit before tax.

Consolidated statement of comprehensive income

52 weeks ended 1 February 2015

	Note	2015 £m	2014 £m
Revenue	3	**16,816**	17,680
Cost of sales		**(16,055)**	(16,606)
Gross profit		**761**	1,074
Other operating income		**78**	81
Profit/loss on disposal and exit of properties and sale of businesses		**135**	9
Administrative expenses		**(1,670)**	(1,259)
Operating loss		**(696)**	(95)
Finance costs	4	**(105)**	(87)
Finance income	4	**7**	5
Share of profit of joint venture (net of tax)		**2**	1
Loss before taxation		**(792)**	(176)
Analysed as:			
Underlying profit before tax	2	**345**	719
Impairment and onerous lease provisions		**(1,273)**	(903)
Profit/loss on disposal and exit of properties		**131**	9
Profit arising on disposal of Kiddicare.com Limited		**4**	-
Net pension interest income/(cost)		**1**	(1)
		(792)	(176)
Taxation	5	**31**	(62)
Loss for the period attributable to the owners of the Company		**(761)**	(238)
Other comprehensive (expense)/income:			
Items that will not be reclassified to profit or loss:			
Remeasurement of defined benefit pension schemes	15	**(31)**	11
Tax on defined benefit pension schemes		**6**	(8)
		(25)	3
Items that may be reclassified subsequently to profit or loss:			
Cash flow hedging movement		**(9)**	-
Tax on cash flow hedging movement		**2**	(1)
		(7)	(1)
Other comprehensive (expense)/income for the period, net of tax		**(32)**	2
Total comprehensive expense for the period attributable to the owners of the Company		**(793)**	(236)
Earnings per share (pence)			
- basic	7	**(32.63)**	(10.23)
- diluted	7	**(32.63)**	(10.23)

Consolidated balance sheet

1 February 2015

	Note	2015 £m	2014 £m
Assets			
Non-current assets			
Goodwill and intangible assets	8	**520**	458
Property, plant and equipment	9	**7,252**	8,625
Investment property	10	**68**	119
Net pension asset	15	**4**	-
Investment in joint venture		**68**	66
Investments		**31**	31
		7,943	9,299
Current assets			
Stock	12	**658**	852
Debtors	13	**239**	316
Derivative financial assets		**6**	1
Cash and cash equivalents	17	**241**	261
		1,144	1,430
Non-current assets classified as held for sale	11	**84**	-
		1,228	1,430
Liabilities			
Current liabilities			
Creditors	14	**(2,221)**	(2,272)
Short term borrowings		**(11)**	(553)
Derivative financial liabilities		**(18)**	(10)
Current tax liabilities		**(23)**	(38)
		(2,273)	(2,873)
Non-current liabilities			
Borrowings		**(2,508)**	(2,480)
Derivative financial liabilities		**(50)**	(36)
Deferred tax liabilities		**(415)**	(430)
Net pension liabilities	15	**(43)**	(11)
Provisions		**(288)**	(207)
		(3,304)	(3,164)
Net assets		**3,594**	4,692
Shareholders' equity			
Share capital		**234**	234
Share premium		**127**	127
Capital redemption reserve		**39**	39
Merger reserve		**2,578**	2,578
Retained earnings and hedging reserve		**616**	1,714
Total equity attributable to the owners of the Company		**3,594**	4,692

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Consolidated cash flow statement

52 weeks ended 1 February 2015

	Note	2015 £m	2014 £m
Cash flows from operating activities			
Cash generated from operations	16	**970**	1,031
Interest paid		**(106)**	(91)
Taxation received/(paid)		**10**	(220)
Net cash inflow from operating activities		**874**	720
Cash flows from investing activities			
Interest received		**4**	2
Investment in joint venture		**-**	(66)
Proceeds from sale of property, plant and equipment and businesses		**450**	34
Purchase of property, plant and equipment and investment property		**(385)**	(835)
Purchase of intangible assets		**(135)**	(185)
Net cash outflow from investing activities		**(66)**	(1,050)
Cash flows from financing activities			
Purchase of own shares for cancellation		**-**	(53)
Purchase of own shares for trust		**(8)**	-
Proceeds from exercise of share options, including issues from treasury shares		**-**	28
New borrowings		**296**	790
Net repayment of revolving credit facility		**(256)**	(100)
Repayment of other borrowings		**(550)**	(57)
Dividends paid to equity shareholders		**(308)**	(283)
Net cash (outflow)/inflow from financing activities		**(826)**	325
Net decrease in cash and cash equivalents		**(18)**	(5)
Cash and cash equivalents at start of period		**258**	263
Cash and cash equivalents at end of period	17	**240**	258

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

	Note	2015 £m	2014 £m
Net decrease in cash and cash equivalents		**(18)**	(5)
Cash outflow from decrease in debt		**806**	157
Cash inflow from increase in borrowings		**(296)**	(790)
Other non-cash movements		**(15)**	2
Opening net debt		**(2,817)**	(2,181)
Closing net debt	17	**(2,340)**	(2,817)

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Consolidated statement of changes in equity

52 weeks ended 1 February 2015

Current period

	Attributable to the owners of the Company						
	Share capital	**Share premium**	**Capital redemption reserve**	**Merger reserve**	**Hedging reserve**	**Retained earnings**	**Total equity**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
At 3 February 2014	234	127	39	2,578	(15)	1,729	4,692
Loss for the period	-	-	-	-	-	(761)	(761)
Other comprehensive (expense)/ income:							
Cash flow hedging movement	-	-	-	-	(9)	-	(9)
Pension remeasurement	-	-	-	-	-	(31)	(31)
Tax in relation to components of other comprehensive income	-	-	-	-	2	6	8
Total comprehensive expense for the period	-	-	-	-	(7)	(786)	(793)
Purchase of trust shares	-	-	-	-	-	(8)	(8)
Employee share option schemes:							
Share-based payments	-	-	-	-	-	11	11
Dividends	-	-	-	-	-	(308)	(308)
Total transactions with owners	-	-	-	-	-	(305)	(305)
At 1 February 2015	**234**	**127**	**39**	**2,578**	**(22)**	**638**	**3,594**

Prior period

	Attributable to the owners of the Company						
	Share capital	**Share premium**	**Capital redemption reserve**	**Merger reserve**	**Hedging reserve**	**Retained earnings**	**Total equity**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
At 4 February 2013	235	107	37	2,578	(14)	2,287	5,230
Loss for the period	-	-	-	-	-	(238)	(238)
Other comprehensive income/(expense):							
Pension remeasurement	-	-	-	-	-	11	11
Tax in relation to components of other comprehensive income	-	-	-	-	(1)	(8)	(9)
Total comprehensive expense for the period	-	-	-	-	(1)	(235)	(236)
Shares purchased for cancellation	(2)	-	2	-	-	(53)	(53)
Employee share option 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

1. General information and basis of preparation

The financial information, which comprises the consolidated statement of comprehensive income, consolidated balance sheet, consolidated cash flow statement, consolidated statement of changes in equity, and related notes, is derived from the full Group financial statements for the 52 week period ended 1 February 2015, 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 financial statements 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 cash flow statement, consolidated statement of changes in equity, 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 52 week period ended 1 February 2015 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 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 1 February 2015 which can be found on the Group's website (www.morrisons-corporate.com).

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, including IFRS 9 'Financial instruments' and IFRS 15 'Revenue from contracts with customers', both of which are effective for annual periods beginning on or after 1 January 2017.

The Group is in the process of assessing the impact that the application of these standards and interpretations will have 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
Food and product safety	If we fail to deliver excellent standards of hygiene and safety in our products, there is 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 and the integrity of our supply chain are of paramount importance.	• Strict standards and monitoring processes established to manage food safety risks throughout the Group and supply chain; • ISO 22000 accreditation of food manufacturing businesses; • Regular supplier assessments undertaken to ensure adherence to standards; and • Food Safety Steering Group, the Board and Management Board provide oversight of operational activities.
Major 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.	• Detailed 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 and third parties; • Contingency arrangements confirmed for key suppliers; and • A Crisis Management Group is in place to deal with any unplanned or unforeseen events.

Principal risks (continued)

Risk	Description	Mitigation
Data security	The Group believes it is essential that the security of customer, colleague, supplier and company confidential data is maintained securely. A major breach of information security could have a significant impact on the reputation of the business.	• The Group has a number of information security policies and procedures in place; • The Information Management Steering Group has the responsibility for looking at data management practices, policies, awareness and training; and • Ongoing monitoring, reporting and mediation of vulnerabilities is in place.
Business strategy	The Board understands that if the strategy and vision of the business are not properly formulated, communicated or implemented, then the long term aims of the Group may not be met and the business may suffer and benefits not delivered to stakeholders.	• We have a clear strategy based on four pillars of save, invest, grow and cash generation; • 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.
Financial strategy	The main risks are the availability of funding and management of cash flow to meet business needs.	• The Group's treasury function is responsible for the forward planning and management of funding. They report to the Treasury Committee and operate within clear policies and procedures which are reviewed and audited; and • Progress against the financial strategy is regularly reviewed and monitored by the Management Board.
Colleague engagement and retention	We are a people business and our colleagues are key to being able to fulfil our promises to customers. If we fail to retain, develop and motivate our colleagues, we will not provide the quality of service that our customers expect. Development of new channels and delivery of strategic objectives increases the risk of being able to attract specific talent. The change in leadership will need to be managed to ensure colleague engagement is maintained.	• Competitive employment policies, remuneration and benefits packages are established and regularly reviewed; • Significant investment in training and development, including the Morrisons Academy; • Regular talent reviews and refresh of succession plans to meet the future needs of the business; • Colleague engagement surveys undertaken to understand and respond to colleague concerns; and • Plan to manage leadership change in place.
External market forces	Economic changes including changes in the value of the Group's pension schemes and commodity fluctuations could impact the Group's profitability and balance sheet strength.	• The Group's pension liabilities are monitored by the Treasury Committee with a clear investment strategy in place. In February 2015 we announced the start of consultation to close the Group's defined benefit schemes to future accrual which will help reduce this risk; and • Commodity prices are reviewed and monitored each week. The Group has clear policies around hedging of commodity risks and seeks to hedge exposure where possible.

Principal risks (continued)

Risk	Description	Mitigation
Supply chain management and integrity	Recent issues in the sector regarding the integrity and sourcing of food include the discovery of horsemeat substituted for beef in 2013. Our vertical integration model and focus on supply chain integrity means that these have not impacted Morrisons, as highlighted in the Elliott report (July 2014). However, it remains a risk that management is focused on and continues to monitor.	• Morrisons manufactures a large proportion of the fresh food it sells, contracting directly with farmers and growers; • Thorough checks are in place at all our own production facilities as well as those who produce for us; and • We have visibility over all own brand suppliers ethical and responsible business practices through Sedex.
Competitor proposition and price	The UK grocery market continues to be extremely competitive. The impact of competitor proposition and pricing changes could affect the performance of the Group in terms of sales, costs and operations. There is also a risk that supplier failure or a change in supplier pricing could have operational or financial consequences for the Group.	• Competitor pricing positions and market trends are reviewed on a weekly basis. We also review and actively manage our own key price points, sales proposition, and promotional and marketing campaigns; and • Credit checks and monitoring of suppliers are conducted. We also maintain open and regular dialogue with our suppliers.
IT systems upgrade	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 delivering successful IT systems change.	• 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.
Regulation	The Group operates in an environment governed by strict regulations including competition, employment, health and safety, and regulations over the Group's products. In all cases, the Board takes its responsibilities very seriously and recognises that breach of regulation can lead to reputational and financial damages to the Group.	• An established governance framework including compliance monitoring and reporting is in place; • There are clear accountabilities and processes in place for the monitoring of regulatory developments and the compliance with existing regulation; • Processes are in place for delivering training to impacted colleagues in relations to regulation; and • The internal legal department provides advice and guidance.

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 or loss 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.

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2. Underlying profit

The definition of underlying profit has been amended to include new business development costs as they are considered to be ongoing activities and part of the Group's underlying business. The underlying earnings reconciliations for the comparative period presented below have been restated to reflect this change. This has resulted in a decrease in post-tax underlying earnings from amounts previously reported last year of £49m (pre-tax: £66m).

The amendment of the definition to underlying earnings has resulted in the following changes to underlying earnings in the comparative period:

	2 February 2014	
	Pre-tax £m	Post-tax £m
Restated underlying profit	719	537
New business development costs	66	49
Underlying profit as previously reported	**785**	**586**

The Directors consider that the underlying earnings and underlying adjusted earnings per share measures referred to in the results provide useful information for shareholders on underlying trends and performance. The adjustments are made to reported loss to (a) remove impairment, onerous lease provisions, or other similar items that do not relate to the Group's principal activities on an ongoing basis; (b) remove profit/loss arising on disposal and exit of properties and sale of businesses; (c) apply a normalised tax rate of 26.1% (2014: 25.3%); and (d) remove the impact of pension interest volatility.

	2015 £m	**Restated 2014 £m**
Loss after tax	**(761)**	(238)
Add back: tax (credit)/charge for the period[1]	**(31)**	62
Loss before tax	**(792)**	(176)
Adjustments for:		
Impairment and onerous lease provisions[1]	**1,273**	903
Profit/loss arising on disposal and exit of properties[1,2]	**(131)**	(9)
Profit on disposal of Kiddicare.com Limited[1]	**(4)**	-
Net pension interest (income)/cost[1]	**(1)**	1
Underlying profit before tax	**345**	719
Normalised tax charge at 26.1% (2014: 25.3%)[1]	**(90)**	(182)
Underlying profit after tax	**255**	537
Underlying earnings per share (pence)		
- basic	**10.93**	23.08
- diluted	**10.89**	22.99

[1] Adjustments marked [1] increase post tax underlying earnings by £1,016m (2014: £775m) as shown in the reconciliation of earnings disclosed in note 7(b).

[2] Included within profit/loss arising on disposal and exit of properties is a charge of £19m relating to the closure of ten stores and six convenience stores.

2014/15 impairment
Impairment and onerous lease provisions in 2014/15 consist of £1,273m in relation to trading stores, of which £1,116m is impairment, £118m is onerous lease provisions, £30m relates to onerous commitments and £9m relating to lease premiums.

2013/14 impairment
Impairment and onerous lease provisions in 2013/14 consisted of £379m in relation to trading stores, £319m in relation to the property pipeline (which consists of undeveloped land), £163m in respect of Kiddicare and £42m of other costs.

The trading stores' costs of £379m consisted of £330m impairment and £49m onerous leases. Pipeline costs of £319m included impairment of £90m and a further £229m in respect of onerous leases and capital contracts. Charges in respect of Kiddicare consisted of £24m of goodwill, £12m brand, £70m impairment and £57m onerous lease provisions. Other impairments of £42m principally included £27m write off of the costs incurred in the development of our own food online offer which was no longer required as a result of our arrangement with Ocado.

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3. Revenue analysis

	Like-for-like sales £m	Other £m	2015 Total £m	2014 Total £m
Sale of goods in-stores and online	12,639	360	**12,999**	13,434
Fuel	3,521	55	**3,576**	3,984
Total store based sales and online	16,160	415	**16,575**	17,418
Other sales	-	241	**241**	262
Total revenue	16,160	656	**16,816**	17,680

4. Finance costs and income

	2015 £m	2014 £m
Interest payable on short term loans and bank overdrafts	**(10)**	(12)
Interest payable on bonds	**(96)**	(86)
Interest capitalised	**11**	17
Total interest payable	**(95)**	(81)
Provisions: unwinding of discount	**(7)**	(3)
Other finance costs	**(3)**	(2)
Net pension interest cost	**-**	(1)
Finance costs	**(105)**	(87)
Bank interest received	**5**	3
Amortisation of bonds	**1**	2
Net pension interest income	**1**	-
Finance income	**7**	5
Net finance cost	**(98)**	(82)

5. Taxation

	2015 £m	2014 £m
Current tax		
- UK corporation tax	**71**	153
- overseas tax	**4**	5
- adjustments in respect of prior periods	**(99)**	(46)
	(24)	112
Deferred tax		
- origination and reversal of timing differences	**1**	(12)
- adjustments in respect of prior periods	**(8)**	30
- impact of change in tax rate	**-**	(68)
	(7)	(50)
Tax (credit)/charge for the period	**(31)**	62

The Group's tax charge has reduced from the prior year. The reduction in the current tax charge reflects the lower underlying profit, whilst elements of the asset impairments announced by the Group are also deductible for tax purposes. The Group also benefited from adjustments in respect of prior periods for which the liability has now been settled with HMRC. The Group's deferred tax liabilities have also reduced year on year, primarily as a result of impairments reducing the carrying value of property assets for which the Group provides for deferred tax.

Legislation to reduce the rate of corporation tax to 20% was included in the Finance Act 2013. The 20% rate will apply from April 2015. Deferred tax is already provided at 20%. There has not been any indication of any further changes in the rate of corporation tax from 20%.

6. Dividends

Amounts recognised as distributed to equity holders in the period:

	2015 £m	2014 £m
Interim dividend for the period ended 1 February 2015 of 4.03p (2014: 3.84p)	**94**	90
Final dividend for the period ended 2 February 2014 of 9.16p (2013: 8.31p)	**214**	193
	308	283

The Directors propose a final dividend in respect of the financial period ending 1 February 2015 of 9.62p per share which will absorb an estimated £225m of shareholders' funds. Subject to approval at the AGM, it will be paid on 10 June 2015 to shareholders who are on the register on 8 May 2015.

The dividends paid and proposed during the year are from cumulative realised distributable reserves of Wm Morrison Supermarkets PLC.

7. Earnings per share

Basic earnings per share (EPS) is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period. For diluted EPS, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all potentially dilutive ordinary shares.

The Company has two (2014: 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 plans (LTIP).

a) Basic and diluted EPS (unadjusted)

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

	2015			2014		
	Earnings £m	Weighted average number of shares millions	EPS pence	Earnings £m	Weighted average number of shares millions	EPS pence
Unadjusted EPS						
Basic EPS						
Loss attributable to ordinary shareholders	**(761)**	**2,332.5**	**(32.63)**	(238)	2,327.0	(10.23)
Effect of dilutive instruments						
Share options and LTIPs[1]	**-**	**-**	**-**	-	-	-
Diluted EPS	**(761)**	**2,332.5**	**(32.63)**	(238)	2,327.0	(10.23)

[1] The effect of dilutive instruments would improve basic EPS as total earnings are a loss of £761m (2014: loss of £238m). Diluted EPS cannot exceed basic EPS, therefore the diluted EPS disclosed above has been adjusted so that it equals basic EPS.

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7. Earnings per share (continued)

b) Underlying EPS

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

	2015			2014		
	Earnings £m	**Weighted average number of shares millions**	**EPS pence**	**Earnings £m**	**Weighted average number of shares millions**	**EPS pence**
Underlying EPS (restated)[1]						
Basic EPS						
Loss attributable to ordinary shareholders	**(761)**	**2,332.5**	**(32.63)**	(238)	2,327.0	(10.23)
Adjustments to determine underlying profit (note 2) (restated)[1]	**1,016**	**-**	**43.56**	775	-	33.31
	255	**2,332.5**	**10.93**	537	2,327.0	23.08
Effect of dilutive instruments						
Share options and LTIPs	**-**	**9.0**	**(0.04)**	-	9.0	(0.09)
Diluted EPS (restated)[1]	**255**	**2,341.5**	**10.89**	537	2,336.0	22.99

[1] Underlying EPS measures have been restated to reflect the change in definition of underlying earnings as described in note 2.

8. Goodwill and intangible assets

	2015 £m	**2014 £m**
Net book value		
At beginning of the period	**458**	415
Additions at cost	**126**	178
Interest capitalised	**9**	7
Amortisation	**(70)**	(53)
Impairment	**(3)**	(89)
At end of the period	**520**	458

The carrying value of goodwill and intangible assets principally consists of software development costs of £495m (2014: £430m).

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9. Property, plant and equipment

	Freehold land £m	Freehold buildings £m	Leasehold land and buildings £m	Plant, equipment, fixtures & vehicles £m	Total £m
Cost					
At 3 February 2014	4,046	4,519	1,112	2,673	**12,350**
Additions at cost	53	107	22	206	**388**
Interest capitalised	–	2	–	–	**2**
Transfers to investment properties	–	(4)	–	–	**(4)**
Transfers to assets held for sale	(104)	(237)	(44)	(28)	**(413)**
Disposals	(6)	(18)	(7)	(17)	**(48)**
Fully written down assets	–	(39)	(28)	(1,533)	**(1,600)**
At 1 February 2015	3,989	4,330	1,055	1,301	**10,675**
Accumulated depreciation and impairment					
At 3 February 2014	211	1,264	355	1,895	**3,725**
Charge for the period	–	116	27	172	**315**
Impairment	449	302	214	148	**1,113**
Transfers to investment properties	–	(3)	–	–	**(3)**
Transfers to assets held for sale	–	(50)	(14)	(26)	**(90)**
Disposals	–	(14)	(6)	(17)	**(37)**
Fully written down assets	–	(39)	(28)	(1,533)	**(1,600)**
At 1 February 2015	660	1,576	548	639	**3,423**
Net book amount at 1 February 2015	**3,329**	**2,754**	**507**	**662**	**7,252**
Net book amount at 2 February 2014	3,835	3,255	757	778	8,625

Assets under construction included above	5	8	1	13	27

The Group has performed its annual assessment of depreciation policies and asset lives and deemed them to be appropriate. No changes have been made to asset lives during the year.

In previous years, fully depreciated assets have been retained in the Group's fixed asset register and included in the table above. In order to provide greater understanding of the Group's annual depreciation charge in the current year, these assets have been removed from both cost and accumulated depreciation.

9. Property, plant and equipment (continued)

Impairment
The Group considers that each store is a separate cash generating unit (CGU) and therefore considers every store for an indication of impairment annually. The Group calculates each store's recoverable amount and compares this amount to its book value. The recoverable amount is determined as the higher of 'value in use' and 'fair value less costs of disposal'. If the recoverable amount is less than the book value, an impairment charge is recognised based on the following methodology:

'Value in use' is calculated by projecting individual store pre-tax cash flows over the remaining useful life of the store, based on forecasting assumptions. The methodology used for calculating future cash flows is to:

- use the actual cash flows for each store in the current year;
- allocate a proportion of the Group's central costs to each store on an appropriate basis;
- project each store's cash flows over the next five years by applying forecast sales and cost growth assumptions;
- project cash flows beyond year five for the remaining useful life of each store by applying a long term growth rate; and
- discount the cash flows using a pre-tax rate of 9.0% (2014: 6.5%). The discount rate takes into account the Group's weighted average cost of capital.

'Fair value less costs of disposal' is estimated by the Directors based on their knowledge of individual stores and the markets they serve, and likely demand from grocers or other retailers. The Directors also obtain valuations by store prepared by independent valuers and consider these in carrying out their estimate of fair value less cost of disposal for the purposes of testing for impairment. In determining their valuation, the independent valuers assume an expected rent and yield for each store based on the quality of the asset, local catchment and the store being occupied by a supermarket tenant with a similar covenant to Morrisons.

In order to reflect recent changes in market conditions, in particular the very significant decrease in demand from major grocery retailers for supermarket space, the Directors consider it appropriate for the purpose of testing for impairment to revise downwards the rent and yield assumptions in the independent valuation to reflect the following factors on a store by store basis:

- Whether a major grocery operator might buy the store, taking into consideration whether they are already located near the store, and whether the store size is appropriate for their business model, and then if not;
- Assessing whether a smaller store operator might buy the store, in which case the value has been updated to reflect the Directors' assessment of the yield which would be achievable if such an operator acquired the store, and then if not;
- Assessing whether a non-food operator might buy the store, in which case the value has been updated to reflect the Directors' assessment of the yield which would be achievable if such an operator acquired the store.

Having applied the above methodology and assumptions, the Group has recognised an impairment charge of £1,116m (tangible assets: £1,113m and intangible assets: £3m) during the year (2014: £457m).

An increase of 1% in the discount rate would result in an additional impairment charge of £70m.

10. Investment property

	2015 £m	**2014 £m**
Net book value		
At beginning of the period	**119**	123
Transfer from property, plant and equipment	**1**	15
Additions at cost	**1**	3
Disposals	**-**	(17)
Transfers to assets held for sale	**(51)**	-
Depreciation charge for the period	**(2)**	(5)
At end of the period	**68**	119

11. Non-current assets classified as held for sale

	2015 £m
At 3 February 2014	**-**
Transfers from property, plant and equipment at net book value	**323**
Transfers from investment property at net book value	**51**
Additions	**3**
Disposals	**(293)**
At 1 February 2015	**84**

Assets transferred from property, plant and equipment had cost of £413m and accumulated depreciation of £90m. Assets transferred from investment property had a cost of £77m and accumulated depreciation of £26m.

12. Stock

	2015 £m	2014 £m
Finished goods	**658**	852

Included in finished goods is a deduction for unearned elements of commercial income as the stock has not been sold.

13. Debtors

	2015 £m	2014 £m
Trade debtors:		
– Commercial income trade debtors	**10**	21
– Accrued commercial income	**37**	20
– Other trade debtors	**136**	147
Less: provision for impairment of trade debtors	**(5)**	(8)
	178	180
Prepayments and accrued income	**51**	116
Other debtors	**10**	20
	239	316

As of 5 March 2015, £7m of the £10m commercial income trade debtor balance had been selected and £21m of the £37m accrued commercial income balance has been invoiced and settled.

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14. Creditors - current

	2015 £m	2014 £m
Trade creditors	**1,493**	1,568
Less: commercial income due, offset against amounts owed	**(96)**	(132)
	1,397	1,436
Other taxes and social security payable	**96**	58
Other creditors	**241**	315
Accruals and deferred income	**487**	463
	2,221	**2,272**

As of 5 March 2015, £83m of the £96m relating to commercial income due had been offset against payments made.

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

	2015 £m	2014 £m
Net pension liability at start of the period	**(11)**	(20)
Net interest income/(cost)	**1**	(1)
Curtailment gain	**1**	-
Remeasurement in other comprehensive income	**(31)**	11
Employer contributions	**85**	34
Current service cost	**(80)**	(32)
Administrative cost	**(4)**	(3)
Net pension liability at end of the period	**(39)**	(11)

This is disclosed in the balance sheet as follows:

	2015 CARE £m	2015 RSP £m	2014 CARE £m	2014 RSP £m
Fair value of scheme assets	**4,047**	**87**	3,055	39
Present value of obligations	**(4,090)**	**(83)**	(3,068)	(37)
Net pension (liability)/asset at end of the period	**(43)**	**4**	(13)	2

16. Cash flow from operating activities

	2015 £m	2014 £m
Loss for the period	**(761)**	(238)
Net finance costs	**98**	82
Taxation (credit)/charge	**(31)**	62
Share of profit of joint venture	**(2)**	(1)
Operating loss	**(696)**	(95)
Adjustments for:		
Depreciation and amortisation	**387**	393
Impairment of property, plant and equipment and intangible assets	**1,116**	547
Profit arising on disposal and exit of properties and sale of businesses	**(135)**	(9)
Adjustment for non-cash element of pension charges	**(5)**	2
Other non-cash charges	**14**	4
Decrease/(increase) in stocks[1]	**180**	(71)
Decrease/(increase) in debtors[1]	**77**	(25)
(Decrease)/increase in creditors[1]	**(76)**	154
Increase in provisions [1]	**108**	131
Cash generated from operations	**970**	1,031

Total working capital (the sum of items marked [1] above) is £289m in the year. This includes £157m as a result of the current year impairment and onerous leases charge (see note 2) and is net of £74m of onerous capital payments in the year. When adjusted to exclude these items, the working capital inflow is £206m.

17. Analysis of net debt

	2015 £m	2014 £m
Cash and cash equivalents per balance sheet	**241**	261
Bank overdrafts	**(1)**	(3)
Cash and cash equivalents per cash flow	**240**	258
Foreign exchange forward contracts	**6**	1
Other financial assets	**6**	1
Short term borrowings and current bonds	**(10)**	(550)
Energy price contracts	**(12)**	(6)
Forward foreign exchange contracts	**(6)**	(4)
Current financial liabilities	**(28)**	(560)
Bonds	**(2,030)**	(1,759)
Private placement loan notes	**(164)**	(149)
Revolving credit facility	**(314)**	(572)
Cross-currency contracts and interest rate swaps	**(45)**	(34)
Energy price contracts	**(5)**	(2)
Non-current financial liabilities	**(2,558)**	(2,516)
Net debt	**(2,340)**	(2,817)

18. Commercial income

The types of commercial income recognised by the Group and the recognition policies are:

Type of deduction	Description	Recognition
Marketing and advertising funding	Examples include income in respect of in-store marketing and point of sale, as well as funding for advertising.	Income is recognised over the period as set out in the specific supplier agreement. Income is invoiced once the performance conditions in the supplier agreement have been achieved.
Volume-based rebates	Income earned by achieving volume or spend targets set by the supplier for specific products over specific periods.	Income is recognised through the year based on forecasts for expected sales or purchase volumes, informed by current performance, trends, and the terms of the supplier agreement. Income is invoiced throughout the year in accordance with the specific supplier terms. In order to minimise any risk arising from estimation, supplier confirmations are also obtained to agree the final value to be recognised at year end, prior to it being invoiced.

In order to provide context on commercial income earned in the period, each is shown below as a percentage of the value of stock expensed (VSE) before commercial income is deducted.

	2015		2014	
	£m	**% of VSE**	**£m**	**% of VSE**
Commercial income:				
Marketing and advertising funding	**291**	**2.2**	280	2.0
Volume-based rebates	**134**	**1.0**	116	0.9
Total commercial income	**425**	**3.2**	396	2.9

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