MORRISONS

News Release

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PRELIMINARY RESULTS FOR THE YEAR ENDED 3 FEBRUARY 2013

Good strategic progress in a tough trading year

Financial summary

- Turnover up 3% to £18.1bn (2011/12: £17.7bn)
- Like-for-like sales (ex-fuel, ex-VAT) down 2.1%(1) (2011/12: up 1.8%)
- Underlying profit before tax down 4% to £901m (2011/12: £935m)(2)
- Profit before tax £879m (2011/12: £947m)
- Earnings per share 26.7p (2011/12: 26.7p)
- Underlying earnings per share up 7% to 27.3p (2011/12: 25.6p)
- Total dividend for the year up 10% to 11.8p (2011/12: 10.7p) – dividend cover of 2.3 times (2011/12: 2.4 times)
- Net debt £2,181m (2011/12: £1,471m) after capital investment of £1,016m (2011/12: £901m)
- Equity retirement £579m in the year(3), (2011/12: £368m). Programme now completed

Strategic highlights

- Fresh Formats – tailored fresh food proposition now in over 100 stores – and continuing to perform to plan: programme to expand in 2013/14
- Vertical integration – good progress on expanding manufacturing capability; Winsford fresh meat facility and fresh seafood site in Grimsby operational and performing well
- Catalina voucher at till system implemented in all stores
- Convenience – first 12 M local convenience stores performing well; first stores in London now open; accelerated target established for 2013/14; West London convenience distribution centre (CDC) open; additional CDC to support expansion in the North of England
- Multi-channel – Morrisons Cellar successfully launched; three new Kiddicare stores opened; Online – Morrisons first online food operation to launch in 2014

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Operating highlights

- 17 new supermarkets opened [4]
- 5,000 own brand products successfully launched; M savers the fastest growing own label value brand [5] – sales up 37%
- 4% productivity improvements in stores and distribution
- IT systems replacement programme on track – providing foundation for accelerated cost savings in 2013/14
- Financial discipline maintained through rephasing of planned investment in new stores: £200m reduction in capital expenditure
- Grocer of the Year and Employer of the Year [6]

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

"Although this has been a difficult year in trading terms for Morrisons as we struggled to grow sales in a tough consumer environment, we have delivered a 7% improvement in underlying earnings per share and announced a 10% dividend increase, in line with our previously stated policy. It has also been a period of significant strategic progress as we continue to lay the foundations for future growth".

Dalton Philips, Chief Executive, said:

"The sustained pressure on consumer spending was reflected in our like-for-like sales performance, which was not as good as it should have been. We have implemented a range of measures to address this and are making good progress in improving our promotional effectiveness and in communicating our points of difference. Recent events have underlined why it's so important that we tell our customers how and why we're different and what our vertical integration really means for them. Food quality, provenance and the issue of trust are at the forefront of consumers' minds and these are all areas where Morrisons has something genuinely different to offer.

We continue to invest for the long term success of our business. Our fresh format offer is now in over 100 stores nationwide and we will continue to tailor the concept as we expand the rollout during the coming year. We are ready to accelerate the development of our multi-channel presence and our convenience operation is gaining real momentum acquiring over 60 new sites in recent weeks alone. We are therefore increasing our target for store openings in the coming year by 40% and now plan to have 100 stores trading by the end of the year.

Today's announcement that we are launching an online food offer in 2014 is another important step in Morrisons strategy of being 'Different and Better than Ever'. We may be a late entrant to the online food market but we have learnt from our involvement with Kiddicare and Fresh Direct. We have long been a leader in fresh food and our craft skills and vertical integration really set us apart from the competition. Ensuring that these points of difference translate into our online food offer will be a priority."

Outlook

We will continue to implement a wide range of measures to address the sales performance of the business and progress our strategic initiatives, in order to provide a platform for successful long term growth. Our expectations are that the challenging consumer and market environment we saw in 2012 will persist through the coming year.

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Unless otherwise stated all results for 2012/13 relate to the 53 weeks ended 3 February 2013 and 2011/12 results are for the 52 weeks ended 29 January 2012

Notes
[1] 2012/13: 53 weeks to 3 February 2013 against 53 weeks to 5 February 2012
[2] Underlying profit before taxation, property disposals, multi-channel and convenience development costs and IAS19 pension interest. Underlying operating profit is operating profit before property disposals
[3] Including acquisition of Treasury shares
[4] Including three replacement stores: excludes convenience stores
[5] Kantar Worldpanel
[6] The Grocer Gold Awards 2012

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

-ENDS-

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

Chairman's statement

As anticipated, market conditions during the year have been challenging with ongoing commodity inflation continuing to put further pressure on household budgets and an already fragile consumer confidence. Against this difficult backdrop Morrisons has worked hard to deliver a unique combination of value, freshness and quality to its customers. Although our overall performance has not been as good as we would have wished, an increase in underlying earnings per share and a significant increase in the dividend, demonstrate both the resilience of our business model in a tough economic environment and the Board's confidence in the future.

At the start of the year we outlined a range of strategic initiatives: the essential building blocks needed to support the development of our business. These initiatives will enable us to deliver, over time, profitable sales growth, make Morrisons more efficient and secure new growth opportunities to deliver enhanced long-term value to shareholders. I am delighted to report that we have made real progress in all these areas, particularly in the accelerated development of our convenience store programme and our decision to launch Morrisons online food offer in 2014.

Results

Profit before tax of £879m was 7% below prior year.

The underlying operating margin of 5.2% fell by 30bps compared to last year. Adjusting for the impact of a higher proportion of fuel sales in the mix this year, the reduction was 20bps.

Net finance costs were £70m, an increase of £44m over the prior period of which £17m related to IAS19 pension interest. The balance was primarily a result of a planned increase in net debt arising from an additional investment in capital expenditure and an acceleration of the equity retirement programme.

Underlying profit is calculated after removing property disposals, multi-channel and convenience development costs and IAS19 pension interest. Underlying operating profit [(2)] of £950m fell by £24m (2%) when compared to the prior year, with underlying profit before tax [(2)] of £901m down by 4%.

Underlying basic earnings per share (EPS) increased by 7% to 27.3p (2011/12: 25.6p) with a reduction in the rate of corporation tax and the positive impact of the Group's equity retirement programme more than offsetting a reduction in underlying earnings. Statutory basic earnings per share of 26.7p were in line with the previous year.

In accordance with our policy of increasing the dividend in line with underlying earnings growth, subject to a minimum increase of 10% in each of the three years to 2013/14, the Board is recommending a final dividend of 8.31p per

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share. This brings the total dividend for the year to 11.80p, an increase of 10% on 2011/12. The dividend is covered 2.3 times by underlying earnings.

Cash flow from operations of £1,432m was £168m (13%) higher than in the previous year, primarily as a result of improved working capital management.

As anticipated, capital expenditure and investments rose slightly to £1,016m, an increase of £115m (13%) over prior year. This capital investment reflected a planned acceleration in our new store opening programme, continuing investments in Evolve, our industry leading IT systems development project, and continuing expansion of our vertical integration capacity. It also included new investments to support our multi-channel expansion, through the addition of new Kiddicare stores and in an online shopping capability. We will continue to accelerate these essential investments in future growth and expect capital expenditure in 2013/14 to be £1.1bn, which includes £150m for multi-channel development.

A further £579m was invested in our equity retirement programme of which £65m related to the purchase of shares held in treasury. By the end of the financial year a total of £947m had been invested and 312m shares had been cancelled, in the period since we commenced the programme in 2011. We have now met our objective of returning £1bn to shareholders, in addition to normal dividend payments, over the two years to March 2013. The programme has had a positive impact of 4.2% on our reported underlying earnings per share in the year and will have a further positive impact in the year ahead.

Net debt rose as expected to £2,181m (2011/12: £1,471m), reflecting these investments and increased tax payments. This brings our gearing to 42% - which remains a conservative level for the sector.

In line with its stated principles, the Group continues to maintain a strong balance sheet position. This is securely financed by a number of long dated bonds and revolving credit facilities at competitive rates. During the period we strengthened our financial position by increasing the funds available to the Group and extending the maturity profile of our borrowings. We increased the revolving credit facilities we have with our banks, which are available until 2016, by a further £150m to £1,350m. In July 2012 we issued a £400m sterling bond to institutional investors, repayable in 2026 and in November 2012 we agreed a £200m term loan with our bankers, repayable in 2014.

At the year end the Group had committed but undrawn facilities of £675m and a strong investment grade from Moody’s.

In March 2012 we introduced Return on Capital Employed (ROCE) as a key performance measure, emphasising our focus on capital discipline which was reflected in our decision to reduce planned capital expenditure during the year by £200m. ROCE fell slightly during the year to 9.6%, a consequence of like-for-like performance headwinds. We will continue to focus on delivering improvements in this key measure over the coming years, although the immediate priority is on driving our sales performance.

Industry recognition

Morrisons is committed to providing its customers with great service and shopkeeping and to making it a great place to work for our colleagues. This has again been recognised with a number of prestigious industry awards. These include Grocer of the Year [6]; Employer of the Year, for the third year in a row[6]; Best Service at the Grocer Gold awards [6]; six Grocer Own Label Food and Drink awards [7] and Retail Week Employer of the Year [8] for the second successive year.

Community and the environment

Our customers expect us to trade responsibly. We are committed to working with the communities in which we operate, maintaining ethical standards and managing resources carefully.

Food matters to Morrisons: where it comes from and how it's produced. Over the past year we have increased our support for British dairy farmers and invested further in research into the long term viability of British farming. We continue to support the Government's Public Health Responsibility Deal and have committed to join a consistent national scheme of front of pack labelling.

Our Let's Grow programme, which aims to support the next generation of food growers, is currently in its fifth year. During that time we have donated £18m of gardening equipment to schools to encourage schoolchildren throughout the UK to get out of the classroom and learn about the food cycle first hand.

We have made good progress towards our long term energy reduction targets.

Our colleagues and customers always go the extra mile to support our selected charity. For the third consecutive year we have been pleased to work with our chosen charity partner, Save the Children. We have continued to support their innovative Families and Schools Together (FAST) programme which brings families, schools and communities together to support disadvantaged children across the UK. In addition Morrisons colleagues and customers have also been raising needed funds for 'Eat, Sleep, Learn, Play!', an initiative that provides crisis grants for families and enables them to get the basic essentials they need such as a cooker to provide warm meals, a bed for a peaceful night's sleep and toys and books for children to learn and develop. During the year Morrisons colleagues and customers undertook a wide range of innovative initiatives such as nationwide cupcake sales, cycling and running challenges and climbing Mount Kilimanjaro. As a result of which we were delighted to have been able to raise over £2.1m during the year to provide vital support for children growing up in severe poverty in our communities.

Our colleagues

These awards could not have been achieved without the dedication, hard work and passion of all our 129,000 colleagues throughout the business who every day seek to make Morrisons 'Different and Better Than Ever' for the over 11 million customers on average who visit our stores each week. I am delighted that their efforts have enabled them to share a profit share pool of £46m this year.

We believe in creating long term partnerships with our colleagues by giving them the time, qualifications and support they need to develop their skills. We have maintained our position as the largest provider of apprenticeships in the UK with over 11,000 apprentices graduating during the year. We have supported this by provision of over 750 thousand training days, the introduction of a number of specialised development courses and the creation of Morrisons Centre of Excellence.

On behalf of the Board I want to express our thanks to every one of our colleagues for their dedication, professionalism and service throughout the year.

Chief Executive's business and strategy review

Turnover growth

During the period, total turnover increased by 3% to £18.1bn (2011/12: £17.7bn). On a like-for-like basis total store sales, excluding fuel, decreased slightly by 0.2%(1) which included a contribution from new store openings of 1.9% and a decrease in like-for-like sales of 2.1%(1).

Disposable incomes continued to come under pressure during the year from the unwelcome impact of inflation on commodities, with the increasing price of oil again being felt at the pump and throughout the supply chain. For the third year in a row, consumers were faced with increases in the price of oil, albeit at a slower rate than previously, and in this environment consumers shop around carefully to find the best deals. Our 'Fuel Britannia' programmes and innovative 'Fuel Saver' initiative have proved highly attractive to budget conscious drivers. Total fuel sales increased by 5.0% in the year.

The consumer also had to absorb the effects of significant increases in the prices of other core commodities too, adding to the pressure on household budgets. In this environment customers inevitably changed their shopping habits. They shopped around in different formats, using convenience stores for top up shopping, increasing their use of the online channel, putting fewer items into their baskets and managing their spend carefully. Average basket size, despite inflation, was in line with the prior year. However, although we welcomed an average of 11.4m customers each week into our stores, this was 0.4m fewer than in the prior year on a like-for-like basis. Once again, sales growth was generally strongest in London and the South East although it is a mixed picture and in all regions of the country there are areas that are growing well.

Our below market sales performance was disappointing. Whilst we are at a structural disadvantage in that we do not yet have a meaningful presence in either convenience stores or in online, the two fastest growing sectors of the market, we did not perform as well as we should have in a trading environment that should have played more to Morrisons strengths. Whilst our base pricing was strong, we do need to do more to communicate our value message and our unique points of difference. We did run some good promotions but we need to do more to improve the overall effectiveness of our promotional programme and ensure that our pricing is clear and consistent. We will be addressing these issues in the coming year.

Turnover analysis

£m	Like-for-like stores	Other	**2012/13 Total**	2011/12 Total
In store	13,294	380	**13,674**	13,436
Fuel	4,172	69	**4,241**	4,039
Other sales	-	201	**201**	188
Total turnover (ex-VAT)	17,466	650	**18,116**	17,663
In-store sales				
Sales per square foot (£)	20.24	11.70	**19.84**	20.74
Customers numbers per week (m)	11.0	0.4	**11.4**	11.4
Customer spend (£)	22.85	16.93	**22.63**	22.67

Operating results

Summary income statement	**2012/13 £m**	2011/12 £m	Change %
Turnover	**18,116**	17,663	3
Gross profit	**1,206**	1,217	-
Gross profit margin %	***6.7%***	*6.9%*	*(0.1)%*
Other operating income	**80**	86	(7)
Administrative expenses	**(336)**	(329)	2
Underlying operating profit	**950**	974	(2)
Property transactions	**(1)**	(1)	-
Operating profit	**949**	973	(2)
Underlying operating profit margin %	***5.2%***	*5.5%*	*(0.3)%*
Net finance charges	**(70)**	(26)	169
Taxation	**(232)**	(257)	(10)
Profit for the period	**647**	690	(6)

During the year, Group turnover grew by 3%. In a low sales growth environment it is important that we manage our cost base tightly. After costs of goods sold, the two main areas of cost are store wages and distribution costs and we have continued to focus on improving efficiency in both of these areas, whilst maintaining the highest standards of customer service. During the year with

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improved processes and systems we were once again able to improve our store labour costs relative to sales, with in-store labour productivity increasing by 4%. The investments we have made in systems improvements also enabled us to build on previous successes by improving Distribution productivity by 4%.

Other operating income fell by £6m (7%), primarily due to a decrease in recycling credits.

Continuing the trend we reported last year, administration expenses increased by 2.1%, a rate below the rate of inflation, which reflects the Group's commitment to ongoing strong cost control.

Market overview

The market remains tough
In a tough economic climate the UK grocery market continued to be a very challenging environment in which to operate, with consumers seeing no respite in the economy.

Market growth was driven by inflation, which averaged 2.8% [(9)] during the year. CPI food inflation averaged 4.1% [(9)] reaching 5.5% by the end of the year [(9)]. Poor weather, which affected harvests both in the UK and abroad, had a particularly negative impact on the price of some food commodities including potatoes and carrots, which increased by 23% and 18% respectively [(10)].

With commodity and energy costs increasing faster than average wages, household incomes continued to be squeezed throughout 2012. As a consequence real earnings have fallen to levels last seen in 2003. The Bank of England's February Inflation Report suggests that the pressure on households' disposable income will continue for the next two years [(11)] .

Consumers are moving away from traditional channels
In 2012 the UK grocery market grew by 3.7% over the previous year and was worth £101bn [(12)]. This growth was primarily driven by inflation and against the current economic backdrop, which saw an average of 20 retail stores closing every day during the year [(13)], was strong. However, this effect disguised the fundamental changes that are taking place in the market as shoppers are being increasingly drawn away from traditional supermarkets towards the online, convenience and discount channels.

The proportion of all shoppers who bought food or groceries online was 26.5%, up from 23.7% in the prior year [(12)] and the value spent on the online grocery market grew by 15.7% during the year to £6.5bn[(14)]. Online sales now account for 3.9%[(14)] of the UK grocery market and are expected to grow significantly faster than traditional grocery over the coming years.

Rising fuel costs and pressure on household budgets has seen a further move towards top up shopping in an attempt to reduce waste. This growing trend has seen the convenience market, which is measured separately, grow 4.9% in the year and the channel is now worth £35.6bn [14]. It too is expected to continue growing at a faster rate than the traditional grocery market for some time to come.

2012 also saw a continued rise of the discount channel. The channel is worth £8.5bn, a growth of 13.5% from the prior year [14].

Price is paramount
More shoppers now regard price as their first consideration when choosing between products compared with a year ago. Consumers are also growing increasingly forensic in the way they shop: building their knowledge of how much things cost, switching to own label products, managing their consumption and actively searching and taking advantage of promotions.

A tighter focus on managing to a weekly budget has continued with over 50% more shoppers now only buying what is needed, and over a third more cooking with leftovers [14].

Customers demand personalised value for their loyalty
The proliferation of promotional activity amongst retailers has driven consumers to seek more personalised offers in return for their loyalty and spend. Retailers are responding to this by leveraging their customer relationship management systems and improving their in-store experience.

Strategy

In 2010 we outlined our vision to make Morrisons 'Different and Better than Ever'. Three years on, we believe that our vision is even more relevant today and that we have the right strategy to achieve it.

We are proud of what makes us different – a distinctive offer to customers centred around fresh food, craft skills and vertical integration through our manufacturing businesses; the way we lead and support our colleagues; and our unique heritage. Being 'Different' means building on these advantages, which set us apart from all our competitors and position us to succeed. Being 'Better than Ever' is about improving the way we do business - doing more of the things that matter for our customers – making great food, offering outstanding service and being more efficient so we can pass on the best savings possible. It also means seizing opportunities to grow the business profitably through new formats, channels and categories, to meet more of our existing customers' needs and to reach new customers.

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

- Food focused not generalist
- Experiential over purely functional

- Value is for ever
- Skills not just drills
- General merchandise – clicks not bricks
- Multi-format and multi-channel

We set these convictions out for the first time last year and they form the base for the business we are building today. Over the past year we have seen continuing changes in the market. Value for money has come even more to the fore for consumers and there is an ongoing shift towards multi-format, multi-channel shopping, with more and more general merchandise being bought online. These changes confirm our convictions and we are confident that we have the right strategy for future growth.

We have a clearly defined set of initiatives which will enable us to deliver our vision. These are grouped under the three strategic objectives of 'driving topline', 'increasing efficiency' and 'capturing growth'.

Driving topline

Fresh Formats

Fresh Formats is about providing customers with the best fresh food in the UK, unrivalled value for money and fantastic service from an environment that really feels different. This initiative is a key part of our strategy and is underpinned by our core convictions that customers want fresh food, great value and a more experiential and engaging shopping environment.

From the outset we have been very conscious that the new format would have to be tailored to reflect different stores sizes and the requirements of local demographics – one size would certainly not fit all. To highlight our points of difference and provide more of what matters to our customers we have rationalised the space given over to ambient grocery items and added a new "wow factor" into Market Street, including introducing category experts to provide advice to customers. In some stores we have knocked down walls so that customers can see our craft skills in practice and in others we have introduced children's clothing, a category customers now expect to see in store.

During the year, we introduced new packaging and new signage to our fish counters. We trained over 1,000 fishmongers in how to prepare and advise on fish, to encourage customers to enjoy our range of over 250 fish and seafood lines.

We have continued to build on the initial progress we made in 2011 by applying the Fresh Format concept to a further 76 of our existing stores and implementing it in the 17[(4)] new core stores we opened during the year. In all, we have now introduced this new thinking into 105 stores in our estate. These stores now account for 26% of our retail store space and around 30% of our in-store sales, with over 2.7m customers now visiting these stores each week. Customer feedback has been very positive.

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The Fresh Format stores that have been updated with the new fresh concept continue to deliver like-for-like sales growth of 4%-6% above their control group benchmark. Their sales and margin progression is in line with the targets we set for them and we are encouraged by their performance to date when compared with their control group. We will continue to use the learnings from these stores as we take the concept into smaller stores and different demographics. We will tailor the core concept to meet local requirements introducing only those elements that will meet customers' needs. We also have plans to expand our food range further and introduce new, relevant categories by reducing our non-food ranges rather than moving aisles or replacing refrigeration, thereby reducing investment cost whilst meeting customer needs.

By the end of 2013/14 a further 100 stores will have benefited from the new fresh treatment. This will be at a reduced average capital cost of £500k per store which is contained within our 2013/14 capital expenditure targets.This continuing evolution will see some 40% of our core stores refreshed by the end of 2013/14.

Own Brand

Having great own brand products can give customers a reason to switch supermarkets and we are well on our way to establishing a range worthy of that ambition. Based on intensive research and customer insight, we are now around half way through a three year programme to deliver greater quality, whilst maintaining our strong value perception across the whole of our own brand range of some 10,000 products by Christmas 2013.

Since the programme started we have re-launched over 5,000 products and introduced four new Morrisons brands, in addition to our core range of everyday family favourites, and we have had great feedback from our customers.
M Kitchen, our exciting range of ready meals, continues to progress well, building on the success of its launch in 2011. M savers, our new entry price-point range, is designed to be a clear proposition of good quality at the best price, in strong support of our conviction that value is forever. This has resonated strongly with our customers making M savers the fastest growing value own label brand in the year with market share growth of 110bps[(12).] The range now has over 500 products, which allows our customers to do a full price-led shop should they choose.

In May we announced the introduction of our new healthy eating range, NuMe, with over 300 products across chilled, ambient and frozen categories.
Customers are responding well to the broader range as well as to the healthier versions of old favourites. With the launch of our new premium M Signature range in March, which will include over 500 products when complete, we are well on our way to building a highly appealing family of relevant brands. Our customers have responded very positively and own label participation in our sales mix has increased consistently through the year and now stands at 48.3%.
During the Autumn we re-launched 'Food To Go' which now includes over 90 new and improved lines with a majority freshly made in-store.

We have also announced that we will launch Nutmeg, our new range of clothing for children aged 0-13, which will be available in over 90 stores from March 2013.

National to Nationwide
There are 6.4m households across Great Britain which are not in close proximity to a Morrisons store, particularly in the South where we are less well represented and have significant opportunities to grow.

In March 2011 we announced an accelerated programme to open 2.5m square feet of new space over the three years to 2013/14. During the year we added a further 17 new core stores to our estate, including three replacement stores, as well as nine convenience format stores. We ended the year with 13.4m square feet of net retail space in total and an estate of 498 stores, including 12 in convenience format. Including convenience stores, our overall net selling space increased by 517,000 square feet (4.0%), of which 40,000 square feet came from extensions. This is in line with the revised target we set out at the time of our interim results in September 2012 and is a result of our determination to maintain capital discipline in a period of difficult trading. It also reflects a recognition that it is important that management is able to fully focus on current trading and our ambitious growth agenda. Deferring the addition of some of our planned new stores helps achieve these objectives.

We will maintain that approach in 2013/14 when we now expect to add a further 500,000 square feet of new space during the year, a decrease of 44% from our previous guidance. Over the three years to 2013/14 we have reduced the amount of core space we will open by 800,000 square feet (32%) from our original target and now expect to add a total 1.7m square feet over that period. This excludes convenience space, which was not included in our original estimates. In 2013/14 we also expect to add 250,000 square feet of new space from the convenience channel.

Increasing efficiency

Efficiency remains paramount, particularly in a low growth sales environment and with value for money at the forefront of customers' minds. We continue to look for better ways of working, to improve the service we offer and to reduce unnecessary spend. We have implemented a number of long term initiatives to make Morrisons more efficient but always with the guiding principle that great customer service is central to our business.

In March 2011 we launched an initiative to focus on store productivity and have made further good progress in the year, delivering productivity savings of 4% in addition to the £25m reported for 2011/12. During the year, we completed the roll out of intelligent labour planning across Market Street, reconfigured our check outs to reduce the amount of time required to process a till transaction, introduced more self service checkouts, increased our case rates and redesigned a number of other work processes including receipting systems for newspapers and magazines. Individually each of these is a relatively small benefit but as every hour per day we save across all of our stores equates to approximately £1.5m of annual cost saving, even small changes can deliver big results.

During the coming year we will continue to trial and roll out new ideas and we are well on track to deliver our target savings of £100m by 2013/14.

IT systems

We are now well over the half way stage of our Evolve project, a six year programme which, when complete, will replace all the systems in our business and provide us with industry leading software capability. Throughout the life of the programme we have taken great care to manage it through a comprehensive governance process, including external assurance, to enable us to carefully manage any risks to the business. As expected it has been a long journey, but we are delighted with the improvements we are delivering to the business.

2012/13 saw the deployment of new systems to many parts of the business. During the year we concluded the implementation of our EPOS till system, introducing it into our petrol filling stations and our stores. We substantially completed the rollout of new meat manufacturing solutions in Woodheads which link our buying, delivery, production and despatch to stores processes onto a single system, helping us to trace our meat products from 'field to fork'. We also commenced the implementation of the important supply chain module which has initially been introduced into the Stockton warehouse and will ultimately enable us to consolidate our accounting, supplier ordering and distribution systems onto a single platform. This is a significant step towards us delivering improved inventory control across the business.

All of these completed projects are now providing the benefits expected in our business case and during the year, the programme delivered a further £28m of savings. In the coming year we will be building still further on this solid base and will be making changes to our core manufacturing, logistics, trading and retail systems, supported by improved management information. We are on track to meet our target of delivering £100m of annual benefits by 2013/14.

Tackling indirect procurement

Our indirect procurement programme aims to reduce the cost of the goods and services we use without impacting our customers. Our colleagues have played a significant part in helping us to identify and remove unnecessary costs from the business.

The programme involves reviewing every area of spend in the business, both revenue and capital expenditure, looking for ways to sensibly reduce cost, including the use of e-auctions, rate negotiations, consolidating spend and reducing consumption. During the year we made further good progress delivering a further £45m of annual revenue benefit in addition to the £40m we achieved in 2011/12.

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Some of the initiatives, such as rationalising our waste collections and consolidating the purchase of consumables, were significant. Others, including the re-specification of our flower buckets, the consolidation and renegotiation of napkins purchases, a reduction in postage stamps and the introduction of energy-efficient lighting, were smaller, but they are all contributing to our cost savings targets. We are on track to deliver our planned savings of £100m annually by 2013/14.

Capturing growth

Production

Vertical integration is crucial to our leadership in fresh food. Sourcing and processing fresh food through our own facilities has long been a key point of difference for Morrisons. In addition to the flexibility that controlling our own supply chain brings to the business, it is a true source of competitive advantage which enables us to offer great quality products for great prices. It also enables us to have control over the provenance, safety and quality of our fresh products. It is becoming increasingly important to consumers that they are able to understand and trust where their food comes from. With half of the fresh products we sell in store being processed through our own factories Morrisons is uniquely placed to offer customers the reassurance they seek.

In 2010 we set out our strategic objective to increase the scope of our vertical integration by investing £200m over three years, in additional capacity for relevant fresh categories to support our retail operations. Since then, we have expanded into several new categories. These include fresh flowers through the purchase of Flower World in 2011 and fresh meat packing following the acquisition of a facility from Vion Group in the first half of the year. This will enable us to extend the range of categories we produce through Farmers Boy. In addition we have expanded our authority in fresh fish by establishing a seafood processing facility in Grimsby which is now on stream. We have also started to expand our Colne abattoir to facilitate further pork processing and are adding further capacity through the expansion of our bakery in Wakefield.

Becoming multi-channel

Customers are changing the way they shop. Online, with a total market value of £31bn and forecast growth of 13.6%[15] in 2013 is now the fastest growing channel in the UK. General merchandise is migrating online, away from the high street and from 'big box' supermarkets. There is a significant trend towards the growth of the multi-channel retailer and this is an exciting opportunity for Morrisons.

> *Kiddicare*
>
> Morrisons took the first steps in establishing itself in online retail through its acquisition, in 2011, of Kiddicare, a leading online baby and infant merchandising retailer. We have expanded Kiddicare as a true multi-channel retailer. In March we announced the acquisition of ten stores from Best Buy which will be converted into flagship Kiddicare showrooms to support its online proposition, allowing customers to try before they

buy. We are making good progress with our store opening programme having opened stores in Nottingham, Dudley and Thurrock during the year. Since the year end our new Rotherham store has opened and six further outlets are planned for 2013. We are also leveraging the over 11 million customers who shop in Morrisons each week, by increasing their awareness of the Kiddicare business.

Online: general merchandise
As planned, we have continued to integrate Morrisons and Kiddicare brands using Kiddicare's industry leading technology platform to provide the foundation for Morrisons first own online offer. In the second half of the year we launched Morrisons Cellar, to offer an outstanding range of wines at great prices, with fulfilment from our distribution centre in Peterborough. We also announced that in the Spring of 2013 we will expand our non-food business online by entering a partnership with Lakeland, offering kitchenware to customers through Morrisons.com.

We will continue to expand our online presence by adding further new categories that are relevant to our customers. In order to support our multi-channel non-food ambitions we have appointed Nigel Robertson as CEO of Kiddicare, with overall responsibility for all Morrisons general merchandise online offer.

Online: food
The online food market is currently growing at 16% (14) and over the next five years is set to grow by 98%(14) and be worth £11bn (14) as consumers increasingly shop using different channels to manage their spend and time.

In 2011 we took an initial step in online grocery through the acquisition of a minority stake in Fresh Direct, a leading online, fresh food retailer in New York. We established a very positive relationship with Fresh Direct which enabled us to embed a Morrisons team into their business for nearly a year. During that time we developed a detailed understanding of Fresh Direct's operating model and how those learnings could be applied to launch a successful online business in the UK.

We have completed that evaluation and are now confident that we have identified a model that will enable us to provide food online in a distinctive, customer-focused way that reinforces Morrisons leadership in fresh food by putting fresh food at the heart of its offer. Accordingly we will be launching Morrisons first online food offer, in line with previous guidance, by the end of January 2014. In order to do this we will accelerate the development of our technology infrastructure and will further strengthen our online food management team.

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Convenience

The UK convenience market which is currently worth £36bn [(14)] is a huge opportunity for Morrisons. It already accounts for 21% [(14)] of UK grocery sales and is expected to grow by a further 30% [(14)], in the five years to 2017.

It is a market that Morrisons has only recently entered. It is an outstanding opportunity to leverage our points of difference, our unique vertical integration and great fresh and value credentials, and to develop a truly compelling new fresh food experience at the heart of local communities.

In this sector it is important to develop a proposition that is flexible enough to meet the specific needs of different locations. During the year we continued to experiment with the format, opening an M local in a petrol filling station in Doncaster and at a city centre location in Birmingham. By the end of the year we had 12 convenience stores open, primarily in the north of England. These stores offer a very different and attractive shopping experience, with the same fresh food pricing as our core stores and with half of the space dedicated to fresh food and scratch cooking. The performance in these stores has been well ahead of our expectations and customer feedback has been particularly encouraging.

In February 2013 we announced that we had acquired a total of 62 stores from a variety of other retailers. These will be converted to the M local format and will open over the course of the coming year. We are delighted to have acquired these stores and as a result have increased our target for new convenience format openings in 2013/14 by some 40%. We now expect to have 100 M locals open by the end of the year and we will be looking to increase that number in the future.

Increasing our presence in London and the South East, where we are significantly under-represented, is a major opportunity for Morrisons and convenience outlets have a key role to play in that development. Increasing our convenience presence in this region is a priority for 2013/14. After the period end we opened our first two London convenience stores, in Ealing and Elm Park – their initial performance has been very encouraging.

We will support our expansion in London and the South East from a 100,000 square foot distribution centre in Feltham, West London, which opened in the first quarter of 2013. In the coming year we will be looking to acquire a new CDC in the north of England to support our planned growth of convenience formats in that region. Outside of the major conurbations we will supplement this expanding CDC network with our unique 'hub and spoke' distribution system.

We believe that capturing strategic growth through the development of multi-channel opportunities will be an important driver of shareholder value in future years. Building these businesses required incremental revenue expenditure of £17m in the year. This will increase to £40m in 2013/14 as we accelerate these opportunities. We also invested £40m of capital expenditure in our multi-channel operations in the year which will increase to £150m in the coming year. This sum is included within our projected total capital expenditure of £1.1bn for 2013/14.

2012/13 has been a challenging year for the company during which we did not perform as well as we would have wished. We are implementing a comprehensive range of plans to address these trading issues. Beyond that we are making good progress in delivering our strategic initiatives and have announced plans to accelerate our growth in new channels. We are well positioned to meet our vision of being ‘Different and Better than Ever’.

Notes

[7] The Grocer Food & Drink Awards Own Label 2013
[8] Oracle Retail Week Awards
[9] Office of National Statistics
[10] Mintec
[11] Capital Economics
[12] Kantar Worldpanel
[13] Retail Week (Local Data Company and PwC)
[14] IGD
[15] Verdict

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Consolidated statement of comprehensive income

53 weeks ended 3 February 2013

	Note	2013 £m	2012 £m
Turnover	3	**18,116**	17,663
Cost of sales		**(16,910)**	(16,446)
Gross profit		**1,206**	1,217
Other operating income		**80**	86
Administrative expenses		**(336)**	(329)
Losses arising on property transactions		**(1)**	(1)
Operating profit		**949**	973
Finance costs	4	**(75)**	(47)
Finance income	4	**5**	21
Profit before taxation		**879**	947
Taxation	5	**(232)**	(257)
Profit for the period attributable to the owners of the Company		**647**	690
Other comprehensive expense:			
Actuarial loss arising in the pension scheme		**(6)**	(65)
Cash flow hedging movement		**(2)**	(23)
Tax in relation to components of other comprehensive expense		**(2)**	19
Other comprehensive expense for the period, net of tax		**(10)**	(69)
Total comprehensive income for the period attributable to the owners of the Company		**637**	621
Earnings per share (pence)			
- basic	7	**26.65**	26.68
- diluted	7	**26.57**	26.03

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Consolidated balance sheet

3 February 2013

	Note	2013 £m	2012 £m
Assets			
Non-current assets			
Goodwill and intangible assets	8	**415**	303
Property, plant and equipment	9	**8,616**	7,943
Investment property		**123**	259
Investments		**31**	31
Other financial assets		**-**	1
		9,185	8,537
Current assets			
Stocks		**781**	759
Debtors		**291**	320
Other financial assets		**5**	2
Cash and cash equivalents		**265**	241
		1,342	1,322
Liabilities			
Current liabilities			
Creditors		**(2,130)**	(2,025)
Other financial liabilities		**(55)**	(115)
Current tax liabilities		**(149)**	(163)
		(2,334)	(2,303)
Non-current liabilities			
Other financial liabilities		**(2,396)**	(1,600)
Deferred tax liabilities		**(471)**	(464)
Net pension liabilities	10	**(20)**	(11)
Provisions		**(76)**	(84)
		(2,963)	(2,159)
Net assets		**5,230**	5,397
Shareholders' equity			
Called-up share capital		**235**	253
Share premium		**107**	107
Capital redemption reserve		**37**	19
Merger reserve		**2,578**	2,578
Retained earnings and hedging reserve		**2,273**	2,440
Total equity attributable to the owners of the Company		**5,230**	5,397

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Consolidated cash flow statement

53 weeks ended 3 February 2013

	Note	2013 £m	2012 £m
Cash flows from operating activities			
Cash generated from operations	11	**1,432**	1,264
Interest paid		**(85)**	(55)
Taxation paid		**(243)**	(281)
Net cash inflow from operating activities		**1,104**	928
Cash flows from investing activities			
Interest received		**3**	6
Investments		**-**	(31)
Proceeds from sale of property, plant and equipment		**5**	4
Purchase of property, plant and equipment and investment property		**(846)**	(724)
Purchase of intangible assets		**(134)**	(72)
Cash outflow from acquisition of businesses		**(36)**	(74)
Net cash outflow from investing activities		**(1,008)**	(891)
Cash flows from financing activities			
Purchase of own shares		**(514)**	(368)
Purchase of treasury shares		**(65)**	-
Proceeds from exercise of share options		**42**	-
New borrowings		**843**	1,102
Repayment of borrowings		**(81)**	(486)
Dividends paid to equity shareholders		**(270)**	(301)
Net cash outflow from financing activities		**(45)**	(53)
Net increase/(decrease) in cash and cash equivalents		**51**	(16)
Cash and cash equivalents at start of period		**212**	228
Cash and cash equivalents at end of period	12	**263**	212

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

	Note	2013 £m	2012 £m
Net increase/(decrease) in cash and cash equivalents		**51**	(16)
Cash outflow from decrease in debt and lease financing		**81**	486
Cash inflow from increase in loans		**(843)**	(1,102)
Other non-cash movements		**1**	(22)
Opening net debt		**(1,471)**	(817)
Closing net debt	12	**(2,181)**	(1,471)

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Consolidated statement of changes in equity

53 weeks ended 3 February 2013

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

	Attributable to the owners of the Company						
	Share capital	Share premium	Capital redemption reserve	Merger reserve	Hedging reserve	Retained earnings	Total equity
	£m	£m	£m	£m	£m	£m	£m
Prior period							
At 30 January 2011	266	107	6	2,578	5	2,458	5,420
Profit for the period	-	-	-	-	-	690	690
Other comprehensive income:							
Actuarial gain arising in the pension scheme	-	-	-	-	-	(65)	(65)
Cash flow hedging movement	-	-	-	-	(23)	-	(23)
Tax in relation to components of other comprehensive income	-	-	-	-	6	13	19
Total comprehensive income for the period	-	-	-	-	(17)	638	621
Employees share options schemes:	(13)	-	13	-	-	(368)	(368)
Share-based payments							
Share options exercised	-	-	-	-	-	25	25
Dividends	-	-	-	-	-	(301)	(301)
Total transactions with owners	(13)	-	13	-	-	(644)	(644)
At 29 January 2012	253	107	19	2,578	(12)	2,452	5,397

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1. General information and basis of preparation

The financial information, which comprises the consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in equity, consolidated cash flow statement and related notes, is derived from the full Group financial statements for the 53 week period ended 3 February 2013, which have been prepared under European Union endorsed International Financial Reporting Standards (IFRS) and those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

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

The full annual report and financial statements for the year ended 3 February 2013 on which the auditors have given an unqualified report and which does not contain a statement under section 498 of the Companies Act 2006, will be delivered to the Registrar of Companies in due course. The annual report and financial statements will be made available to shareholders from 7 May 2013.

The accounting policies used in completing this financial information have been consistently applied in all periods shown, except as shown below. These accounting policies are detailed in the Group's financial statements for the 53 week period ended 3 February 2013 which can be found on the Group's website (www.morrisonsplc.co.uk).
The following new standards, amendments to standards and interpretations are mandatory for the first time for the financial period beginning 4 February 2013, but do not have a material impact on the Group:

- IAS 1 – Amendment to financial statement presentation*;
- IAS 19 - Amendment to employee benefits*;
- IFRS 10 - Consolidated financial statements**;
- IFRS 11 – Joint arrangements**;
- IFRS 12 – Disclosures of interests in other entitles**;
- IFRS 10, 11 and 12 - Amendments in transition guidance;
- IFRS 13 – Fair value measurement*;
- IAS 27 - Separate financial statements (revised 2011)**;
- IAS 28 - Associates and joint ventures (revised 2011)**;
- IFRS 7 - Amendment to financial instruments: disclosures*;
- IFRS 1 - Amendment to first time adoption; and
- IAS 32 - Amendment to financial instruments: presentation*.

* Endorsed by the European Union.

** Endorsed by the European Union for periods starting on or after 1 January 2014

Principal risks

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

Risk	Description	Mitigation
Business change	The Group is undertaking a number of major change programmes that will significantly impact existing ways of working. There is a risk that the business fails to build the capacity and capability to support business changes resulting in service disruption or unintended costs.	• Organisation Design structures and support established for multi-channel and other change programmes. • Multi-channel governance structure exists including Business Design Authority.
Business interruption	Our distribution and systems infrastructures are fundamental to ensuring the normal continuity of trading in our stores. If a major incident occurred to this infrastructure or another key facility, this could have a detrimental impact on our ability to operate effectively.	• Recovery plans exist for individual sites. • Investment in remote IT disaster recovery site and regular testing of recovery plans for key systems. • Adherence to a stringent process for evaluating new suppliers/third parties. • Contingency arrangements documented for key suppliers. • Annual crisis simulation exercise.
Business strategy	Effective long term management of the Group's strategic risks will deliver benefits to all our stakeholders. The Board understands that, if the strategy and vision are not properly formulated, communicated or implemented, then the long term aims of the Group may not be met and the business may suffer.	• Strategy development led by the Chief Executive and senior management with Main Board scrutiny and approval. • Engagement with a wide group of stakeholders to ensure the strategy remains current. • Communication of strategy via numerous channels. • Clear link between strategic targets and business plans to drive implementation. • Close Board monitoring of business performance.
Colleague engagement and retention	We are a people business and our 129,000 colleagues make it happen for our customers. If we fail to retain, develop and motivate our colleagues, we will not provide our customers with the quality of service they expect.	• Competitive employment policies, remuneration and benefits packages established. • Significant investment in training and development, including Morrisons Academy and Coaching for Performance programmes. • Regular talent reviews and refresh of succession plans to meet the future needs of the business. • Climate and pulse surveys undertaken to understand and respond to colleague concerns.

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Principal risks (continued)

Risk	Description	Mitigation
Customer proposition	We operate in a highly competitive industry and our customers' shopping habits are influenced by broader economic factors that our business does not control. If we fail to keep our proposition aligned with customers' expectations, then they may choose not to shop with us and sales will suffer.	• Insight team provides data and analysis to help identify customer needs and wants which inform product ranging, marketing, advertising and the location of new stores. • Regular review of positioning against competitors.
Financial and treasury	The main financial risks that the Group is exposed to relate to the availability of funding, the loss of a financial counterparty and the uncertainty produced by fluctuations in interest and foreign exchange rates. All of these things have the potential to undermine the Group's ability to finance its trading activities and its financial results.	• Treasury Committee controls activities in line with Board approved policies and procedures and reports twice a year to the Audit Committee. • Hedging and derivatives used to control risk and protect the business rather than create profit. • Board approval of budgets and business plans.
Food and product safety	If we fail to deliver excellent standards of hygiene and safety in our products, there is a potential to harm our customers and damage our business reputation. Our business focuses on fresh food and we have a vertically integrated business model; therefore, food safety is of paramount importance.	• Strict standards and monitoring processes established to manage food safety risks throughout the Group and supply chain. • ISO22000 accreditation of food manufacturing businesses. • Regular supplier assessments undertaken to ensure adherence to standards. • Stock withdrawal procedures operate throughout our supply chain to minimise the impact to customers of any supplier recalls. • Food Safety Steering Group, Management Board and Main Board provide oversight of operational activities.
IT systems	A number of existing systems are approaching the end of their useful lives and the Group is investing significantly in a multi-channel technology platform. Morrisons is aware of the risks faced by any organisation seeking to successfully design and implement new systems.	• We partner with some of the world's leading technology companies for key projects. • Project management methodology ('The Method') used to manage delivery. • Regular reviews undertaken by Risk and Internal Audit and other specialists provide assurance over Evolve and multi-channel programmes.

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Principal risks (continued)

Risk	Description	Mitigation
Regulation	The Group operates in an environment governed by strict regulations to ensure the safety and protection of customers, shareholders, colleagues and other stakeholders, and the operation of an open and competitive market. These regulations include alcohol licensing, health and safety, the handling of hazardous materials, data protection, the rules of the stock exchange and competition law. In all cases, the Board takes its responsibilities very seriously, and recognises that breach of regulation can lead to reputational and financial damage to the Group.	• Clear accountabilities for compliance with all areas of regulation exist. • Policies and procedures designed to accord with relevant laws and regulations, including GSCOP and Competition Law training. • Health and Safety and Compliance Steering Group together with the Management Board and Corporate Compliance and Responsibility Committee oversee compliance with regulatory requirements.
Reputation	Morrisons is committed to taking good care and, if we fail to act as a responsible corporate citizen or misjudge the 'mood of the nation', this could damage our reputation and, therefore, potentially lose the trust of our stakeholders and increase costs.	• Morrisons Values embedded into colleague Performance Development Review (PDR) process. • Corporate Responsibility policies, targets and key performance measures clearly defined and integrated into operational management activities. • Responsible Sourcing Group, Management Board and Corporate Compliance and Responsibility Committee oversee delivery against targets. • External assurance of Morrisons' Corporate Responsibility report. • Further information is available in our Corporate Responsibility report at www.morrisons.co.uk/cr.
Space optimisation	The business is growing the size of its retail space through acquisition and by modernising and extending existing stores and facilities. If we fail to grow our space profitably, we will lose market share and earnings will suffer.	• Property strategy develops stores to a well proven format. • Formal capital approval process, overseen by the Investment Board.

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Responsibility statement

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

To the best of each Director's knowledge:

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

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

2. Underlying profit

The Directors consider that underlying earnings per share measures referred to in the preliminary announcement provide useful information for shareholders on underlying trends and performance and reflects how the business is monitored internally. The adjustments are made to reported profit to (a) remove the impact of pension interest income volatility on the statement of comprehensive income; (b) remove losses or profits arising on property transactions since they do not form part of the Group's principal activities; (c) remove significant one-off costs that do not relate to the Group's principal activities; and (d) apply a tax rate of 26.5% (2012: 29.3%), being an estimated normalised tax rate.

	2013 £m	2012 £m
Profit after tax	**647**	690
Add back: tax charge for the period[1]	**232**	257
Profit before tax	**879**	947
Adjustments for:		
Net pension interest income/(expense)[1]	**4**	(13)
Loss arising on property transactions[1]	**1**	1
One-off costs – multi-channel and convenience development	**17**	-
Underlying profit before tax	**901**	935
Taxation[1]	**(239)**	(274)
Underlying profit after tax charge	**662**	661
Underlying earnings per share (pence)		
- basic	**27.26**	25.55
- diluted	**27.17**	24.93

[1] Adjustments equal £15m (2012: £29m) as shown in the reconciliation of earnings disclosed in note 7(b).

3. Sales analysis

	Like-for-like stores	Other	2013 Total £m	2012 Total £m
Sale of goods in-stores	13,294	380	**13,674**	13,436
Fuel	4,172	69	**4,241**	4,039
Total store based sales	17,466	449	**17,915**	17,475
Other sales	-	201	**201**	188
Total turnover	17,466	650	**18,116**	17,663

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

4. Finance costs and income

	2013 £m	2012 £m
Interest payable on short term loans and bank overdrafts	**(11)**	(12)
Interest payable on bonds	**(69)**	(39)
Interest capitalised	**15**	12
Total interest payable	**(65)**	(39)
Fair value movement of derivative instruments	**-**	(1)
Provisions: unwinding of discount	**(4)**	(4)
Other finance costs	**(2)**	(3)
Pension liability interest cost	**(124)**	-
Expected return on pension assets	**120**	-
Net pension interest expense	**(4)**	-
Finance costs	**(75)**	(47)
Bank interest received	**3**	6
Amortisation of bonds	**2**	2
Pension liability interest cost	**-**	(127)
Expected return on pension assets	**-**	140
Net pension interest income	**-**	13
Finance income	**5**	21
Net finance cost	**(70)**	(26)

5. Taxation

	2013 £m	2012 £m
Corporation tax		
- current period	**261**	292
- adjustment in respect of prior period	**(32)**	(20)
	229	272
Deferred tax		
- origination and reversal of timing differences	**(3)**	5
- adjustment in respect of prior period	**47**	22
- impact of change in tax rate	**(41)**	(42)
	3	(15)
Tax charge for the period	**232**	257

The standard rate of corporation tax in the UK changed from 26% to 24% with effect from 1 April 2012. Accordingly the Group's profits for this accounting period are taxed at an effective rate of 24.3%. Legislation to reduce the rate of corporation tax from 24% to 23% was included in the Finance Act 2012, and as it had been substantively enacted at the balance sheet date the deferred tax balances as at 3 February 2013 have been measured at this rate.

6. Dividends

Amounts recognised as distributed to equity holders in the period:

	2013 £m	2012 £m
Interim dividend for the period ended 3 February 2013 of 3.49p (2012: £3.17p)	**84**	81
Final dividend for the period ended 29 January 2012 of 7.53p (2011: 8.37p)	**186**	220
	270	301

The Directors are proposing a final dividend in respect of the financial period ending 3 February 2013 of 8.31p per share which will absorb an estimated £195m of shareholders' funds. Subject to approval at the Annual General Meeting, it will be paid on 19 June 2013 to shareholders who are on the register on 17 May 2013.

7. Earnings per share

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

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all potentially dilutive ordinary shares. The Company has two (2012: two) classes of instrument that are potentially dilutive: those share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the period and contingently issuable shares under the Group's long term incentive plan (LTIPs).

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

	2013			2012		
	Earnings £m	**Weighted average number of shares millions**	**EPS pence**	**Earnings £m**	**Weighted average number of shares millions**	**EPS pence**
Unadjusted EPS						
Basic EPS						
Earnings attributable to ordinary shareholders	**647**	**2,428.0**	**26.65**	690	2,586.6	26.68
Effect of dilutive instruments						
Share options and LTIPs	**-**	**7.0**	**(0.08)**	-	64.3	(0.65)
Diluted EPS	**647**	**2,435.0**	**26.57**	690	2,650.9	26.03

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

	2013			2012		
	Earnings £m	**Weighted average number of shares millions**	**EPS pence**	**Earnings £m**	**Weighted average number of shares millions**	**EPS pence**
Underlying EPS						
Basic EPS						
Earnings attributable to ordinary shareholders	**647**	**2,428.0**	**26.65**	690	2,586.6	26.68
Adjustments to determine underlying profit (note 2)	**15**	**-**	**0.61**	(29)	-	(1.13)
	662	**2,428.0**	**27.26**	661	2,586.6	25.55
Effect of dilutive instruments						
Share options and LTIPs	**-**	**8.5**	**(0.09)**	-	64.3	(0.62)
Diluted EPS	**662**	**2,436.5**	**27.17**	661	2,650.9	24.93

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

8. Goodwill and intangible assets

	2013 £m	**2012 £m**
Net book value		
At beginning of the period	**303**	184
Acquired in a business combination	**-**	61
Additions at cost	**134**	72
Interest capitalised	**7**	7
Amortisation	**(29)**	(21)
At end of the period	**415**	303

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8. Capital expenditure and commitments

a) Property, plant and equipment

	2013 £m	2012 £m
Net book value		
At beginning of the period	**7,943**	7,557
Acquired in a business combination	**20**	12
Transfer from/(to) investment property	**132**	(31)
Additions at cost	**854**	717
Interest capitalised	**8**	5
Disposals	**(6)**	(6)
Depreciation charge for the period	**(335)**	(311)
At end of the period	**8,616**	7,943

b) Investment property

In addition to the depreciation charge above of £335m, £4m (2012: £8m) is charged on investment properties.

Contracts placed for future capital expenditure not provided in the financial statements amount to £77m (2012: £103m).

9. Pensions

The Group operates two defined benefit pension schemes, the 'Morrison' and 'Safeway' schemes, providing benefits defined on retirement based on age at date of retirement, years of service and a formula using either the employee's compensation package or career average revalued earnings (CARE). The assets of the schemes are held in separate trustee administered funds; no part of the schemes is wholly unfunded. The latest full actuarial valuations, which were carried out at 6 April 2010 and 1 April 2010 for the Morrison and Safeway schemes respectively, were updated for IAS 19 *Employee benefits* purposes for the period to 3 February 2013 by a qualified independent actuary.

The movement in the net pension (liability)/asset during the period was as follows:

	2013 £m	2012 £m
Net pension (liability)/asset at start of the period	**(11)**	38
Expected return on scheme assets	**120**	140
Actuarial loss recognised in other comprehensive income	**(6)**	(65)
Employer contributions	**33**	31
Current service cost	**(32)**	(28)
Interest cost	**(124)**	(127)
Net pension liability at end of the period	**(20)**	(11)

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

11. Cash flow from operating activities

	2013 £m	2012 £m
Profit for the period	**647**	690
Adjustments for:		
Taxation	**232**	257
Depreciation and impairment	**339**	319
Amortisation	**29**	21
Loss on disposal of property, plant and equipment	**1**	2
Net finance cost (note 4)	**70**	26
Other non-cash charges	**1**	25
Excess of contributions over pension service cost	**-**	(3)
Increase in stocks	**(22)**	(117)
Decrease/(increase) in debtors	**29**	(49)
Increase in creditors	**114**	101
Decrease in provisions	**(8)**	(8)
Cash generated from operations	**1,432**	1,264

12. Analysis of net debt

	2013 £m	2012 £m
Cash and cash equivalents per balance sheet	**265**	241
Bank overdrafts	**(2)**	(29)
Cash and cash equivalents per cash flow	**263**	212
Foreign exchange forward contracts	**4**	-
Energy price contracts	**1**	3
Other financial assets	**5**	3
Short term borrowings	**(50)**	(80)
Energy price contracts	**(3)**	(5)
Forward foreign exchange contracts	**-**	(1)
Current financial liabilities	**(53)**	(86)
Bonds	**(1,346)**	(955)
Private placement loan notes	**(156)**	(156)
Floating credit facility	**(671)**	(470)
Other unsecured loans	**(200)**	-
Cross-currency swaps	**(12)**	(8)
Energy price contracts	**(4)**	(4)
Finance lease obligations	**(7)**	(7)
Non-current financial liabilities	**(2,396)**	(1,600)
Net debt	**(2,181)**	(1,471)

13. Post balance sheet events

On 18 February 2013, the Group announced it had acquired 49 stores from Blockbuster Entertainment Limited, and on 26 February 2013 six stores were acquired from the administrators of HMV. These will be used to expand the Group's portfolio of Morrisons M local convenience stores.

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