Consolidated statement of comprehensive income

52 weeks ended 31 January 2016

	Note	2016 £m	2015 £m
Revenue	1.2	**16,122**	16,816
Cost of sales		**(15,505)**	(16,055)
Gross profit		**617**	761
Other operating income		**72**	78
Profit on disposal and exit of properties and sale of businesses	1.4, 4.5	**97**	135
Administrative expenses		**(472)**	(1,670)
Operating profit/(loss)	1.6	**314**	(696)
Finance costs	6.2	**(112)**	(105)
Finance income	6.2	**13**	7
Share of profit of joint venture (net of tax)	4.2	**2**	2
Profit/(loss) before taxation		**217**	(792)
Analysed as:			
Underlying profit before tax		**242**	345
Adjustments for:			
Impairment and provision for onerous contracts	1.4	**(87)**	(1,273)
Profit/loss on disposal and exit of properties	1.4	**131**	131
		44	(1,142)
Pension scheme set-up costs	1.4, 8.7	**(35)**	–
(Loss)/profit on disposal of businesses	1.4, 4.5	**(34)**	4
Net pension interest income	1.4, 8.2	**–**	1
		217	(792)
Taxation	2.2	**5**	31
Profit/(loss) for the period attributable to the owners of the Company		**222**	(761)
Other comprehensive income/(expense)			
Items that will not be reclassified to profit or loss:			
Remeasurement of defined benefit pension schemes	8.2	**236**	(31)
Tax on defined benefit pension schemes	2.3	**(47)**	6
		189	(25)
Items that may be reclassified subsequently to profit or loss:			
Cash flow hedging movement		**16**	(9)
Tax on cash flow hedging movement	2.3	**(4)**	2
Exchange differences on translation of foreign operations		**1**	–
		13	(7)
Other comprehensive income/(expense) for the period, net of tax		**202**	(32)
Total comprehensive income /(expense) for the period attributable to the owners of the Company		**424**	(793)
Earnings per share (pence)			
– basic	1.5	**9.51**	(32.63)
– diluted	1.5	**9.47**	(32.63)

Consolidated balance sheet

31 January 2016

	Note	2016 £m	2015 £m
Assets			
Non-current assets			
Goodwill and intangible assets	3.2	**483**	520
Property, plant and equipment	3.3	**7,161**	7,252
Investment property	3.5	**37**	68
Net pension asset	8.2	**186**	4
Investment in joint venture	4.2	**63**	68
Investments	4.3	**31**	31
Derivative financial assets	7.3	**30**	–
		7,991	7,943
Current assets			
Stock	5.2	**616**	658
Debtors	5.3	**192**	239
Derivative financial assets	7.3	**12**	6
Cash and cash equivalents	6.4	**488**	241
		1,308	1,144
Non-current assets classified as held-for-sale	3.4	**–**	84
		1,308	1,228
Liabilities			
Current liabilities			
Creditors	5.4	**(2,518)**	(2,221)
Short term borrowings	6.3	**(201)**	(11)
Derivative financial liabilities	7.3	**(17)**	(18)
Current tax liabilities		**(11)**	(23)
		(2,747)	(2,273)
Non-current liabilities			
Borrowings	6.3	**(2,003)**	(2,508)
Derivative financial liabilities	7.3	**(55)**	(50)
Deferred tax liabilities	2.3	**(429)**	(415)
Net pension liabilities	8.2	**–**	(43)
Provisions	5.5	**(309)**	(288)
		(2,796)	(3,304)
Net assets		**3,756**	3,594
Shareholders' equity			
Share capital	6.5	**234**	234
Share premium	6.5	**127**	127
Capital redemption reserve	6.6	**39**	39
Merger reserve	6.6	**2,578**	2,578
Retained earnings and hedging reserve	6.6	**778**	616
Total equity attributable to the owners of the Company		**3,756**	3,594

The notes on pages 60 to 97 form part of these financial statements.

The financial statements on pages 55 to 97 were approved by the Board of Directors on 9 March 2016 and were signed on its behalf by:

Trevor Strain
Chief Financial Officer

Consolidated cash flow statement

52 weeks ended 31 January 2016

	Note	2016 £m	2015 £m
Cash flows from operating activities			
Cash generated from operations	5.6	**1,026**	970
Interest paid		**(99)**	(106)
Taxation (paid)/received		**(41)**	10
Net cash inflow from operating activities		**886**	874
Cash flows from investing activities			
Interest received		**4**	4
Dividends received from joint venture	10.1	**8**	–
Proceeds from the sale of property, plant and equipment		**300**	448
Proceeds from the sale of businesses	4.5	**20**	2
Purchase of property, plant and equipment and investment property		**(266)**	(385)
Purchase of intangible assets		**(99)**	(135)
Net cash outflow from investing activities		**(33)**	(66)
Cash flows from financing activities			
Purchase of shares in subsidiary	4.4	**(3)**	–
Purchase of own shares for trust	6.5	**(13)**	(8)
New borrowings		**–**	296
Net repayment of revolving credit facility		**(320)**	(256)
Repayment of other borrowings		**(10)**	(550)
Dividends paid	1.8	**(260)**	(308)
Net cash outflow from financing activities		**(606)**	(826)
Net increase/(decrease) in cash and cash equivalents		**247**	(18)
Cash and cash equivalents at start of period		**240**	258
Cash and cash equivalents at end of period	6.4	**487**	240

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

	Note	2016 £m	2015 £m
Net increase/(decrease) in cash and cash equivalents		**247**	(18)
Cash outflow from decrease in debt		**330**	806
Cash inflow from increase in borrowings		**–**	(296)
Non-cash movements		**17**	(15)
Opening net debt		**(2,340)**	(2,817)
Closing net debt	6.4	**(1,746)**	(2,340)

Consolidated statement of changes in equity

52 weeks ended 31 January 2016

		Attributable to the owners of the Company						
	Note	Share capital £m	Share premium £m	Capital redemption reserve £m	Merger reserve £m	Hedging reserve £m	Retained earnings £m	Total equity £m
Current period								
At 2 February 2015		234	127	39	2,578	(22)	638	3,594
Profit for the period		–	–	–	–	–	222	222
Other comprehensive income/(expense):								
Cash flow hedging movement		–	–	–	–	16	–	16
Exchange differences on translation of foreign operations		–	–	–	–	–	1	1
Pension remeasurement	8.2	–	–	–	–	–	236	236
Tax in relation to components of other comprehensive income	2.3	–	–	–	–	(4)	(47)	(51)
Total comprehensive income for the period		–	–	–	–	12	412	424
Purchase of trust shares	6.5	–	–	–	–	–	(13)	(13)
Employee share option schemes:								
Share-based payments	1.7	–	–	–	–	–	11	11
Dividends	1.8	–	–	–	–	–	(260)	(260)
Total transactions with owners		–	–	–	–	–	(262)	(262)
At 31 January 2016		234	127	39	2,578	(10)	788	3,756

		Attributable to the owners of the Company						
	Note	Share capital £m	Share premium £m	Capital redemption reserve £m	Merger reserve £m	Hedging reserve £m	Retained earnings £m	Total equity £m
Prior period								
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	8.2	–	–	–	–	–	(31)	(31)
Tax in relation to components of other comprehensive income	2.3	–	–	–	–	2	6	8
Total comprehensive expense for the period		–	–	–	–	(7)	(786)	(793)
Purchase of trust shares	6.5	–	–	–	–	–	(8)	(8)
Employee share option schemes:								
Share-based payments	1.7	–	–	–	–	–	11	11
Dividends	1.8	–	–	–	–	–	(308)	(308)
Total transactions with owners		–	–	–	–	–	(305)	(305)
At 1 February 2015		234	127	39	2,578	(22)	638	3,594

General information

Company information

Wm Morrison Supermarkets PLC is a public limited company incorporated in the United Kingdom under the Companies Act 2006 (Registration number 358949). The Company is domiciled in the United Kingdom and its registered address is Hilmore House, Gain Lane, Bradford, BD3 7DL, United Kingdom.

Basis of preparation

The financial statements have been prepared for the 52 weeks ended 31 January 2016 (2015: 52 weeks ended 1 February 2015) in accordance with International Financial Reporting Standards (IFRS) and International Financial Reporting Standards Interpretation Committee (IFRS IC) interpretations as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. IFRS and IFRS IC interpretations are issued by the International Accounting Standards Board (the IASB) and must be adopted into European Union law, referred to as endorsement, before they become mandatory under the IAS Regulation.

The financial statements have been prepared on a going concern basis.

The financial statements are presented in pounds sterling, rounded to the nearest million, except in some instances, where it is deemed relevant to disclose the amounts up to two decimal places. They are drawn up on the historical cost basis of accounting, except as disclosed in the accounting policies set out within these financial statements.

The Group's accounting policies have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Accounting reference date

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

New IFRS and amendments to IAS and interpretations

The following amendments to standards are mandatory for the first time for the 52 weeks ended 31 January 2016:

- IFRIC 21, 'Levies';
- Improvements 2011-13;
- Improvements 2010-12; and
- Amendment to IAS 19: Defined benefit plans: Employee contributions.

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 2018, and IFRS 16 'Leases' which is effective for annual periods beginning on or after 1 January 2019.

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.

Basis of consolidation

Subsidiaries (including partnerships) are all entities over which the Group has control. The Group controls an entity when it has power over an entity, is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date the control ceases. The financial statements of subsidiaries used in the consolidation are prepared for the same reporting period as the parent Company and are based on consistent accounting policies. Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions are eliminated on consolidation.

As described in note 4.5 the Group disposed of its investment in Wm Morrison Convenience Stores Limited on 26 October 2015. This subsidiary has been deconsolidated from that date.

Foreign currencies

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

Critical accounting judgements and estimates

The judgements that have the most significant effect on the amounts recognised in these financial statements, and sources of estimation uncertainty that have a significant risk of resulting in material adjustment to carrying amounts in the next financial year are:

- Impairment of property, plant and equipment and intangible assets and onerous property commitments (note 1.4, 3.1, 3.2, 3.3, 5.5);
- Commercial income (note 1.1, 1.6, 5.2, 5.3, 5.4);
- IT and intangible assets (note 3.2); and
- Stock (note 5.1, 5.2).

These are also described within the Corporate governance report on pages 29 to 30.

Notes to the Group financial statements

52 weeks ended 31 January 2016

1 Performance in the period

1.1 Accounting policies

Revenue recognition

Sale of goods in-store and online, and fuel

Revenue from the sale of goods in-store and online comprises cash from customers and excludes VAT. It is net of returns, colleague discounts, coupons, vouchers, 'Match & More' points earned in-store and online, and the free element of multi-save transactions. Sale of fuel is recognised net of VAT and 'Match & More' points earned on fuel. Revenue is recognised when transactions are completed in-store, or, in the case of food online, when goods are accepted by the customer on delivery.

Other revenue

Other revenue includes income from concessions and commissions based on the terms of the contract, and manufacturing sales made direct to third party customers recognised on despatch of goods. Revenue collected on behalf of others is not recognised as revenue, other than the related commission. Sales are recorded net of VAT and intra-group transactions.

'Match & More' and other initiatives

The fair value of 'Match & More' points and other initiatives is determined to be the value to the customer of the points issued, adjusted for factors such as the expected redemption rate. 'Match & More' was launched in the prior year and the mechanism by which customers accrue points was adjusted during the year. The Group will continue to assess the appropriateness of the expected redemption rates against actual redemptions.

The fair value is treated as a deduction from revenue at the time the points are issued, and is deferred until the rewards are redeemed by the customer in a future sale.

Cost of sales

Cost of sales consists of all costs of the goods being sold to the point of sale, net of promotional funding and commercial income, and includes property, manufacturing, warehouse and transportation costs. Store depreciation, store overheads and store-based employee costs are also allocated to cost of sales.

Promotional funding

Promotional funding refers to investment in the customer offer by suppliers by way of promotion. The calculation of funding is mechanical and system generated based on a funding level agreed in advance with the supplier. Funding is recognised as units are sold and invoiced in accordance with the specific supplier agreement. Funding is recorded effectively as a direct adjustment to the cost price of the product in the period. Funding is invoiced and collected through the year, shortly after the promotions have ended.

Commercial income

Commercial income is recognised as a deduction from cost of sales, based on the expected entitlement that has been earned up to the balance sheet date for each relevant supplier contract. The Group only recognises commercial income where there is documented evidence of an agreement with an individual supplier and when associated performance conditions are met.

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

Type of commercial income	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.

Uncollected commercial income at the balance sheet date is classified within the financial statements as follows:

- Creditors: A large proportion of the Group's trading terms state that income due from suppliers is netted against amounts owing to that supplier. Any outstanding invoiced commercial income relating to these suppliers at the balance sheet date are included within trade payables. Any amounts received in advance of income being recognised are included in accruals and deferred income.
- Debtors: Where the trading terms described above do not exist, the Group classifies outstanding commercial income within trade debtors. Where commercial income is earned and not invoiced to the supplier at the balance sheet date, this is classified within accrued commercial income.
- Stock: The carrying value of stock is adjusted to reflect unearned elements of commercial income as the stock has not yet been sold. This income is subsequently recognised in cost of sales when the product has been sold.

1 Performance in the period continued

1.1 Accounting policies continued

In order to provide users of the accounts with greater understanding in this area, additional income statement and balance sheet disclosure is provided in notes 1.6, 5.2, 5.3 and 5.4 to the financial statements.

Other operating income
Other operating income primarily consists of income not directly related to in-store and online grocery retailing and mainly comprises rental income from investment properties and income generated from recycling of packaging.

Profit/loss on disposal and exit of properties
Profit/loss from the disposal and exit of properties includes gains and losses on disposal of property assets and other costs incurred by the Group following a decision to dispose, close or no longer purchase properties. Where the Group disposes of a property, this disposal transaction is accounted for upon unconditional exchange of contracts. Gains and losses are determined by comparing sale proceeds with the asset's carrying amount and are presented net of costs associated with disposal.

1.2 Revenue analysis

	Like-for-like sales £m	Other £m	**2016 Total £m**	2015 Total £m
Sale of goods in stores and online	12,631	180	**12,811**	12,999
Fuel	3,109	15	**3,124**	3,576
Total store-based and online sales	15,740	195	**15,935**	16,575
Other sales	–	187	**187**	241
Total revenue	15,740	382	**16,122**	16,816

1.3 Segmental reporting

The Group's principal activity is that of retailing, derived solely from the UK. The Group is not reliant on any major customer for 1% or more of revenues.

The Group is required to determine and present its operating segments based on the way in which financial information is organised and reported to the chief operating decision-maker (CODM). The CODM has been identified as the Executive Committee as they make the key operating decisions of the Group and are responsible for allocating resources and assessing performance. The Executive Committee has replaced the previous Management Board and the information received by, and the accountability of, the Executive Committee is consistent with the previous Management Board.

Key internal reports received by the CODM, primarily the management accounts, focus on the performance of the Group as a whole. The operations of all elements of the business are driven by the retail sales environment and hence have fundamentally the same economic characteristics.
All operational decisions made are focused on the performance and growth of the retail outlets and the ability of the business to meet the supply demands of the stores.

The Group has considered the overriding core principles of IFRS 8 'Operating segments' as well as its internal reporting framework, management and operating structure. In particular, the Group considered its retail outlets, the fuel sale operation, the manufacturing entities and online operations. The Directors' conclusion is that the Group has one operating segment, that of retailing.

Reconciliations of reportable segment revenues, profit or loss, assets and liabilities and other material items
Performance is measured by the CODM based on underlying profit before tax as reported in the management accounts. Management believes that this underlying profit measure is the most relevant in evaluating the results of the Group. This information and the reconciliation to the statutory position can be found in note 1.4. In addition, the management accounts present a Group balance sheet containing assets and liabilities. This balance sheet is included in the Consolidated balance sheet.

Notes to the Group financial statements continued

52 weeks ended 31 January 2016

1 Performance in the period continued

1.4 Underlying profit

The definition of underlying profit is consistent with the prior year.

The Directors consider that the underlying profit 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 profit/loss to: (a) remove impairment, provision for onerous contracts, or other 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 25.3% (2015: 26.1%); and (d) remove the impact of pension interest volatility.

	2016 £m	2015 £m
Profit/(loss) after tax	222	(761)
Add back: tax credit for the period[1]	(5)	(31)
Profit/(loss) before tax	217	(792)
Adjustments for:		
Impairment and provision for onerous contracts[1]	87	1,273
Profit/loss arising on disposal and exit of properties[1]	(131)	(131)
	(44)	1,142
Loss on disposal of convenience business (note 4.5)[1]	34	–
Pension scheme set-up costs (note 8.7)[1]	35	–
Profit on disposal of Kiddicare.com Limited (note 4.5)[1]	–	(4)
Net pension interest income (note 8.2)[1]	–	(1)
Underlying profit before tax	242	345
Normalised tax charge at 25.3% (2015: 26.1%)[1]	(61)	(90)
Underlying profit after tax	181	255
Underlying earnings per share (pence)		
– basic (note 1.5.2)	7.77	10.93
– diluted (note 1.5.2)	7.73	10.89

1 Adjustments marked[1] decrease post-tax underlying earnings by £41m (2015: increase of £1,016m), as shown in the reconciliation of earnings disclosed in note 1.5.2.

Underlying profit before tax includes £60m (2015: £68m) relating to restructuring one off costs. When adjusted to exclude these items, underlying profit before restructuring costs and tax is £302m (2015: £413m).

Net profit on property is £44m (2015: loss of £1,142m). This includes profits arising on disposal of properties amounting to £131m (2015: £131m). Following our continued review of the Group's store opening programme, this profit has been offset by an additional charge of £87m for changes in estimates related to provisions for stores in the new space pipeline. 2015 included a charge of £1,273m for impairment and provision for onerous contracts.

The adjustments above are classified within the Consolidated statement of comprehensive income on the following lines:

- impairment and onerous lease provisions adjustment has been included within administrative expenses;
- profit arising on disposal and exit of properties, profit on disposal of Kiddicare.com Limited and loss on disposal of convenience business are classified within profit arising on disposal and exit of properties and sale of businesses;
- pension scheme set-up costs are classified within administrative expenses; and
- net pension interest income is classified within finance income.

1 Performance in the period continued

1.4 Underlying profit continued

2015/16 Impairment and provision for onerous contracts
Impairment and onerous lease provisions charge for the period of £87m includes £52m relating to onerous leases and £35m in relation to onerous commitments for changes in estimates related to provisions for stores in the new space pipeline. No impairment has been recognised during the period.

2014/15 Impairment and provision for onerous contracts
Impairment and onerous lease provisions in 2014/15 consisted of £1,273m in relation to trading stores, of which £1,116m related to impairment, £118m to onerous lease provisions, £30m to onerous commitments and £9m to lease premiums.

1.5 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 (2015: 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).

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

	2016			2015		
	Earnings £m	Weighted average number of shares millions	EPS pence	Earnings £m	Weighted average number of shares millions	EPS pence
Unadjusted EPS						
Basic EPS						
Profit/(loss) attributable to ordinary shareholders	221.8	2,332.5	9.51	(761.2)	2,332.5	(32.63)
Effect of dilutive instruments						
Share options and LTIPs[1]	–	9.0	(0.04)	–	–	–
Diluted EPS	221.8	2,341.5	9.47	(761.2)	2,332.5	(32.63)

1 In the period ended 1 February 2015, the effect of dilutive instruments would improve basic EPS as total earnings was a loss of £761m. Diluted EPS cannot exceed basic EPS, therefore the diluted EPS disclosed above in 2015 was adjusted so that it equated to basic EPS.

Notes to the Group financial statements continued

52 weeks ended 31 January 2016

1 Performance in the period continued

1.5 Earnings per share continued

1.5.2 Underlying EPS

Basic EPS is adjusted to more accurately show underlying business performance. The reconciliation of the earnings used in the calculations of underlying earnings per share is set out below:

	2016			2015		
	Earnings £m	Weighted average number of shares millions	EPS pence	Earnings £m	Weighted average number of shares millions	EPS pence
Underlying EPS						
Basic EPS						
Profit/(loss) attributable to ordinary shareholders	**221.8**	**2,332.5**	**9.51**	(761.2)	2,332.5	(32.63)
Adjustments to determine underlying profit (note 1.4)	**(40.6)**	**–**	**(1.74)**	1,016.2	–	43.56
	181.2	**2,332.5**	**7.77**	255.0	2,332.5	10.93
Effect of dilutive instruments						
Share options and LTIPs	**–**	**9.0**	**(0.04)**	–	9.0	(0.04)
Diluted EPS	**181.2**	**2,341.5**	**7.73**	255.0	2,341.5	10.89

1.6 Operating profit/(loss)

	2016 £m	2015 £m
The following items have been included in arriving at operating profit/(loss):		
Employee costs (note 1.7)	**1,944**	1,970
Depreciation and impairment:		
– Property, plant and equipment (note 3.3)	**286**	315
– Investment property (note 3.5)	**2**	2
– Impairment of property, plant and equipment (note 3.3)	**–**	1,113
Amortisation and impairment (note 3.2)		
– Intangible assets	**96**	70
– Impairment of goodwill and intangible assets	**–**	3
Operating lease rentals:		
– Land and buildings	**99**	87
– Other	**17**	16
– Sublease receipts	**(6)**	(6)
Value of stock expensed	**12,321**	12,875

1 Performance in the period continued

1.6 Operating profit/(loss) continued

Value of stock expensed

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.

	2016		2015	
	£m	% of VSE	£m	% of VSE
Commercial income				
Marketing and advertising funding	**260**	**2.1**	291	2.2
Volume-based rebates	**143**	**1.1**	134	1.0
Total commercial income	**403**	**3.2**	425	3.2

For additional disclosure see notes 5.2, 5.3 and 5.4.

Auditor remuneration

During the period PricewaterhouseCoopers LLP, the Group's auditor, provided the following services:

	2016 £m	2015 £m
Audit services		
Fees payable to the Group's auditor for the audit of the Group and the Company financial statements	**0.4**	0.4
Other services		
Fees payable to the Group's auditor and its associates for other services:		
– the audit of the Group's subsidiaries pursuant to legislation	**0.2**	0.2
– services relating to taxation	**–**	–
– other services	**0.4**	0.3
	1.0	0.9

The Board has a policy on the engagement of the external auditor to supply non-audit services, which is available in the Corporate governance compliance statement set out in the investor relations section of the Group's website at www.morrisons-corporate.com.

1.7 Employees and Directors

	2016 £m	2015 £m
Employee benefit expense for the Group during the period		
Wages and salaries	**1,728**	1,755
Social security costs	**116**	118
Share-based payments	**11**	11
Other pension costs	**89**	86
	1,944	1,970

Notes to the Group financial statements continued

52 weeks ended 31 January 2016

1 Performance in the period continued

1.7 Employees and Directors continued

	2016 No.	2015 No.
Average monthly number of people, including Directors		
Stores	**105,024**	104,047
Manufacturing	**8,033**	7,497
Distribution	**5,582**	5,731
Centre	**2,274**	2,503
	120,913	119,778

Directors' remuneration

A detailed analysis of Directors' remuneration, including salaries, bonuses and long term incentives, and the highest paid Director, is provided in the Single total figure of remuneration tablein the audited section of the Directors' remuneration report, which forms part of these financial statements (page 38). There are no Executive Directors (2015: none) who have retirement benefits accruing under any of the Group's defined benefit pension schemes.

Senior management remuneration

The table below shows the remuneration of senior managers. It excludes colleagues already included in the Directors' remuneration report. Senior managers are considered to be key management personnel in accordance with the requirements of IAS 24 'Related party disclosures', and in the context of gender disclosures required by the Companies Act 2006.

	2016 £m	2015 £m
Senior managers		
Wages and salaries	**34**	37
Social security costs	**4**	5
Share-based payments	**4**	2
Other pension costs	**2**	2
	44	46

1.8 Dividends

Amounts recognised as distributed to equity holders in the period:

	2016 £m	2015 £m
Interim dividend for the period ended 31 January 2016 of 1.50p (2015: 4.03p)	**35**	94
Final dividend for the period ended 1 February 2015 of 9.62p (2015: 9.16p)	**225**	214
	260	308

The Directors propose a final dividend in respect of the financial period ending 31 January 2016 of 3.50p per share which will absorb an estimated £82m of shareholders' funds. Subject to approval at the AGM, it will be paid on 15 June 2016 to shareholders who are on the register on 13 May 2016.

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

2 Taxation

The focus of the Group's approach to tax affairs is to ensure compliance with the relevant laws of the territories in which the Group operates. Almost all of the Group's stores and sales are in the UK, therefore the majority of taxes are paid in the UK.

The Group takes a compliance-focused approach to its tax affairs, and has a transparent relationship with the UK and overseas tax authorities and interacts with HMRC on a regular basis. The Group's tax policy provides a governance framework with all related risks and stakeholder interests taken into consideration. The tax policy is approved by the Board, with updates on tax compliance and governance matters being provided to the Audit Committee.

The Group operates a small number of branches and subsidiary companies outside of the UK based in the following overseas jurisdictions:

- The Netherlands: The Group has operations in the Netherlands as part of its produce supply chain. Local corporation taxes of £1.0m were paid during 2016 (2015: £1.9m);
- Hong Kong: Offices in Hong Kong were established in 2011 and source many of the Group's non-food products. Local corporation taxes of £0.3m were paid during 2016 (2015: £0.4m); and
- Isle of Man, Jersey and Guernsey: The Group's insurance company is based in the Isle of Man for regulatory reasons, and property assets with a net book value of £38m are held in Jersey and Guernsey as a result of historic acquisitions. All profits in each of these jurisdictions are subject to UK tax.

2.1 Accounting policies

Current tax

The current income tax charge is calculated on the basis of the tax laws in effect during the period and any adjustments to tax payable in respect of previous periods. Taxable profit differs from the reported profit for the period as it is adjusted both for items that will never be taxable or deductible, and temporary differences. Current tax is charged to profit or loss for the period, except when it relates to items charged or credited directly in other comprehensive income or equity in which case the current tax is reflected in other comprehensive income or equity as appropriate.

Deferred tax

Deferred tax is recognised using the balance sheet method. Provision is made for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. No deferred tax is recognised for temporary differences that arise on the initial recognition of goodwill or the initial recognition of assets and liabilities that are not a business combination and that affects neither accounting nor taxable profits.

Deferred tax is calculated based on tax law that is enacted or substantively enacted at the reporting date and provided at rates expected to apply when the temporary differences reverse. Deferred tax is charged or credited to profit for the period except when it relates to items charged or credited directly to other comprehensive income or equity, in which case the deferred tax is reflected in other comprehensive income or equity as appropriate.

Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the asset can be utilised. Deferred tax assets recognised are reviewed at each reporting date as judgement is required to estimate the availability of future taxable income. Deferred tax assets and liabilities are offset where amounts will be settled on a net basis as there is a legally enforceable right to offset.

Accruals for tax contingencies require management to make judgements and estimates of the probable outcome of tax compliance issues. All accruals are included in current liabilities.

2.2 Taxation

2.2.1 Analysis of credit in the period

	2016 £m	2015 £m
Current tax		
– UK corporation tax	**35**	71
– overseas tax	**5**	4
– adjustments in respect of prior periods	**(8)**	(99)
	32	(24)
Deferred tax		
– origination and reversal of timing differences	**15**	1
– adjustments in respect of prior periods	**(8)**	(8)
– impact of change in tax rate	**(44)**	–
	(37)	(7)
Tax credit for the period	**(5)**	(31)

Notes to the Group financial statements continued

52 weeks ended 31 January 2016

2 Taxation continued

2.2 Taxation continued

2.2.2 Tax on items charged in other comprehensive expense and equity

	2016 £m	2015 £m
Remeasurements arising in the pension scheme	47	(6)
Cash flow hedges	4	(2)
Total tax on items included in other comprehensive income and equity	**51**	(8)
Analysis of items charged to other comprehensive income and equity:		
Deferred tax (note 2.3)	**51**	(8)

2.2.3 Tax reconciliation

The reconciliation below shows how the tax credit of £5m (2015: £31m) has arisen on profit before tax of £217m (2015: loss before tax of £792m).

The tax for the period is lower (2015: higher) than the standard rate of corporation tax in the UK of 20.2% (2015: 21.3%). The differences are explained below:

	2016 £m	2015 £m
Profit/(loss) before taxation	217	(792)
Profit/(loss) before taxation at 20.2% (2015: 21.3%)	44	(169)
Effects of:		
Expenses not deductible for tax purposes	–	3
Disallowed depreciation on UK properties	24	28
Deferred tax on Safeway acquisition assets	(5)	(22)
Profit on property transactions	(14)	(2)
Loss on disposal of business	6	–
Impairment not deductible for tax	–	238
Effect of change in tax rate	(44)	–
Adjustments in respect of prior periods	(16)	(107)
Tax credit for the period	**(5)**	(31)

Factors affecting current and future tax charges

Legislation to reduce the standard rate of corporation tax from 20% to 19% from 1 April 2017 and to 18% from 1 April 2020 was included in the Summer Finance Bill 2015 and was enacted in the period. Accordingly, deferred tax has been provided at 20%, 19% or 18% depending upon when the temporary difference is expected to reverse (2015: 20%).

The reduction in tax rate at which deferred tax is provided has reduced the Group's deferred tax liabilities by £44m, resulting in a credit of £44m being recognised in the profit and loss account.

There have been no indications of any further changes to the rate of corporation tax after 1 April 2020.

2.3 Deferred tax

	2016 £m	2015 £m
Deferred tax liability	(429)	(428)
Deferred tax asset	–	13
Net deferred tax liability	**(429)**	(415)

IAS 12 'Income taxes' permits the offsetting of balances within the same tax jurisdiction. All of the deferred tax assets are available for offset against deferred tax liabilities.

2 Taxation continued

2.3 Deferred tax continued

The movements in deferred tax (liabilities)/assets during the period are shown below:

	Property, plant and equipment £m	Pensions £m	Other short term temporary differences £m	Total £m
Current period				
At 2 February 2015	(428)	8	5	**(415)**
Credited/(charged) to profit for the period	36	6	(5)	**37**
Charged to other comprehensive income and equity	–	(47)	(4)	**(51)**
At 31 January 2016	(392)	(33)	(4)	**(429)**
Prior period				
At 3 February 2014	(456)	2	24	(430)
Credited/(charged) to loss for the period	28	–	(21)	7
Credited to other comprehensive income and equity	–	6	2	8
At 1 February 2015	(428)	8	5	(415)

The analysis of net deferred tax liabilities are as follows:

	2016 £m	2015 £m
Net deferred tax liabilities to be settled after more than 12 months	**(427)**	(358)
Net deferred tax liabilities to be settled within 12 months	**(2)**	(57)
	(429)	(415)

3 Operating assets

3.1 Accounting policies

Intangible assets

Goodwill

Goodwill arising on a business combination is not amortised but is reviewed for impairment on an annual basis or more frequently if there are indicators that it may be impaired. Goodwill is allocated to cash generating units that will benefit from the synergies of the business combination for the purpose of impairment testing.

Brands

Brands acquired through a business combination are recognised at their fair value at the acquisition date and amortised to profit or loss on a straight-line basis over their estimated useful economic life. During the prior year the Group disposed of £15m of fully written down brands relating to Kiddicare.

Software development costs

Costs that are directly attributable to the creation of identifiable software, which meet the development asset recognition criteria as laid out in IAS 38 ‘Intangible assets’ are recognised as intangible assets.

Direct costs include consultancy costs, the employment costs of internal software developers, and borrowing costs. All other software development and maintenance costs are recognised as an expense as incurred. Software development assets are held at historic cost less accumulated amortisation and impairment, and are amortised over their estimated useful lives (3 to 10 years) on a straight-line basis.

Licences

Separately acquired pharmaceutical licences and software licences are recognised at historic cost less accumulated amortisation and impairment. Those acquired in a business combination are recognised at fair value at the acquisition date. Pharmaceutical licences and software licences are amortised over their useful lives (3 to 10 years) on a straight-line basis or over the life of the licence if shorter.

Notes to the Group financial statements continued

52 weeks ended 31 January 2016

3 Operating assets continued

3.1 Accounting policies continued

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Costs include directly attributable costs such as borrowing costs and employment costs of those people directly working on the construction and installation of property, plant and equipment.

Depreciation rates

Depreciation rates used to write off cost less residual value on a straight-line basis are:

Freehold land	0%
Freehold buildings	2.5%
Leasehold land	Over the lease period
Leasehold buildings	Over the shorter of lease period and 2.5%
Plant, equipment, fixtures and vehicles	10% to 33%
Assets under construction	0%

Depreciation expense is primarily charged in cost of sales with an immaterial amount in administration expenses.

Investment property

Property held to earn rental income is classified as investment property and is held at cost less accumulated depreciation and impairment. The depreciation policy is consistent with that described for property above.

Non-current assets classified as held-for-sale

Non-current assets are classified as held-for-sale if their carrying amount is to be recovered principally through a sale transaction, rather than continuing use within the Group, and the sale is considered highly probable. The sale is expected to complete within one year from the date of classification and the assets are available for sale in their current condition. Non-current assets held-for-sale are stated at the lower of carrying amount and fair value less costs of disposal and are not depreciated.

Lessor accounting – operating leases

Assets acquired and made available to third parties under operating leases are recorded as property, plant and equipment or investment property and are depreciated on a straight-line basis to their estimated residual values over their estimated useful lives. Operating lease income is credited on a straight-line basis to the date of the next rent review.

Finance leases

Assets funded through finance leases are capitalised as property, plant and equipment and depreciated over their useful economic life or lease term, whichever is shorter. The amount capitalised is the lower of the fair value and the present value, calculated using the interest rate implicit in the lease, of the future minimum lease payments. The obligations to pay future rentals are included within liabilities. Rental payments are apportioned between the finance charge and the outstanding obligation so as to produce a constant rate of finance charge on the remaining balance.

Impairment of non-financial assets

Intangible assets with indefinite lives, such as goodwill, and those in construction that are not yet being amortised, are tested for impairment annually. Other non-financial assets are tested if events or changes in circumstances indicate that the carrying amount may not be recoverable.

Testing is performed at the level of a cash generating unit (CGU) in order to compare the CGU's recoverable amount against its carrying value. An impaired CGU is written down to its recoverable amount, which is the higher of value in use or its fair value less costs to dispose. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

The Group considers that each of its stores is a CGU, which together form a grocery group of CGUs supported by corporate assets such as head office and vertically integrated suppliers.

Impairment losses are reversed if there is evidence of an increase in the recoverable amount of a previously impaired asset, but only to the extent that the recoverable amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised. Impairment losses relating to goodwill are not reversed. Any reversal of impairment losses would be excluded from underlying earnings.

3 Operating assets continued

3.2 Goodwill and intangible assets

Current period	Goodwill £m	Software development costs £m	Licences £m	Total £m
Cost				
At 2 February 2015	10	633	33	**676**
Additions	–	58	7	**65**
Interest capitalised	–	4	–	**4**
Disposals	–	(14)	(1)	**(15)**
Fully written down assets	–	(34)	(8)	**(42)**
At 31 January 2016	10	647	31	**688**
Accumulated amortisation and impairment				
At 2 February 2015	–	138	18	**156**
Charge for the period	–	87	9	**96**
Disposals	–	(4)	(1)	**(5)**
Fully written down assets	–	(34)	(8)	**(42)**
At 31 January 2016	–	187	18	**205**
Net book amount at 31 January 2016	10	460	13	**483**

Included within software development costs are assets under construction of £16m (2015: £153m).

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

As in previous years, fully amortised 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 amortisation charge, these assets have been removed from both cost and accumulated amortisation.

Goodwill
The goodwill arose on the acquisition of Flower World Limited (£3m) and Farmers Boy (Deeside) Limited (£7m).

Impairment testing of goodwill
Goodwill of £10m is allocated to the grocery group of CGUs. This group of CGUs has been tested for impairment via the value in use calculation described in note 3.3. The pre-tax discount rate used is 9.0% (2015: 9.0%) and the growth rate applied to the period after five years is 2% (2015: 2%).

Software development costs
The cumulative interest capitalised included within software development costs is £41m (2015: £37m). The cost of internal labour capitalised is not material for separate disclosure.

Notes to the Group financial statements continued

52 weeks ended 31 January 2016

3 Operating assets continued

3.2 Goodwill and intangible assets continued

Prior period	Goodwill £m	Brands £m	Software development costs £m	Licences £m	Total £m
Cost					
At 3 February 2014	34	15	577	40	666
Additions	–	–	121	5	126
Interest capitalised	–	–	9	–	9
Disposals	(24)	(15)	(30)	–	(69)
Fully written down assets	–	–	(44)	(12)	(56)
At 1 February 2015	10	–	633	33	676
Accumulated amortisation and impairment					
At 3 February 2014	24	15	147	22	208
Charge for the period	–	–	63	7	70
Impairment	–	–	2	1	3
Disposals	(24)	(15)	(30)	–	(69)
Fully written down assets	–	–	(44)	(12)	(56)
At 1 February 2015	–	–	138	18	156
Net book amount at 1 February 2015	10	–	495	15	520

3.3 Property, plant and equipment

Current period	Freehold land £m	Freehold buildings £m	Leasehold land and buildings £m	Plant, equipment, fixtures & vehicles £m	**Total £m**
Cost					
At 2 February 2015	3,989	4,330	1,055	1,301	**10,675**
Additions	5	13	14	256	**288**
Reclassifications	–	(8)	8	–	**–**
Transfers from investment properties	–	5	–	–	**5**
Transfers to assets held-for-sale	(3)	(5)	–	(3)	**(11)**
Disposals	(13)	(44)	(91)	(90)	**(238)**
Fully written down assets	–	(1)	(8)	(158)	**(167)**
At 31 January 2016	3,978	4,290	978	1,306	**10,552**
Accumulated depreciation and impairment					
At 2 February 2015	660	1,576	548	639	**3,423**
Charge for the period	–	102	18	166	**286**
Transfers from investment properties	–	5	–	–	**5**
Transfers to assets held-for-sale	–	(4)	–	(3)	**(7)**
Disposals	(3)	(33)	(48)	(65)	**(149)**
Fully written down assets	–	(1)	(8)	(158)	**(167)**
At 31 January 2016	657	1,645	510	579	**3,391**
Net book amount at 31 January 2016	3,321	2,645	468	727	**7,161**
Assets under construction included above	6	1	3	2	**12**

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

3 Operating assets continued

3.3 Property, plant and equipment continued

As 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, these assets have been removed from both cost and accumulated depreciation.

Included within the above are leasehold land and buildings held under finance lease with a cost of £308m (2015: £308m) and accumulated depreciation of £94m (2015: £92m).

The cost of financing property developments prior to their opening date has been included in the cost of the asset. The cumulative amount of interest capitalised in the total cost above amounts to £197m (2015: £197m).

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% (2015: 9.0%). 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 specific local market conditions, in particular the continued low 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 £nil (2015: £1,116m, tangible assets: £1,113m and intangible assets: £3m) during the year. At 31 January 2016, the key assumption to which the value-in-use calculation is most sensitive to is the discount rate. Specific sensitivity analysis with regard to this assumption shows that an increase of 1% in the discount rate would result in an additional impairment charge of £140m.

Based on the methodology above, the Group considers the carrying value appropriate.

Notes to the Group financial statements continued

52 weeks ended 31 January 2016

3 Operating assets continued

3.3 Property, plant and equipment continued

Prior period	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	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
Assets under construction included above	5	8	1	13	27

3.4 Non-current assets classified as held-for-sale

	2016 £m	2015 £m
At start of period	**84**	–
Additions	**–**	3
Transfers from property, plant and equipment at net book value	**4**	323
Transfers from investment property at net book value	**30**	51
Disposals	**(118)**	(293)
At end of period	**–**	84

Assets transferred from property, plant and equipment had a cost of £11m (2015: £413m) and accumulated depreciation of £7m (2015: £90m). Assets transferred from investment property had a cost of £45m (2015: £77m) and accumulated depreciation of £15m (2015: £26m).

3 Operating assets continued

3.5 Investment property

	2016 £m	2015 £m
Cost		
At start of period	**108**	183
Additions	**3**	1
Transfers (to)/from property, plant and equipment	**(5)**	4
Transfers to assets held-for-sale	**(45)**	(77)
Disposals	**(2)**	(3)
At end of period	**59**	108
Accumulated depreciation and impairment		
At start of period	**40**	64
Charge for the period	**2**	2
Transfers (to)/from property, plant and equipment	**(5)**	3
Transfers to assets held-for-sale	**(15)**	(26)
Disposals	**–**	(3)
At end of period	**22**	40
Net book amount at end of period	**37**	68

Included in other operating income is £12m (2015: £21m) of rental income generated from investment properties. At the end of the period the fair value of investment properties, including those held in assets held-for-sale, was £68m (2015: £200m). Investment properties are valued by independent surveyors on a vacant possession basis using observable inputs (fair value hierarchy Level 2).

3.6 Operating leases – lessor

The Group has non-cancellable agreements with tenants with varying terms, escalation clauses and renewal rights. The future minimum lease income is as follows:

	2016 £m	2015 £m
Within one year	**18**	26
More than one year and less than five years	**61**	85
After five years	**73**	114
	152	225

3.7 Capital commitments

	2016 £m	2015 £m
Contracts placed for future capital expenditure not provided in the financial statements (property, plant and equipment and intangible assets)	**26**	149

Notes to the Group financial statements continued

52 weeks ended 31 January 2016

4 Interests in other entities

4.1 Accounting policies

Joint ventures

The Group applies IFRS 11 to all joint arrangements. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for under the equity method and are initially recognised at cost.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of the equity accounted investees, from the date that joint control commences until the date that joint control ceases.

Investments

Investments comprise investments in equity instruments held for long term investment. They are measured at fair value through other comprehensive income, where the fair value can be measured reliably. Where the fair value of the instruments cannot be measured reliably, for example, when there is variability in the range of estimates, the investments are recognised at cost less accumulated impairment losses.

Business combinations

The acquisition method is used to account for business combinations. Consideration is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group, including the fair value of any contingent consideration arrangement. Acquisition related costs are expensed as incurred. Identifiable assets acquired, and liabilities and contingent liabilities assumed, are measured initially at their fair values at the acquisition date. On an acquisition by acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Goodwill is the excess of consideration transferred, plus any non-controlling interest and the fair value of any previous equity interest in the acquiree, over the fair value of the identifiable net assets acquired. In the event that this excess is negative the difference is recognised directly in profit for the period.

Disposal of subsidiaries

When the Group ceases to have control over a subsidiary, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

4.2 Joint ventures

The Group and Ocado Group plc are sole investors in a company (MHE JV Co), which owns the plant and equipment at the Dordon Customer Fulfilment Centre (CFC). Each party owns 50% of the equity of MHE JV Co and decisions regarding MHE JV Co require the unanimous consent of both parties. The Directors have considered the impact of IFRS 11 Joint arrangements, applicable this financial year, and determined that the Group continues to jointly control MHE JV Co.

MHE JV Co	2016 £m	2015 £m
Current assets	7	24
Non-current assets	125	117
Current liabilities	(7)	(5)
Net assets	125	136
Group's share of net assets	63	68
Profit	4	4
Group's share of profit	2	2

4.3 Investments

	2016 £m	2015 £m
Equity investments at cost	31	31

The equity investments held for long term investment represents the Group's 10% stake in Fresh Direct Inc, a US internet grocer. The investment was made on 9 March 2011, and at that point, the Group made available to Fresh Direct a $15m 8% unsecured seven year loan facility. The facility is undrawn at the balance sheet date.

4 Interests in other entities continued

4.4 Business combinations

52 weeks ended 31 January 2016

On 7 December 2015, Wm Morrison Produce Limited exercised an option to acquire the remaining 49% of the issued share capital of Wm Morrison Bananas Limited from Global Pacific Group, for a cash consideration of £3m. Due to the existence of the put and call option, the Group had previously treated Wm Morrison Bananas Limited as a 100% subsidiary.

For part of the year the Group was part of a joint venture in respect of The Morrisons Farm at Dumfries House Limited (the Farm). The Group terminated this agreement on 13 November 2015 when Wm Morrison Supermarkets PLC acquired the remaining 50% of the issued share capital of the Farm. On 6 January 2016, the Farm was renamed Neerock Farming Limited. The Farm's results are immaterial to the Group.

52 weeks ended 1 February 2015

In the 52 weeks ended 1 February 2015 there were no business combinations.

4.5 Disposals of businesses

52 weeks ended 31 January 2016

On 26 October 2015, the Group disposed of its subsidiary Wm Morrison Convenience Stores Limited and associated assets to MLCG Limited for cash consideration of £20m. This resulted in a loss on disposal of £34m. This loss is one-off in nature and therefore has been excluded from reported underlying earnings. Following the sale, the Group continues to guarantee leases relating to its former convenience stores. The Group has made an assessment of the likelihood and amount of future rental commitments should these leases revert, and recognised a liability on the balance sheet at 31 January 2016 reflecting the estimated cash outflow. In the event of lessee default the Group will look to minimise its liability by finding alternative occupiers as soon as possible.

52 weeks ended 1 February 2015

On 11 July 2014, the Group disposed of Kiddicare.com Limited to Endless LLP receiving a consideration of £2m for the sale of the shares. This resulted in a profit on disposal of £4m following an impairment charge in the 52 weeks ended 2 February 2014. Only one of the ten leases relating to Kiddicare remains unassigned.

5 Working capital and provisions

5.1 Accounting policies

Stock

Stock represents goods for resale and is measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale. Cost is calculated on a weighted average basis and comprises purchase price, import duties and other non-recoverable taxes, reduced by promotional funding and commercial income and a provision for estimated losses relating to shrinkage and markdowns. Losses relating to shrinkage in stores are based on historical losses verified by physical stock counts conducted by an independent third party. Provision is made for obsolete and slow moving items.

Trade and other debtors

Trade and other debtors are initially recognised at fair value, which is generally equal to face value, and subsequently held at amortised cost. Provision is made when there is objective evidence that the Group will not be able to recover balances in full, with the charge being included in administrative expenses.

Cash and cash equivalents

Cash and cash equivalents for cash flow purposes includes cash-in-hand, cash-at-bank and bank overdrafts. In the balance sheet, bank overdrafts that do not have right of offset are presented within current liabilities.

Cash held by the Group's captive insurer, Farock Insurance Company Limited, is not available for use by the rest of the Group as it is restricted for use against the specific liability of the captive. As the funds are available on demand, they meet the definition of cash in IAS 7 'Cash flow statements'.

Trade and other creditors

Trade and other creditors are initially recognised at fair value, which is generally equal to face value of the invoices received, and subsequently held at amortised cost. Trade creditors are presented net of commercial income due when the Group's trading terms state that income from suppliers will be netted against amounts owing to that supplier.

Notes to the Group financial statements continued

52 weeks ended 31 January 2016

5 Working capital and provisions continued

5.1 Accounting policies continued

Provisions

Provisions are created where the Group has a present obligation as a result of a past event, where it is probable that it will result in an outflow of economic benefits to settle the obligation, and where it can be reliably measured. For petrol filling station decommissioning costs this is when the filling station is first constructed and for dilapidations on leased buildings, when the lease is entered into. Provisions for onerous leases are recognised when the Group believes that the unavoidable costs of meeting the lease obligations exceed the economic benefits expected to be received under the lease. The amounts provided are based on the Group's best estimate of the least net cost of exit. Where material, these estimated outflows are discounted to net present value using a pre-tax rate that reflects current market assumptions. The unwinding of this discount is recognised as a financing cost in the income statement.

5.2 Stock

	2016 £m	2015 £m
Finished goods	**616**	658

Unearned elements of commercial income are deducted from finished goods as the stock has not been sold.

5.3 Debtors

	2016 £m	2015 £m
Trade debtors:		
– Commercial income trade debtors	**13**	10
– Accrued commercial income	**26**	37
– Other trade debtors	**99**	136
Less: provision for impairment of trade debtors	**(6)**	(5)
	132	178
Prepayments and accrued income	**56**	51
Other debtors	**4**	10
	192	239

The ageing analysis of trade debtors is as follows:

	2016 £m	2015 £m
Neither past due nor impaired	**132**	178
Past due but not impaired:		
Not more than three months	**–**	–
Greater than three months	**–**	–
Impaired debt	**6**	5
	138	183

As at 31 January 2016 and 1 February 2015, trade debtors that were neither past due nor impaired related to a number of debtors for whom there is no recent history of default. The other classes of debtors do not contain impaired assets.

As of 8 March 2016, £10m of the £13m commercial income trade debtor balance had been settled and £16m of the £26m accrued commercial income balance had been invoiced and settled.

5 Working capital and provisions continued

5.4 Creditors – current

	2016 £m	2015 £m
Trade creditors	**1,775**	1,493
Less: commercial income due, offset against amounts owed	**(85)**	(96)
	1,690	1,397
Other taxes and social security payable	**86**	66
Other creditors	**267**	271
Accruals and deferred income	**475**	487
	2,518	2,221

Included within accruals and deferred income is £5m (2015: £9m) in respect of deferred commercial income.

As of 8 March 2016, £68m of the £85m commercial income due above had been offset against payments made.

5.5 Provisions

	Onerous lease provision £m	Other property provisions £m	Total £m
At 2 February 2015	258	30	**288**
Charged to profit for the period	52	3	**55**
Utilised/released during the period	(32)	(13)	**(45)**
Unwinding of discount	11	–	**11**
At 31 January 2016	289	20	**309**

Part of the onerous leases relate to sublet and vacant properties, with commitments ranging from one to 57 years. The provision is revised regularly in response to market conditions. During the year, £52m has been charged to onerous lease provisions as detailed in note 1.4. The utilisation of onerous lease provisions this year relates to the assignment of Kiddicare leases, the disposal of the convenience business and the ongoing utilisation of onerous contracts.

Other property provisions include a petrol filling station decommissioning reserve for the cost of decommissioning petrol tanks, and provisions for dilapidations on leased buildings, for the cost of restoring assets to their original condition.

5.6 Cash generated from operations

	2016 £m	2015 £m
Profit/(loss) for the period	**222**	(761)
Net finance costs	**99**	98
Taxation credit	**(5)**	(31)
Share of profit of joint venture	**(2)**	(2)
Operating profit/(loss)	**314**	(696)
Adjustments for:		
Depreciation and amortisation	**384**	387
Impairment	**–**	1,116
Profit arising on disposal and exit of properties and sale of businesses	**(97)**	(135)
Adjustment for non-cash element of pension charges	**11**	(5)
Share-based payments	**11**	11
Other non-cash charges	**1**	3
Decrease in stock[1]	**40**	180
Decrease in debtors[1]	**30**	77
Increase /(decrease) in creditors[1]	**313**	(76)
Increase in provisions[1]	**19**	108
Cash generated from operations	**1,026**	970

Notes to the Group financial statements continued

52 weeks ended 31 January 2016

5 Working capital and provisions continued

5.6 Cash generated from operations continued

Total working capital inflow (the sum of items marked[1] in the table) is £402m in the year. This includes £83m as a result of the current year onerous leases charge and onerous commitments, net of £29m of onerous capital payments. When adjusted to exclude these items, the working capital inflow is £348m.

6 Capital and borrowings

6.1 Accounting policies

Borrowings

Interest-bearing loans and overdrafts are initially recorded at fair value, net of attributable transaction costs. Subsequent to initial recognition, any difference between the redemption value and the initial carrying amount is recognised in profit for the period over the period of the borrowings on an effective interest rate basis.

Borrowing costs

All borrowing costs are recognised in the Group's profit for the period on an effective interest rate basis except for interest costs that are directly attributable to the construction of buildings and other qualifying assets, which are capitalised and included within the initial cost of the asset. Capitalisation commences when both expenditure on the asset and borrowing costs are being incurred, and necessary activities to prepare the asset for use are in progress. In the case of new stores, this is generally once planning permission has been obtained. Capitalisation ceases when the asset is ready for use. Interest is capitalised at the effective rate incurred on borrowings before taxation of 5% (2015: 5%). Capitalised interest is included within interest paid in cash flow from operating activities.

Leases

Leases in which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases; all other leases are classified as finance leases. Property leases are analysed into separate components for land and buildings and tested to establish whether the components are operating leases or finance leases. Rental payments on operating leases in which the Group is lessee are taken to profit for the period on a straight-line basis over the life of the lease.

Sale and leaseback of properties

The accounting treatment of the sale and leaseback depends upon the substance of the transaction (by applying the lease classification principles described above). For sale and operating leasebacks, the assets are sold at fair value, and accordingly the profit or loss from the sale is recognised immediately in the Statement of comprehensive income. A number of new property operating leases have been entered into in the year ended 31 January 2016 (see property commitments note 6.8). When forming the conclusion of operating lease classification, consideration was given to the key lease classification indicators of IAS 17. The leases are typically for a 25 year period. The Directors have reviewed the remaining useful lives for these particular properties and concluded they are significantly longer than the period of the lease. As disclosed on page 72 a review of the useful economic lives of each of the property, plant and equipment categories has been performed in the year with no changes made. Other key indicators considered in reaching an operating lease classification were the present value of the minimum lease payments and the ownership clauses in the contracts upon expiry of the lease.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Where any Group company purchases the Company's equity share capital, the consideration paid, including directly attributable incremental costs, is deducted from retained earnings until the shares are cancelled. On cancellation, the nominal value of the shares is deducted from share capital and the amount is transferred to the capital redemption reserve.

Own shares held

The Group has employee trusts for the granting of Group shares to executives and members of the employee share plans. Shares in the Group held by the employee share trusts are presented in the balance sheet as a deduction from retained earnings. The shares are deducted for the purpose of calculating the Group's earnings per share.

Net debt

Net debt is cash and cash equivalents, long term cash on deposit, bank and other current loans, bonds, private placement loan notes and derivative financial instruments (stated at current fair value).

6 Capital and borrowings continued

6.2 Finance costs and income

	2016 £m	2015 £m
Interest payable on short term loans and bank overdrafts	**(4)**	(10)
Interest payable on bonds	**(98)**	(96)
Interest capitalised	**4**	11
Total interest payable	**(98)**	(95)
Provisions: unwinding of discount	**(11)**	(7)
Other finance costs	**(3)**	(3)
Finance costs	**(112)**	(105)
Bank interest received	**5**	5
Amortisation of bonds	**1**	1
Other finance income	**7**	–
Net pension interest income (note 8.2)	**–**	1
Finance income	**13**	7
Net finance cost	**(99)**	(98)

6.3 Borrowings

The Group had the following current borrowings and other financial liabilities:

	2016 £m	2015 £m
Current		
Bank overdraft	**1**	1
Short term borrowings	**–**	10
£200m Sterling bonds 6.00% January 2017	**200**	–
	201	11

Notes to the Group financial statements continued

52 weeks ended 31 January 2016

6 Capital and borrowings continued

6.3 Borrowings continued

The Group had the following non-current borrowings and other financial liabilities:

	2016 £m	2015 £m
Non-current		
£200m Sterling bonds 6.00% January 2017	–	201
£200m Sterling bonds 6.12% December 2018	**202**	202
£400m Sterling bonds 4.625% December 2023	**398**	397
£400m Sterling bonds 3.50% July 2026	**416**	421
£300m Sterling bonds 4.75% July 2029	**291**	291
$250m US private placement loan notes (USPP) 4.4% November 2026	**174**	164
€700m Euro bond 2.25% June 2020	**527**	518
Total non-current bonds and loan notes	**2,008**	2,194
Revolving credit facility	**(5)**	314
	2,003	2,508

Borrowing facilities

Borrowings are denominated in sterling, US dollars and euros, and bear fixed interest rates, with the exception of the revolving credit facility which bears floating interest rates. All borrowings are unsecured. In September 2015 the Group extended its syndicated committed revolving credit facility of £1.35bn by a further year, effectively resetting its five year term and resulting in a maturity date of September 2020. The Group also has a bilateral revolving credit facility of £150m due to mature in May 2016. The revolving credit facility incurs commitment fees and drawdowns bear interest at a spread above LIBOR.

In the event of default of covenants on the bank facility, the principal amounts and any interest accrued are repayable on demand.

There were no drawings under these credit facilities at the balance sheet date and therefore the Group had £1,500m of undrawn committed borrowing facilities available (2015: £1,180m).

Maturity of borrowings

The table below summarises the maturity profile of the Group's borrowings based on contractual, undiscounted payments, which include interest payments. As a result, amounts shown below do not agree to the amounts disclosed on the balance sheet for borrowings. Creditors (note 5.4) are excluded from this analysis.

Where borrowings are subject to a floating rate, an estimate for interest has been made.

	2016 £m	2015 £m
Less than one year	**291**	100
One to two years	**79**	290
Two to three years	**278**	78
Three to four years	**67**	277
Four to five years	**593**	386
More than five years	**1,574**	2,145

6 Capital and borrowings continued

6.3 Borrowings continued

Fair values

The fair value of the sterling and euro denominated bonds is measured using closing market prices (level 1). The fair value of the USPP is estimated by comparing the interest rate to market rates available to the Group at the balance sheet date (level 2). The fair values of borrowings included in level 2 are based on the net present value of the anticipated future cash flows associated with these instruments using rates currently available for debts on similar terms, credit risk and equivalent maturity dates.

These compare to carrying values as follows:

	2016 Amortised cost £m	2016 Fair value £m	2015 Amortised cost £m	2015 Fair value £m
Total bonds: non-current and current	**2,034**	**2,019**	2,030	2,115
Total loan notes: non-current	**174**	**167**	164	175
	2,208	**2,186**	2,194	2,290

The fair value of other items within current and non-current borrowing equals their carrying amount, as the impact of discounting is not material.

6.4 Analysis of net debt

	Note	2016 £m	2015 £m
Cash and cash equivalents per balance sheet		**488**	241
Bank overdrafts	6.3	**(1)**	(1)
Cash and cash equivalents per cash flow statement		**487**	240
Cross-currency contracts and interest rate swaps		**30**	–
Non-current financial assets	7.3	**30**	–
Foreign exchange forward contracts		**12**	6
Current financial assets	7.3	**12**	6
Short term borrowings and current bonds	6.3	**–**	(10)
Foreign exchange forward contracts	7.3	**–**	(6)
Fuel and energy price contracts	7.3	**(17)**	(12)
Bonds	6.3	**(200)**	–
Current financial liabilities		**(217)**	(28)
Bonds	6.3	**(1,834)**	(2,030)
Private placement loan notes	6.3	**(174)**	(164)
Revolving credit facility	6.3	**5**	(314)
Cross-currency contracts and interest rate swaps	7.3	**(46)**	(45)
Fuel and energy price contracts	7.3	**(9)**	(5)
Non-current financial liabilities		**(2,058)**	(2,558)
Net debt		**(1,746)**	(2,340)

Cash and cash equivalents include restricted balances of £16m (2015: £21m) which is held by Farock Insurance Company Limited, a subsidiary of Wm Morrison Supermarkets PLC.

Notes to the Group financial statements continued

52 weeks ended 31 January 2016

6 Capital and borrowings continued

6.5 Called-up share capital

	Number of shares millions	Share capital £m	Share premium £m	Total £m
At 1 February 2015 and 31 January 2016	**2,335**	**234**	**127**	**361**

The total authorised number of ordinary shares is 4,000 million shares (2015: 4,000 million shares) with a par value of 10p per share (2015: 10p per share). All issued shares are fully paid. The Group did not acquire any of its own shares for cancellation in the 52 weeks ended 1 February 2015 or 31 January 2016.

The holders of ordinary shares are entitled to receive dividends as declared from time-to-time and are entitled to one vote per share at the meetings of the Company.

Trust shares
Included in retained earnings is a deduction of £13m (2015: £6m) in respect of own shares held at the balance sheet date. This represents the cost of 8,401,491 (2015: 2,907,374) of the Group's ordinary shares (nominal value of £0.8m (2015: £0.3m)). These shares are held in a trust and were acquired by the business to meet obligations under the Group's employee share plans using funds provided by the Group. The market value of the shares at 31 January 2016 was £15m (2015: £5m). The trust has waived its right to dividends. These shares are not treasury shares as defined by the London Stock Exchange.

During the period the Group acquired 8,612,819 (2015: 4,000,000) of its own shares to hold in trust for consideration of £13m (2015: £8m), and utilised 3,118,702 (2015: 3,031,234) trust shares to satisfy awards under the Group's employee share plans.

Issue of new shares
The Group issued 70,480 (2015: 41,962) new shares to satisfy options exercised by employees during the period. Proceeds received on exercise of these shares amounted to £0.1m (2015: £0.1m).

6.6 Reserves

	2016 £m	2015 £m
Capital redemption reserve	**39**	39
Merger reserve	**2,578**	2,578
Hedging reserve	**(10)**	(22)
Retained earnings	**788**	638
Total	**3,395**	3,233

Capital redemption reserve
The capital redemption reserve at the start of the period related to 389,631,561 of the Company's own shares which it purchased on the open market for cancellation between 31 March 2008 and 8 March 2013 at a total cost of £1,081m.

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

Hedging reserve
This represents the gains and losses arising on derivatives used for cash flow hedging.

6.7 Capital management

The Group defines the capital that it manages as the Group's total equity and net debt balances, as well as its lease commitments.

The Group's capital management objectives are to safeguard its viability taking into consideration the risks that it faces whilst maintaining an investment grade credit rating and having adequate liquidity headroom. The Group manages its capital structure by managing the balance of debt and shares outstanding. It does this by seeking an effective balance between debt and equity. During the current financial year, net debt has reduced by £594m, reflecting strong operating cash flow driven by working capital management, reduced capital expenditure and £320m of property and business disposals. Throughout the year, the Group has comfortably complied with the gearing and fixed charge cover covenants attaching to its revolving credit facility, and the USPP.

6 Capital and borrowings continued

6.8 Operating leases – lessee

The Group has outstanding commitments for future minimum lease payments under non-cancellable operating leases. The leases have varying terms, escalation clauses and renewal rights, and fall due as follows:

	2016 Property £m	2016 Vehicles, plant and equipment £m	2015 Property £m	2015 Vehicles, plant and equipment £m
Within one year	**119**	**15**	108	15
More than one year and less than five years	**451**	**25**	411	28
After five years	**1,854**	**–**	1,520	–
	2,424	**40**	2,039	43

The movement in the property lease commitments within one year is summarised below:

	£m
At 2 February 2015	**108**
Impact of disposals	**(1)**
Leases on new stores	**3**
New lease commitments	**9**
At 31 January 2016	**119**

New lease commitments relate to the commencement of leases for previously provided pipeline stores.

7 Financial risk and hedging

7.1 Accounting policies

Derivative financial instruments and hedge accounting

Derivatives are transacted to mitigate financial risks that arise as a result of the Group's operating activities and funding arrangements. At the inception of a hedge, the Group documents the relationship between the hedging instrument and the hedged item, the risk management objective and strategy for undertaking the hedge.

The Group assesses whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item at inception and it also assesses whether the hedge has been and will continue to be effective on an ongoing basis.

All derivatives are initially recognised at fair value and are also measured at fair value at each reporting date. Derivatives with positive fair values are recognised as assets and those with negative fair values as liabilities. They are also categorised as current or non-current according to the maturity of each derivative. All gains or losses arising due to changes in the fair value of derivatives are recognised in profit or loss except when the derivative qualifies for cash flow hedge accounting.

Cash flow hedges

The Group designates derivatives into a cash flow hedge where they have been transacted to hedge a highly probable forecast transaction or a particular risk associated with an asset or liability. The effective portion of the change in the fair value of the derivatives, that are designated into cash flow hedge relationships, are recognised in other comprehensive income. Cumulative gains or losses on derivatives are reclassified from other comprehensive income into profit or loss in the period when the transaction occurs. Any ineffective portion of the gain or loss on the derivative is immediately recognised in profit or loss.

Fair value hedge

The Group designates derivatives into a fair value hedge relationship when they hedge the Group's exposure to changes in the fair value of a recognised asset or liability, or a firm commitment. The change in fair value of the hedged asset or liability that is attributable to the hedged risk is recognised in profit or loss for the period as well as the gain or loss from changes in the fair value of the derivative.

Notes to the Group financial statements continued

52 weeks ended 31 January 2016

7 Financial risk and hedging continued

7.2 Financial risk management

The Group has a centralised treasury function which manages funding, liquidity and other financial risk in accordance with the Board approved treasury policy. The objective of the policy and controls that are established are to mitigate the risk of an adverse impact on the performance of the Group as a result of its exposure to financial risks arising from the Group's operations and its sources of finance. It is the Group's policy not to engage in speculative trading of financial instruments.

The Board retains ultimate responsibility for treasury activity and is involved in key decision making. A Treasury Committee is established to provide governance and oversight to treasury activity within delegated authority limits and formally reports to the Audit Committee.

Foreign currency risk

The majority of purchases made by the Group are denominated in sterling, however some trade purchases are made in other currencies, primarily the euro and US dollar. The Group's objective is to reduce short term profit volatility from exchange rate fluctuations. It is Group policy that a minimum of 80% of committed and highly probable exposures within the next six months are hedged and at least 40% of exposures in the following six months. At the balance sheet date, the Group had hedged 81% of its exposure within the next six months (2015: 84%).

Cross-currency interest rate swaps are used to mitigate the Group's currency exposure arising from payments of interest and principal in relation to foreign currency funding, including the US dollar private placement (USPP) loan notes and the euro denominated bond.

At the reporting date, the sensitivity to a reasonable possible change (+/– 10%) in the US dollar and euro exchange rates would equate to a £5m post tax profit or loss exposure in relation to the euro and £4m in relation to the US dollar, for the unhedged forecast foreign currency exposures over the next 12 months. A weakening of the pound sterling by 10% against the euro and US dollar exchange rates would impact on other comprehensive income by £16m.

Liquidity risk

The Group policy is to maintain an appropriate maturity profile across its borrowings and a sufficient level of committed headroom to meet obligations. The Group finances its operations using a diversified range of funding providers including banks and bondholders.

A central cash forecast is maintained by the treasury function who monitor the availability of liquidity to meet business requirements and any unexpected variances. The treasury function seek to centralise surplus cash balances to minimise the level of gross debt. Short term cash balances, together with undrawn committed facilities, enable the Group to manage its day to day liquidity risk. Any short term surplus is invested in accordance with Treasury Policy.

The Treasury Committee compares the committed liquidity available to the Group against the forecast requirements including policy headroom. This policy includes a planning assumption that supply chain finance facilities are not available.

Interest rate risk

The Group seeks to protect itself against adverse movements in interest rates by maintaining at least 60% of its total borrowings at fixed interest rates. As at the balance sheet date 91% (2015: 79%) of the Group's borrowings are at fixed rate.

Whilst still applying the policy described above, from time-to-time the Group enters into fixed-to-floating interest rate swaps to achieve the appropriate proportion of fixed versus floating rate borrowings.

Credit risk

As a retailer, the majority of the Group's revenue is received in cash at the point of sale and therefore credit risk is not considered significant to the Group. Some credit risk does arise from cash and cash equivalents, deposits with banking groups and exposures from other sources of income such as commercial income and tenants of investment properties.

The Group has established appropriate credit verification procedures in respect of financial institutions. Limits on the total exposure to any counterparty or Group of connected counterparties are established within Treasury Policy taking into account credit ratings. Compliance with limits is regularly monitored.

There are no significant concentrations of credit risk within the Group.

Commodity price risk

The Group manages the risks associated with the purchase of electricity, gas and diesel consumed by its activities (excluding fuel purchased for resale to customers) by entering into hedging contracts to fix prices for expected consumption.

The Group has adopted a capital at risk model for hedging its fuel and power consumption. The Treasury Committee reviews the Group's exposure to commodity prices and ensures it remains within policy limits. A change of +/– 10 % in the market value of the commodity price at the balance sheet date would affect other comprehensive income by £8m (2015: £9m).

7.3 Derivative financial assets and liabilities

Derivative financial assets	2016 £m	2015 £m
Current		
Foreign exchange forward contracts	**12**	6
	12	6
Non-current		
Cross-currency swaps and interest rate swaps	**30**	–
	30	–

All derivatives are categorised as level 2 instruments. Level 2 fair values for simple, over-the-counter derivatives are calculated by using benchmark, observable market interest rates to discount future cash flows.

Derivative financial liabilities	2016 £m	2015 £m
Current		
Foreign exchange forward contracts	**–**	6
Fuel and energy price contracts	**17**	12
	17	18
Non-current		
Cross-currency swaps and interest rate swaps	**46**	45
Energy price contracts	**9**	5
	55	50

		2016 £m			2015 £m	
Maturity analysis of derivatives	**< 1 year £m**	**1 – 5 years £m**	**5 + years £m**	< 1 year £m	1 – 5 years £m	5 + years £m
Derivatives settled on a gross basis						
Cross-currency swaps – cash flow hedges						
– Outflow	**(25)**	**(694)**	**(203)**	(25)	(80)	(823)
– Inflow	**20**	**613**	**223**	19	77	756
Interest rate swaps – fair value hedges						
– Outflow	**(3)**	**(11)**	**(16)**	(3)	(11)	(18)
– Inflow	**7**	**28**	**39**	7	28	46
Forward contracts – cash flow hedges						
– Outflow	**(184)**	**–**	**–**	(215)	–	–
– Inflow	**194**	**–**	**–**	210	–	–
Derivatives settled on a net basis						
Energy price contracts – cash flow hedges						
– Outflow	**(18)**	**(8)**	**–**	(12)	(4)	–

7.4 Hedging activities

The amounts disclosed in the table above are the contractual undiscounted derivative cash flows and therefore differ to those in the balance sheet.

Cash flow hedges

At 31 January 2016 and 1 February 2015, the Group held US dollar and euro cross-currency swaps designated as cash flow hedges. The notional principal amount of the outstanding cross-currency swaps at 31 January 2016 was $250m (2015: $250m) and €700m (2015: €700m).

The energy price contracts and foreign currency derivatives shown in note 7.3 are designated as cash flow hedges.

Fair value hedges

The valuation of fixed-to-floating interest rate swaps designated in fair value hedges are £21m (2015: £31m).

Notes to the Group financial statements continued

52 weeks ended 31 January 2016

8 Pensions

8.1 Accounting policies

A defined contribution scheme is a pension scheme under which the Group pays fixed contributions into a separate entity and provides no guarantee as to the quantum of retirement benefits that those contributions will ultimately purchase. A defined benefit scheme is a pension scheme that is not a defined contribution scheme.

Defined benefit schemes

Pension scheme assets are valued at market rates. Pension scheme obligations are an estimate of the amount required to pay the benefits that employees have earned in exchange for current and past service, assessed and discounted to present value using the assumptions shown in note 8.4.1. The net pension asset recognised in the Consolidated balance sheet is the net of the schemes' assets and obligations, which are calculated separately for each scheme.

Current service cost is treated as an operating cost in the Consolidated statement of income and Statement of cash flows and is part of underlying earnings. Net interest income/expense is calculated by applying the discount rate on liabilities to the net pension liability or asset (adjusted for cash flows over the accounting period) and is recognised in finance income/costs and excluded from underlying earnings.

Expenses incurred in respect of the management of scheme assets are included in Other comprehensive income as a reduction in the return on scheme assets. Other scheme expenses are recognised in profit or loss as an operating expense.

Remeasurements comprise actuarial gains and losses on the obligations and the return on scheme assets (excluding interest). They are recognised immediately in Other comprehensive income. Amounts shown within note 8 are before any adjustments for deferred taxation.

8.2 Defined benefit schemes: summary and description

The Group operates a number of 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 not open to new members and were closed to future accrual in July 2015. The 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 position of each scheme at 31 January 2016 is as follows:

	2016 £m	2015 £m
CARE schemes	**178**	(43)
RSP	**8**	4
Net pension asset/(liability)	**186**	(39)

At the year end, schemes in surplus have been disclosed within assets on the balance sheet. The Group has taken legal advice with regard to the recognition of a pension surplus and also recognition of a minimum funding requirement under IFRIC 14 'IAS 19 - The limit on a defined benefit asset, minimum funding requirement and their interaction'. This advice concluded that recognition of a surplus is appropriate on the basis that the Group has an unconditional right to a refund of a surplus. Amendments to the current version of IFRIC 14 are currently being considered. The legal advice received by the Group has concluded that the above accounting treatment should not be affected by the current exposure draft of the revised wording to IFRIC 14.

8 Pensions continued

8.2 Defined benefit schemes: summary and description continued

The disclosures below show the details of the schemes combined:

Balance sheet:	2016 CARE £m	2016 RSP £m	2015 CARE £m	2015 RSP £m
Fair value of scheme assets	3,812	138	4,050	87
Present value of obligations	(3,634)	(130)	(4,093)	(83)
Net pension asset/(liability)	**178**	**8**	**(43)**	**4**

Consolidated statement of comprehensive income	2016 CARE £m	2016 RSP £m	2015 CARE £m	2015 RSP £m
Current service cost – recognised in cost of sales	21	42	39	33
Current service cost – recognised in administrative expenses	3	20	4	4
Administrative costs paid by Schemes – recognised in administrative expenses	3	1	3	1
Curtailment gain	(3)	–	(1)	–
Net interest on net pension asset/(liability) – finance income	–	–	–	(1)
Total expense charged to statement of comprehensive income	24	63	45	37
Statement of other comprehensive income:				
Remeasurements in other comprehensive income (credit)/charge	(236)	–	31	–

The Schemes are registered schemes under the provisions of Schedule 36 of the Finance Act 2004 and the assets are held in legally separate, trustee-administered funds. The Board of each Scheme is required by law to act in the best interest of the Scheme participants and is responsible for setting the investment, funding and governance policies of the fund. A representative of the Group attends Trustee Investment Committee meetings in order to provide the Group's view on investment strategy, but the ultimate power lies with the Trustees. The Deed and Rules of the Morrison Scheme gives the Trustees the power to set contributions. In the Safeway Schemes and the RSP this power is given to the Group, subject to regulatory override.

The latest full actuarial valuations have been carried out as at 1 April 2013 for the Safeway Schemes and 5 April 2013 for the Morrison Scheme and the RSP. The results of these valuations for the CARE Schemes have been used and updated for IAS 19 'Employee benefits' purposes for the period to 31 January 2016 by a qualified independent actuary. For the RSP, an actuarial valuation for the purposes of IAS 19, based on member data as at 31 January 2016, has been completed by an independent actuary. The Schemes expose the Group to inflation risk, interest rate risk and market investment risk. In addition, the CARE Schemes expose the Group to longevity risk.

8.3 Scheme assets

Assets of the Schemes generate returns and ultimately cash that is used to satisfy the Schemes' obligations. They are not necessarily intended to be realised in the short term. The Trustees of each Scheme invest in different categories of asset and in different allocations amongst those assets, according to the investment principles of that Scheme.

Currently, the investment strategy of the CARE Schemes is to maintain a balance of approximately 40% growth assets (comprising equities and diversified growth funds) and 60% bond-like-assets (comprising liability driven investments, corporate bonds and multi asset credit investments). RSP investments are currently based primarily in equities, however approximately 25% are in bond-like-assets. There are no direct investments in the parent Company's own shares or property occupied by any member of the Group.

Fair value of Scheme assets:

	2016 CARE £m	2016 RSP £m	2015 CARE £m	2015 RSP £m
Equities (quoted)	681	98	1,403	84
Corporate bonds (quoted)	833	–	1,109	–
Diversified growth funds (quoted)	734	–	–	–
Illiquid credit (unquoted)	271	–	–	–
Liability driven investments (unquoted)	1,286	34	1,534	–
Cash (quoted)	7	6	4	3
Total	3,812	138	4,050	87

Notes to the Group financial statements continued
52 weeks ended 31 January 2016

8 Pensions continued

8.3 Scheme assets continued

Liability driven investments (LDI)

The policy in the CARE Schemes is to limit investment risk and to manage the liabilities in order to reduce fluctuations in the Schemes' funding levels. This is achieved through the use of 'liability driven investments' (LDI), whose main goal is to have sufficient assets to meet all current and future liabilities as they fall due. LDI involves the use of derivatives such as swaps and other investment instruments. There are no annuities or longevity swaps.

The movement in the fair value of the Schemes' assets over the period was as follows:

	2016 CARE £m	2016 RSP £m	2015 CARE £m	2015 RSP £m
Fair value of scheme assets at start of period	**4,050**	**87**	3,058	39
Interest income	**123**	**3**	137	3
Return on scheme assets excluding interest	**(299)**	**(5)**	879	9
Employer contributions	**27**	**49**	46	39
Employee contributions	**1**	**6**	1	2
Benefits paid	**(87)**	**(1)**	(68)	(4)
Administrative expenses	**(3)**	**(1)**	(3)	(1)
Fair value of scheme assets at end of period	**3,812**	**138**	4,050	87

The Group previously entered into an agreement under which it contributed interests in a Scottish Limited Partnership ('SLP') valued at £90m (as at 30 January 2013) to the CARE schemes. During the year the Group agreed to provide an additional asset contribution of £150m.

The CARE Schemes' interests in the SLP reduce the respective deficits on a funding basis, although the agreements do not affect the position directly on an IAS 19 accounting basis because the investments held by the CARE Schemes do not qualify as assets for IAS 19 purposes. The additional £150m assets to be contributed to the SLP do not affect the funding or accounting position.

As partners in the SLP, the CARE Schemes are entitled to receive a share of the profits of the SLP twice a year for 20 years. The profits shared with the Schemes are reflected in the Group financial statements as pension contributions. The SLP made a cash contribution of £6.6m during the year ending 31 January 2016, and may make annual contributions of £6.6m for a further 17 years, dependent on funding levels in the schemes.

8.4 Present value of obligations

The movement in the defined benefit obligation over the period was as follows:

	2016 CARE £m	2016 RSP £m	2015 CARE £m	2015 RSP £m
Defined benefit obligation at start of period	**(4,093)**	**(83)**	(3,071)	(37)
Current service cost	**(24)**	**(62)**	(43)	(37)
Interest expense	**(123)**	**(3)**	(137)	(2)
Actuarial loss – demographic assumptions	**–**	**–**	(21)	–
Actuarial gain/(loss) – financial assumptions	**517**	**18**	(889)	(16)
Actuarial gain – experience	**–**	**5**	–	7
Curtailment gain	**3**	**–**	1	–
Employee contributions	**(1)**	**(6)**	(1)	(2)
Benefits paid	**87**	**1**	68	4
Defined benefit obligation at end of period	**(3,634)**	**(130)**	(4,093)	(83)

The durations of the defined benefit obligations at the end of the 2016 reporting period are: RSP 20 years; Morrisons CARE 25 years; Safeway CARE 23 years. The weighted average duration of all three schemes is 23 years.

8 Pensions continued

8.4 Present value of obligations continued

8.4.1 Significant actuarial assumptions

The following are the principal actuarial assumptions at the reporting date (expressed as weighted averages):

Financial assumptions	2016 CARE	2016 RSP	2015 CARE	2015 RSP
Discount rate applied to scheme liabilities (% p.a.)	**3.70%**	**3.70%**	3.10%	3.10%
Inflation assumption (RPI) (% p.a.)	**3.20%**	**3.20%**	3.10%	3.10%

Life expectancies	2016 CARE	2016 RSP	2015 CARE	2015 RSP
Longevity in years from age 65 for current pensioners				
Male	**22.6**	**n/a**	22.6	n/a
Female	**24.1**	**n/a**	24.0	n/a
Longevity in years from age 65 for current members aged 45				
Male	**24.9**	**n/a**	24.8	n/a
Female	**26.5**	**n/a**	26.4	n/a

Assumptions regarding future mortality experience are set based on actuarial advice and in accordance with published statistics. The mortality tables used at both year ends 2015 and 2016 are the S1PMA/S1PFA-Heavy tables (males/females) based on year of birth. Following analysis completed as part of the 2013 actuarial valuations a scaling factor of 110% was applied to the mortality tables used in the Morrison Scheme. Amongst the UK population, there is a continuing trend for a generation to live longer than the preceding generation. For the 2015 and 2016 year ends, and in line with the 2013 actuarial valuations the mortality projections used the CMI 2012 rates with an annual rate of improvement of 1.5% p.a.

Related actuarial assumptions (expressed as weighted averages)

	2016 CARE	2016 RSP	2015 CARE	2015 RSP
Rate of increases in salaries (% p.a.)	**–**	**2.20%**	3.10%	2.30%
Rate of increase of pensions in payment: RPI inflation capped at either 2.5% p.a. or 5% p.a. (% p.a.)	**2.10%/3.20%**	**–**	2.10%/3.10%	–
Pre-retirement revaluation for active members (% p.a.)	**–**	**1.80%**	3.10%	1.80%
Rate of increase of pensions in deferment: CPI inflation capped at either 2.5% p.a. or 5% p.a. (% p.a.)	**–/2.20%**	**2.20%/–**	–/2.30%	2.30%/–
CPI inflation (% p.a.)	**2.20%**	**2.20%**	2.30%	2.30%

8.4.2 Sensitivity analysis on significant actuarial assumptions

The following table summarises the impact on the defined benefit obligation at the end of the reporting period if each of the significant actuarial assumptions listed above were changed, in isolation, assuming no other changes in market conditions at the accounting date. In practice, any movement in assumptions could be accompanied by a partially offsetting change in asset values, and the corresponding overall impact on the net asset is therefore likely to be lower than the amounts below in a number of scenarios. Extrapolation of the sensitivities shown may not be appropriate.

		2016 CARE	2016 RSP	2015 CARE	2015 RSP
Discount rate applied to Scheme obligations	+/– 0.1% pa	**–/+83**	**–/+3**	–/+ 99	–/+ 2
Inflation assumption (RPI and associated assumptions)	+/– 0.1% pa	**+/–76**	**+/–2**	+/– 89	+/– 1
Longevity	+/– one year	**+141**	**–**	+ 159	–

Notes to the Group financial statements continued

52 weeks ended 31 January 2016

8 Pensions continued

8.5 Funding

The CARE Schemes and the RSP are funded schemes to which both employees and the Group contribute. The Morrison Scheme is entirely funded by the parent Company and the Safeway Scheme is funded by Safeway Limited and its subsidiaries. The Group's subsidiaries participate in the RSP. There is no contractual agreement or stated policy for charging the net defined benefit cost between the parent Company and its subsidiaries. The contribution of each participating subsidiary to the RSP is calculated in proportion to the number of employees that are members of the RSP.

The current best estimate of Group contributions to be paid for the accounting period commencing 31 January 2016 is £67m. This estimate includes amounts payable from the SLP and salary sacrificed contributions from employees.

8.6 Closure of CARE schemes to future accrual

In July 2015, the Group reached an agreement with the trustees of the CARE Schemes to close the Schemes to future accrual. The financial effect of this is to reduce the Group's exposure to future volatility, increases in pension liabilities and cost.

Subsequently, the Group has entered into an agreement to contribute additional assets into the SLP. For further details of this agreement see note 8.3.

8.7 Defined contribution scheme set up costs

As previously announced the Group intends to open a new defined contribution pension scheme for colleagues. This scheme will become the Auto Enrolment scheme and as such the Group will be liable for backdated contributions for eligible colleagues to 1 October 2012. The estimated set up costs relating to backdated contributions for the period 1 October 2012 to 31 January 2016 is £35m.

9 Share-based payments

9.1 Accounting policy

Share-based payments

The Group issues equity-settled share-based payments to certain employees in exchange for services rendered by them. The fair value of the share-based award is calculated at the date of grant and is expensed on a straight-line basis over the vesting period with a corresponding increase in equity. This is based on the Group's estimate of share options that will eventually vest. This takes into account movement of non-market conditions, being service conditions and financial performance, if relevant.

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

The charge in the period for share-based payments was £11m (2015: £11m).

9.2 Share save schemes

The Share save scheme began in May 2000 and all employees (including Executive Directors) are eligible once the necessary service requirements have been met. The scheme allows participants to save up to a maximum of £350 each month for a fixed period of three years. Options are offered at a discount to the mid-market closing price on the day prior to the offer and are exercisable for a period of six months commencing after the end of the fixed period of the contract. The exercise of options under this scheme is subject only to service conditions. The schemes that launched in May 2011 and subsequently are under the new scheme rules approved by the shareholders in June 2010.

9 Share-based payments continued

9.2 Share save schemes continued

The fair value of options granted, and the inputs used to determine it are as follows:

Grant date	19 May 2015	20 May 2014	13 May 2013	14 May 2012
Share price at grant date	£1.81	£2.10	£2.83	£2.79
Fair value of options granted	£4.8m	£11.6m	£8.1m	£9.1m
Exercise price	£1.64	£1.64	£2.25	£2.36
Dividend yield	5.15%	6.21%	4.17%	3.69%
Annual risk free interest rate	1.06%	1.00%	0.45%	0.53%
Expected volatility[1]	22.7%	18.3%	16.8%	19.4%

[1] The volatility measured at the standard deviation of expected share price returns is based on statistical analysis on weekly share prices over the past 3.37 years prior to the date of grant.

The requirement that the employee has to save in order to purchase shares under the Share save plan is a non-vesting condition. This feature has been incorporated into the fair value at grant date by applying a discount to the valuation obtained from the binomial stochastic option pricing model. The discount is determined by estimating the probability that the employee will stop saving based on expected future trends in the share price and employee behaviour.

	2016		2015	
	Weighted average exercise price in £ per share	**Options thousands**	Weighted average exercise price in £ per share	Options thousands
Movement in outstanding options				
Outstanding at start of period	**1.85**	**50,785**	2.30	42,993
Granted	**1.64**	**21,729**	1.64	41,208
Exercised	**1.66**	**(70)**	2.28	(42)
Forfeited	**1.93**	**(23,617)**	2.16	(33,374)
Outstanding at end of period	**1.72**	**48,827**	1.85	50,785
Exercisable at end of period	**2.36**	**17**	2.28	56

	2016		2015	
	Weighted average share price at date of exercise £	**Number of shares thousands**	Weighted average share price at date of exercise £	Number of shares thousands
Share options exercised in the financial period	**1.66**	**70**	2.28	42

	2016	2015
Share options outstanding at the end of the period		
Range of exercise prices	**£1.64 to £2.36**	£1.64 to £2.36
Weighted average remaining contractual life	**2.2 years**	2.5 years

9.3 Long term incentive plans

In May 2007, a discretionary LTIP for the benefit of certain employees was introduced. The awards have no exercise price and accrue the value of dividends over the vesting period.

LTIP grants issued before 2013 are subject to the performance conditions, as stated below. Since 2013, the performance conditions apply to Executive Committee members only. Senior employees eligible for LTIPs have to satisfy a service condition only. Given the size of the Executive Committee, the fair value of the LTIP grants assumes no leavers. The leavers assumptions below relate to the senior employees only.

Awards normally vest three years after the original grant date, provided the relevant performance criteria have been met.

Notes to the Group financial statements continued

52 weeks ended 31 January 2016

9 Share-based payments continued

9.3 Long term incentive plans continued

The fair value of awards granted and the inputs used to determined it are as follows:

Grant date	01 Oct 2015[1]	23 Apr 2015	16 Oct 2014	20 Jun 2014	22 Apr 2014	17 Oct 2013	22 Apr 2013	15 Oct 2012	13 Apr 2012
Share price at grant date	**£1.74**	**£1.97**	£1.57	£1.91	£2.02	£2.79	£2.80	£2.75	£2.91
Assumed leavers (Senior employees only)	**–**	**–**	10%	–	10%	20%	20%	5%	5%
Performance criteria (Executive Committee only)	**56%**	**56%**	–	–	50%	–	–	–	–
Fair value of share awards	**£1.8m**	**£5.3m**	£0.9m	£3.0m	£16.7m	£1.5m	£18.8m	£1.5m	£28.1m

1 One colleague was granted awards on 22 January 2016. The awards are subject to the same conditions as the awards above.

	2016 Share awards thousands	2015 Share awards thousands
Movement in outstanding share awards		
Outstanding at start of period	**18,793**	10,444
Granted	**3,711**	10,484
Forfeited	**(2,225)**	(2,135)
Outstanding at end of period	**20,279**	18,793
Exercisable at end of period	**–**	–

The weighted average remaining contractual life of the share awards is 1.1 years (2015: 2.3 years).

9.4 One-off share awards

As part of the package for certain senior management, restricted share awards may be granted. These are primarily designed to replace the value of share scheme awards forfeited from the previous employer. Vesting of these awards is subject only to service conditions.

The fair value of awards granted and the inputs used to determined it are as follows:

Grant date	2016	2015
Share price at grant date	**£1.72**	£2.12
Assumed leavers	**–**	–
Fair value of share awards granted	**£0.1m**	£0.4m

There are 175,029 share awards outstanding at the end of the period (2015: 165,358). The movement during the period is entirely the result of options being granted. The weighted average remaining contractual life of the share awards is 0.8 years (2015: 1.1 years).

9.5 Restricted share award

Following the non vesting of the 2011 and 2012 LTIP, a decision was made to replace the LTIP for those colleagues below the Executive Committee with restricted share awards. This scheme is not subject to financial performance measures. The awards vest subject to a requirement to remain in employment for a certain period; half the awards vest after one year and the remaining half after two years.

The fair value of awards granted and the inputs used to determined it are as follows:

Grant date	22 April 2013[1]	22 April 2013[2]
Share price at grant date	**£2.80**	**£2.80**
Assumed leavers	**20%**	**20%**
Fair value of share awards granted	**£7.1m**	**£7.1m**

[1] Vested in April 2014.
[2] Vested in April 2015.

9 Share-based payments continued

9.5 Restricted share award continued

	2016 Share awards thousands	2015 Share awards thousands
Movement in outstanding share awards		
Outstanding at start of period	**2,340**	4,926
Exercised	**(1,808)**	(2,453)
Lapsed	**(531)**	(133)
Outstanding at end of period	**1**	2,340

9.6 Deferred share bonus plan

Certain members of senior management participate in the deferred share bonus plan under which 50% of any bonus payable is deferred in shares for three years from the date the deferred share award is made. Dividend equivalents accrue over the vesting period, to be paid when the shares vest. Vesting of these share awards is subject only to service conditions.

The fair value of awards granted and the inputs used to determine it:

Grant date	2015/16 scheme	2014/15 scheme
Share price at grant date	**£2.05**	£2.10
Assumed leavers	**–**	–
Exercise price	**£nil**	£nil
Fair value of share awards granted	**£1.1m**	£0.6m

	2016 Share awards thousands	2015 Share awards thousands
Movement in outstanding share awards		
Outstanding at start of period	**815**	937
Granted	**559**	286
Exercised	**(432)**	(408)
Lapsed	**(529)**	–
Outstanding at end of period	**413**	815

The weighted average remaining contractual life of the share awards is 1.9 years (2015: 0.9 years).

10 Other

10.1 Related party transactions

The Group's related party transactions in the period include the remuneration of the senior managers (note 1.7), and the Directors' emoluments and pension entitlements, share awards and share options in the audited section of the Directors' remuneration report, which forms part of these financial statements.

During the year, the Group received a dividend of £8m (2015: £nil) from MHE JVCo. The Group owns 50% of the equity of MHE JVCo.

10.2 Post balance sheet events

Following IAS 10 'Events after the Balance Sheet Date', the Group continues to disclose events that it considers material and non-disclosure of which can influence the economic decisions of users of the financial statements.

On 22 February 2016, the Group repaid its $250m USPP facility of £174m which was due to mature in November 2026. The Directors consider this event as a non-adjusting post balance sheet event.

Notes to the Group financial statements continued

52 weeks ended 31 January 2016

10.3 Full list of related undertakings

Subsidiaries of Wm Morrison Supermarkets PLC	Principal activity	Equity holding %
Bos Brothers Fruit and Vegetables B.V.	Acquirer of food products[1]	100
De Mandeville Gate Management Limited	Property maintenance	51
Erith Pier Company Limited	Property maintenance	100
Farmers Boy Limited	Manufacturer and distributor of fresh food products	100
Farock Insurance Company Limited	Insurance captive	100
Firsdell Limited	Property investment	100
Holsa Limited	Dormant	100
I Morrisons.com Limited	Dormant	100
International Seafoods Limited	Preparation and supply of seafood	100
Kiddicare Properties Limited	Lease company	100
MHE JV Co Limited	Joint venture with Ocado	50
Morrisons Food Online Limited	Dormant	100
Morrisons-online.com Limited	Dormant	100
My Morrisons.com Limited	Dormant	100
Neerock Farming Limited	Agricultural activities	100
Neerock Limited	Fresh meat processor	100
Optimisation Developments Limited	Property development	100
Optimisation Investments Limited	Property investment	100
Perimeter Holdings Limited	Property development	100
Rathbone Kear Limited	Manufacturer and distributor of bread	100
Safeway Limited	Holding company	100
Wm Morrison GP 1 Limited	General partner in a partnership	100
Wm Morrison GP 2 Limited	General partner in a partnership	100
Wm Morrison GP 3 Limited	General partner in a partnership	100
Wm Morrison (HK) Limited	Acquirer of non food products	100
Wm Morrison LP 1 Limited	Limited partner in a partnership	100
Wm Morrison LP 2 Limited	Limited partner in a partnership	100
Wm Morrison LP 3 Limited	Limited partner in a partnership	100
Wm Morrison Nominee 1 Limited	Dormant	100
Wm Morrison Nominee 2 Limited	Dormant	100
Wm Morrison Nominee 3 Limited	Dormant	100
Wm Morrison Online Limited	Dormant	100
Wm Morrison Pension Trustee Limited	Dormant	100
Wm Morrison Produce Limited	Produce packer	100
Wm Morrison Property Investments Limited	General partner in a partnership	100
Wm Morrison Supermarket Stores Limited	Dormant	100

[1] During the year the operations of Bos Bros Fruit and Vegetables BV changed from a manufacturing business to a sourcing agent

Subsidiaries of other Group companies	Principal activity	Equity holding %
Alliance Property Holdings Limited	Dormant	100
Amos Hinton & Sons Limited	Dormant	100
Argyle Securities Limited	Dormant	100
Argyll Foods Limited	Dormant	100
Argyll Stores (Holdings) Limited	Dormant	100
Ascot Road Watford Limited	Property development	100
Cancede Limited	Property investment	100
Evermere Limited	Dormant	100
Cordon Bleu Freezer Food Centres Limited	Dormant	100
Divertigo Limited	Dormant	100

Subsidiaries of other Group companies continued	Principal activity	Equity holding %
English Real Estates Limited	Dormant	100
Evermere Limited	Dormant	100
Farmers Boy (Deeside) Limited	Dormant	100
Federated Properties Limited	Dormant	100
Flower World Limited	Dormant	100
Freehold Investments Limited	Property holding company	100
J3 Property Limited	Dormant	100
Lease Securities Limited	Property holding company	100
Maypole Limited	Holding company	100
MDW (Eastbourne) Limited	Dormant	100
Monument Hill Properties Limited	Property development	100
Newincco 1072 Limited	Property development	100
Oldwest Limited	Dormant	100
Presto Stores (LC) Limited	Dormant	100
Presto Stores Limited	Dormant	100
Rathbones Bakeries Limited	Dormant	100
RP (No.37) Limited	Property development	100
Safeway (Overseas) Limited	Grocery retailer	100
Safeway Development Limited	Dormant	100
Safeway Food Stores Limited	Holding company	100
Safeway Pensions Trustees Company Limited	Dormant	100
Safeway Pension Trustees Limited	Dormant	100
Safeway Properties Limited	Dormant	100
Safeway QUEST Trustees Limited	Dormant	100
Safeway Stores (Gibraltar) Pension Trustees Limited	Dormant	100
Safeway Stores (Ireland) Limited	Dormant	100
Safeway Stores Limited	Grocery retailer	100
Safeway Trustee (FURB) Limited	Dormant	100
Simply Fresh Foods Holdings Limited	Dormant	100
Simply Fresh Foods Limited	Dormant	100
Stalwart Investments Limited	Property holding company	100
Stores Group Limited	Investment company	100
The Home & Colonial Stores Limited	Dormant	100
The Medical Hall Limited	Pharmaceutical licence holder (Gibraltar)	100
Tower Centre Hoddesdon Limited	Property development	100
Trilogy (Leamington Spa) Limited	Property development	100
Velligrist Limited	Dormant	100
Wm Morrison Bananas Limited	Banana ripening	100
Wm Morrison Property Partnership LP	Scottish Limited Partnership	100
Wm Morrison Property Partnership 1 Limited Partnership	Property partnership	100
Wm Morrison Property Partnership 2 Limited Partnership	Property partnership	100
Wm Morrison Property Partnership 3 Limited Partnership	Property partnership	100