News Release

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PRELIMINARY RESULTS FOR THE 53 WEEK YEAR ENDED 4 FEBRUARY 2018
Broader, stronger, more competitive

Financial summary

- Group like-for-like (LFL) sales[(1)] ex-fuel/ex-VAT up 2.8% (2016/17: 1.9%)
- Revenue up 5.8% to £17.3bn (2016/17: £16.3bn)
- UPBT[(2)] up 11.0% to £374m (2016/17: £337m), up 9.5% on a 52-week basis
- Underlying EPS[(2)] up 12.2% to 12.19p (2016/17: 10.86p)
- Reported PBT up 16.9% to £380m (2016/17: £325m)
- Free cash flow[(3)] of £350m (2016/17: £670m)
- Net debt reduced by £221m to £973m, below our £1bn year-end target
- Net pension surplus of £594m (2016/17: £272m)
- Return on capital employed increased to 7.7% (2016/17: 7.3%)
- Final ordinary dividend of 4.43p, taking the full year ordinary dividend up 12.2% to 6.09p (2016/17: 5.43p)
- Special dividend of 4.00p, taking the full year total dividend up 85.8% to 10.09p

Strategic and operating highlights

- Meaningful, sustainable sales and profit growth, with strong cash flow
- Improving capability, and becoming more differentiated for all stakeholders
- Returning £237m to shareholders in accordance with the principles of our capital allocation framework
- Started a rolling programme to supply McColl's nationwide with both branded products and our own revived Safeway brand
- Store-pick online service extending Morrisons.com into further new areas
- *'Morrisons at Amazon'* expanded into more postcodes and more cities
- Since year end, announced a new wholesale supply agreement with SandpiperCI, bringing Morrisons to the Channel Islands, and acquired egg business, Chippindale Foods

Financial targets update

- On track for £700m of annualised wholesale supply sales by the end of 2018
- £24m incremental profit delivered in the year, bringing the total achieved so far to £42m of the £75m–£125m target
- Ongoing strong free cash flow expected. We will retain a strong and flexible balance sheet, and review uses of that free cash flow each year
- Net debt below £1bn as guided, and expected to fall further during 2018/19

Andrew Higginson, Chairman, said:

“Morrisons is now entering its third consecutive year of growth, which is a credit to the whole team.

“We will continue to prioritise consistent, meaningful and sustainable growth, which I am confident we are well placed to keep delivering.”

David Potts, Chief Executive, said:

“We had a strong year, becoming more competitive and increasingly differentiating Morrisons for all stakeholders. We are pleased to be paying shareholders a special dividend of 4p a share, which reflects our good performance so far and confidence for the future.

“All parts of our progress so far have one common link: our colleagues. Listening to customers, responding, and improving the shopping trip are as important now as when we started this turnaround three years ago.”

Outlook

We are confident that a broader, stronger Morrisons will continue to grow.

We are on track for our target for annualised wholesale supply sales to all our partners to exceed £700m (inc. tobacco) by the end of 2018, and to be more than £1bn in due course.

We have now achieved £42m of incremental profit from wholesale, services, interest and online, and are still on track for our £75m–£125m medium-term target.

We are today announcing a special dividend of 4.00p per share. We are growing sales and profit, and expect that growth to continue to be meaningful and sustainable in the future. We are generating significant levels of free cash flow, which we also expect to sustain. The special dividend reflects our good progress so far and our expectations for continued growth. Looking forward, we will retain a strong and flexible balance sheet. We will be guided each year by the principles of our capital allocation framework in assessing the uses of free cash flow.

Net debt ended 2017/18 below £1bn as guided, and we expect it will be lower again in 2018/19.

Figure 1 – 2017/18 profit reconciliation

£m	FY 16/17	H1 17/18	H2 17/18	FY 17/18	Y-on-Y
Reported operating profit	468	233	225	**458**	-2.1%
Reported profit before tax	325	200	180	**380**	16.9%
Underlying adjustments					
– Net impairment and provision for onerous commitments	-6	-	-6	**-6**	
– Profit on disposal and exit of properties, and sale of businesses and investments	-32	-13	-6	**-19**	
– Costs associated with repayment of borrowings*	56	-	16	**16**	
– Pension scheme set-up credit	-	-10	-3	**-13**	
– Net pension income*	-8	-4	-5	**-9**	
– Other	2	4	21	**25**	
Underlying operating profit	432	214	231	**445**	3.0%
Underlying profit before tax	**337**	**177**	**197**	**374**	**11.0%**

** Adjusted in underlying profit before tax but not underlying operating profit*

Figure 2 – LFL sales performance (ex-VAT)

	2016/17	2017/18						
	Q4	**Q1**	**Q2**	**H1**	**Q3**	**Q4**	**H2**	**FY**
Retail contribution to LFL[1]	2.5%	3.0%	2.1%	2.5%	2.1%	2.0%	2.0%	2.3%
Wholesale contribution to LFL[2]	0.4%	0.4%	0.5%	0.5%	0.4%	0.8%	0.6%	0.5%
Group LFL ex-fuel	**2.9%**	**3.4%**	**2.6%**	**3.0%**	**2.5%**	**2.8%**	**2.6%**	**2.8%**
Group LFL inc-fuel	4.8%	6.3%	4.1%	5.2%	3.4%	2.8%	3.0%	4.1%

Reported in accordance with IFRIC 13

[1] Includes supermarkets and Morrisons.com sales. Morrisons.com sales through Dordon CFC contributed 0.2% in Q4 2017/18

[2] Wholesale comprises sales to third parties, including those via our manufacturing business

Figure 3 – Summary of retail operational key performance indicators[3]

	2016/17	2017/18						
	Q4	**Q1**	**Q2**	**H1**	**Q3**	**Q4**	**H2**	**FY**
LFL Number of transactions[3]	4.6%	4.6%	3.2%	3.9%	2.1%	2.0%	2.0%	2.9%
LFL Items per basket[3]	-5.3%	-6.9%	-5.5%	-6.2%	-3.6%	-3.9%	-3.7%	-4.9%

[3] Excludes Morrisons.com sales through Dordon CFC

This announcement includes inside information.

Alternative Performance Measures

Guidelines on Alternative Performance Measures issued by the European Securities and Markets Authority came into effect for all communications released on or after 3 July 2016 for issuers of securities on a regulated market. The key alternative performance measures identified by the Group and contained in this announcement are detailed below.

The Directors measure the performance of the Group based on the following financial measures which are not recognised under EU-adopted IFRS, and consider these to be important measures in evaluating the Group's results and financial position.

Definitions and additional requirements:

A full glossary of terms and alternative measures is provided in this announcement. The Directors believe the key metrics are the ones outlined below because: they are used for internal reporting of the performance of the Group; they provide key information on the underlying trends and performance; and they are key measures for director and management remuneration.

(1) **Like-for-like (LFL) sales:** percentage change in year-on-year sales (excluding VAT), removing the impact of new store openings and closures in the current or previous financial year.

A reconciliation between LFL sales and total turnover is provided in the glossary at the end of this announcement.

(2) **Underlying profit before tax (UPBT), underlying operating profit and underlying earnings per share (EPS):** excludes impairment and provision for onerous contracts, profit/loss on disposal and exit of properties and sale of businesses and investments, the impact of pension volatility, and other items that do not relate to the Group's principal activities on an ongoing basis.

A reconciliation between reported and underlying profit before tax and operating profit is shown in Figure 1. See Note 8 for a reconciliation between basic and underlying EPS.

(3) **Free cash flow:** movement in net debt before the payment of dividends. Free cash flow for the period is £350m (2016/17: £670m), being the movement in net debt of £221m (2016/17: £552m) adjusted for dividends paid of £129m (2016/17: £118m).

- ENDS –

Certain statements in this financial report are forward looking. Where the financial report includes forward-looking statements, these are made by the Directors in good faith based on the information available to them at the time of their approval of this report. Such statements are based on current expectations and are subject to a number of risks and uncertainties, including both economic and business risk factors that could cause actual events or results to differ materially from any expected future events or results referred to in these forward-looking statements. Unless otherwise required by applicable law, regulation or accounting standards, the Group undertakes no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

Financial overview

Our sales performance for the year was strong. Total revenue was £17.3bn, up 5.8% year on year, including -0.3% contribution from net new space. 2017/18 was a 53-week year, with the 53rd week contributing around 2% to total revenue as previously guided. Revenue excluding fuel was £13.5bn, up 4.4%.

Group LFL excluding fuel was up 2.8%, comprising contributions from retail of 2.3% (supermarkets 1.9%, online through Dordon customer fulfilment centre (CFC) 0.4%), and wholesale of 0.5%. In Q4, Group LFL was 2.8% which, against a strong comparative, meant two-year LFL accelerated to 5.7%. This performance was again driven by more customers and volume growth.

Fuel sales were up 11.2% to £3.7bn, all of which was LFL.

Underlying operating profit was up 3.0% to £445m (2016/17: £432m), with margin slightly lower (7 basis points).

Underlying net finance costs were £73m (2016/17: £97m). Reported net finance costs were £80m (2016/17: £145m).

Reported profit before tax (PBT) was £380m (2016/17: £325m). Underlying PBT (UPBT) was up 11.0% to £374m (2016/17: £337m), including £5m for the 53rd week as previously guided. UPBT included a further £24m of the incremental £75m–£125m profit target from wholesale, services, interest and online, bringing the cumulative total so far to £42m. Net adjustments recognised outside UPBT were £6m, as listed in Figure 1. On a 52-week basis, UPBT growth was 9.5%.

Underlying basic EPS was up 12.2% to 12.19p (2016/17: 10.86p). Reported basic EPS was up 1.4% to 13.30p (2016/17: 13.11p), with 2016/17 benefitting from an effective tax rate of 6.2%.

Capital expenditure was £500m (2016/17: £419m). No stores were opened or closed during the period.

Free cash flow was £350m, which included £35m improvement in operating working capital and £108m of disposal proceeds. Overall, post dividend and pre disposal proceeds, the business was again cash flow positive, generating £132m.

Group net debt fell to £973m, down £221m since the end of 2016/17, and below our £1bn year-end target.

The proposed final ordinary dividend is 4.43p, taking the full year ordinary dividend up 12.2% to 6.09p (2016/17: 5.43p). This is in line with our policy to pay a sustainable ordinary dividend covered around two times by underlying EPS. In addition, in accordance with the principles of our capital allocation framework, we are proposing returning surplus capital to shareholders via a special dividend of 4.00p, taking the full year total dividend up 85.8% to 10.09p (2016/17: 5.43p).

Return on capital employed (ROCE) was 7.7%, up from 7.3% for 2016/17.

Strategy update

Morrisons is becoming a broader, stronger business, aiming to be more popular and accessible for customers. Growth is capital light, meaningful and sustainable, built on strong free cash flow and balance sheet foundations.

2017/18 performance was strong. There were challenges, particularly the impact of higher imported cost of goods inflation and other cost headwinds. However, by continuing to listen to customers, we improved the shopping trip, served customers better, and became more competitive, making further good progress with our six priorities and all three concurrent parts of our strategy: Fix, Rebuild and Grow.

Our core supermarkets are showing strong annual growth on growth as we enter a fourth year of turnaround, driven by more customers and more volume. We are now around half-way through our Fresh Look programme, and new and improved ranges in areas such as *'Best'*, *'Free From'* and our *'Nutmeg'* clothing range are showing multi-year growth.

We are improving capability, and becoming increasingly differentiated for all our stakeholders. Customers tell us how friendly our colleagues are, and our customer satisfaction scores once again improved, showing growth on growth there too. Capability in technology and data is improving, but we still have substantial cost-saving opportunities in automated ordering, in-store administration, distribution, and procurement of goods not for resale.

We made further progress in the year with our plans for a broader, stronger Morrisons. We recently started a rolling programme to supply McColl's nationwide, and have also announced we will be supplying SandpiperCI in the Channel Islands, demonstrating we are open for business as a wholesaler and are on track for our target of £700m of annualised wholesale supply sales by the end of 2018. Our newly revived Safeway brand is now available in some McColl's shops and will soon be in some SandpiperCI shops. In addition, we are adding extra online capacity to Morrisons.com through new store-pick capability in areas not covered by the Dordon CFC, and we have also recently added more capital light manufacturing capacity in areas such as potatoes and eggs, which will both improve the offer and make us more competitive for customers.

Our strategy aims at driving sales, margins and asset intensity through capital light growth. Sales (Group LFL inc-fuel up 4.1%) and profit growth (UPBT up 11.0%) were again strong; we are making good progress with our recently increased target of £75m–£125m incremental profit from wholesale, services, interest and online; and debt has fallen to less than £1bn, as we guided. Sustaining meaningful sales and profit growth in a reasonable range is generating strong free cash flow and helping rebuild ROCE.

Reflecting our expectations for future growth and cash flow, and in accordance with the principles of our capital allocation framework, we are today announcing a special dividend of 4.00p per share. In the future, we will retain a strong and flexible balance sheet, and assess the uses of free cash flow each year.

Six priorities update

1. To be more competitive

Broader, stronger Morrisons is becoming more differentiated for customers.

During the year, the impact of lower sterling on imported food prices was a headwind for the industry but, helped by being a British business with a largely British supply chain, we took this as an opportunity to become more competitive for customers. Through the year *'Price Crunch',* '*Way Down',* and *'Morrisons Makes It'* successfully communicated Morrisons good quality and great value. For example, at Christmas, despite the cost inflation pressures, a basket of our customers' key items was the same price as in the prior year. Customers responded and volume was positive.

As a food maker and shopkeeper, we have a unique opportunity to differentiate ourselves and build a great-value Morrisons price list, category by category. During the year we simplified our manufacturing business, moving it from profit centre to cost centre. A greater focus on cost, yield and volume, assisted by investment in technology and improved digital capability, has improved productivity and capacity utilisation. We recently bought two new businesses – one potatoes, the other eggs – that allow us to own more of the supply chain; meaning closer relationships with farmers and growers, improved product quality and consistency, lower costs of production, and the lowest possible prices for our customers. Both acquisitions required little capital expenditure and both complement our existing manufacturing businesses.

We are also becoming more competitive by selling more things our customers want to buy. We introduced new and improved ranges in areas such as Home & Leisure and *'Eat Smart';* and more innovation in *'Best'*, *'Free From', 'Food to Go'*, and *'Nutmeg'* is leading to multi-year growth. For example, in its second Christmas, sales of our premium *'Best'* range grew by 25%.

Many of these ranges again won recognition. In addition to several awards during the first half – including *'Best'* being named Own-label Range of the Year at the Grocer Gold Awards – in the second half we were awarded Supply Chain Innovation of the Year for our automated ordering system at the IGD Awards; Innovator of the Year at the International Wine and Spirits Competition; and Multiple Beer Retailer of the Year and Multiple Cider Retailer of the Year at the 2018 Drinks Retailing Awards. Demonstrating the opportunity to extend our Nutmeg brand beyond clothing, we also won Best Disposable Nappy for our Nutmeg Ultra Dry Nappy at the Mumii Awards.

2. To serve customers better

Morrisons colleagues are doing an outstanding job for customers.

Our team of food makers and shopkeepers is unique. Colleagues are differentiating Morrisons offer for customers, helped by our new automated ordering system and other productivity initiatives which are beginning to free up more time. We are striving to recognise and reward our colleagues' outstanding contribution by investing in colleague pay, bonus, and other rewards. Our hourly pay rate for front-line colleagues has increased by 27% in three years, and will be £8.70 per hour from April 2018.

Customers are noticing the difference in an improving and more consistent shopping trip, and responding. LFL transactions were up 2.9% during the year, building on last year's very strong growth of 4.0%. Customer satisfaction scores for service, quality, range, availability and price continue to improve, with our survey showing another 7% overall improvement for the year and up 12% since 2014/15.

There were new initiatives during the year aimed at serving customers better. For example, we are serving more customers online through a new store-pick delivery service launched with our partner Ocado in areas not served by the CFC in Dordon. Customers in North East England, parts of East Anglia and Lincolnshire, and the Isle of Wight can now access this service with more to follow in 2018/19. Our new *'Food to Order'* service is now available online and in-store all year round and is proving popular with customers, with sales up over 50% at Christmas.

As previously announced, we intend to open a small number of new stores each year, with three in 2018/19. There are some areas in Britain either without a Morrisons store, or where there is an opportunity to renew or replace an existing store. As with the Fresh Look programme, each new store will be an opportunity for us to test our latest innovations and thinking, and provide learnings and benefits across the business. Each new store will be subject to stringent investment returns criteria.

3. Find local solutions

Customers tell us they love local. Local solutions are now driving national benefit.

During the year over 200 of the nation's best local growers, farmers, fishermen and other food makers began supplying Morrisons with local products. For example, Plumgarth's sausages, initially launched in our Kendal store, are now available across all our Cumbrian stores; and the Friday Beer Co. brews beer just two miles from our Malvern store, and is one of the best-selling bottled ales in the store.

We introduced over 750 new local products. For example, a range of locally-sourced meat in South West England, and local market street vegetables in our stores in Yorkshire. In Skipton, as part of our Fresh Look, we have showcased local products and introduced many new local lines such as Yockenthwaite Farm Cereals, Box Pizza and Voakes Pies; and since the Fresh Look, local sales are up by over 30% in the store.

Overall, sales of local suppliers' products are now up 50% over the last two years.

We also continue to improve key local events, with particular focus on different demographics and seasons. For example, we tailor ranges and space allocation around Passover, Ramadan and Diwali, or around the holiday season in areas such as Devon and Cornwall. For student stores, we focus our offer around term dates, attend freshers' fairs, and have launched our *'More for Students'* card.

In addition, listening to customers and learning through our More Card data is allowing us to understand much better how we can improve the shopping trip. As more of our stores go through the Fresh Look programme, we are able to target our local offer very specifically. What customers tell us is becoming a powerful tool store by store: in refits, against competitor openings, in local marketing and ranging; and is helping local solutions drive benefits across the whole estate.

4. Develop popular and useful services

Popular and useful services help make Morrisons a place customers want to go, and provide capital light profit growth.

During the year, we completed the modernisation of almost all our cafés, providing a brighter and more contemporary look and feel for customers. We also introduced over 50 new coffee barista bars.

We have now opened 30 Morrisons Daily stores on our forecourts, offering a full convenience offer and longer trading hours. Many of these are extensions of former kiosks and allow customers a new convenience-store service on an existing Morrisons site. Initial results are strong with sales up 40%, and we expect to open many more over coming months. In addition, as our low-price fuel becomes more popular with customers, we now open 24 hours a day in 110 of our petrol stations.

We made further progress in the second half with parcel pick-up services. Doddle is now in over 160 stores, up from around 50 at the end of the first half. This follows the successful roll-out of Amazon lockers into over 400 Morrisons stores.

Our successful partnership with Timpson continues to grow. Morrisons had around 150 stores with a dry cleaning unit, all of which have now been converted to a full-service Timpson. In recent months, Timpson has grown further with Morrisons and is now in around 180 stores. We are trialling a similar service with new partner, Sunlite.

We now have five partner-operated hand car washes open in our store car parks, and, since year end, have opened the first tyre-change concessions.

5. To simplify and speed up the organisation

As capability improves, there are more opportunities to simplify and speed up, leading to higher levels of productivity.

We are realising efficiencies in automated ordering, in-store administration, distribution, and procurement of goods not for resale. Our automated ordering system is now fully operational and is saving labour hours, improving availability and reducing stock-holding, as we have previously stated. We are also starting to unlock significant productivity opportunities in several other end-to-end work streams across Morrisons. These include: manufacturing and Market Street efficiency and yield; the flow and forecasting of products and goods; distribution interfaces; customer payments; and more efficient ways of working.

In addition, we have simplified our in-store structures and improved the offer for customers. Improving capability across Morrisons means we need fewer managers and are able to invest in more front-line colleagues to serve our customers. We recently announced a proposal to remove around 1,500 managerial roles and create around 1,700 customer service roles in stores.

6. To make core supermarkets strong again

Our Fresh Look refit programme extended to another 80 stores during the year, and we have now completed around half of our estate. In addition, many of the Fresh Look learnings are being applied across the whole estate as we go. For example, the majority of our cafés, Fruit & Veg, and Florist departments were updated with a new look and feel during the year. We also further extended our new Nutmeg womenswear range into almost 100 stores, and have plans for more during 2018/19.

We are pleased with the Fresh Look results. A modernised Morrisons is emerging, with its roots firmly in fresh food and Market Street, for which we are renowned.

Wholesale supply

We are now open for business as a new wholesaler. We are making our brand more popular and accessible while allocating very little extra capital, which will further improve asset intensity and be accretive for ROCE.

During the year we signed a new agreement with McColl's and, in January, started a rolling programme to supply McColl's nationwide with both Safeway products and national brands. The new Safeway range of around 400 fresh, frozen and ambient products – much of it developed and made by our skilled food makers – is now available in stores, and is already proving popular with McColl's customers.

In addition, since year end we have announced we will be supplying around 40 SandpiperCI stores in the Channel Islands. During 2018 and 2019, many of these will convert to Morrisons Daily selling Morrisons products and national brands, with some non-converted stores selling Safeway alongside national brands.

Our other wholesale supply initiatives continued to make good progress during the year. Amazon grew its various offers for customers, and expanded the Prime Now service *'Morrisons at Amazon'* into more London and Hertfordshire postcodes, and into parts of Leeds, Birmingham, and Manchester.

A further 32 Rontec owned and operated Morrisons Daily stores have opened on its forecourts, taking the total so far to 40. We are pleased with their performance.

As previously announced, we expect total annualised wholesale supply sales to all our partners to exceed £700m (inc. tobacco) by the end of 2018 and, in due course, we expect wholesale supply sales to be more than £1bn.

Financial strategy and update

Capital allocation framework

The capital allocation framework is unchanged. Our first priority is to invest in the stores and infrastructure and reduce costs. Second, we will seek to maintain debt ratios that support our target of an investment-grade credit rating. Third, we will invest in profitable growth opportunities. Fourth, we will pay dividends in line with our stated policy, and then any surplus capital will be returned to shareholders.

Shareholder returns

Our policy is for the ordinary annual dividend to be sustainable and covered around two times by underlying earnings per share. The final ordinary dividend will be 4.43p, bringing the ordinary dividend for the full year to 6.09p.

In addition to the final ordinary dividend, the Board is proposing a special dividend of 4.00p per share, taking the total dividend for the year to 10.09p, an increase of 85.8% on last year.

The principles of our capital allocation framework guide us to reinvest to deliver profitable growth and return surplus capital to shareholders. In recent years, we have made strong progress with the turnaround and our Fix, Rebuild and Grow strategy. While there is still much we plan to do, a new Morrisons is now emerging. We are growing sales and profit, and expect that growth to continue to be meaningful and sustainable in the future. We are generating significant levels of free cash flow, which we also expect to sustain. The special dividend reflects our good progress so far and our expectations for continued growth. Looking forward, we will retain a strong and flexible balance sheet. We will be guided each year by the principles of our capital allocation framework in assessing the uses of free cash flow.

Subject to shareholder approval at our 2018 AGM, both the final ordinary and special dividends of 4.43p and 4.00p per share respectively will be payable on 28 June 2018 to shareholders on the share register at the close of business on 25 May 2018.

Optimise assets

As previously announced, we sold the CFC in Dordon for £92.3m during the first half. It continues to be operated by Ocado, serving both Morrisons and Ocado's online home delivery services.

Cost savings

As capability improves and we simplify and speed up Morrisons, there is a still a substantial cost-saving opportunity. We are recycling the benefits back into improving the shopping trip for customers.

In addition, we are beginning to realise some of the goods not for resale cost savings that we identified at the half year in areas such as retail, logistics, manufacturing, property, marketing and head office. These are multi-year opportunities.

As previously stated, we further simplified in-store structures during the year, removing some managerial roles and replacing them with more front-line colleagues dedicated to serving customers. The one-off restructuring cost of these changes has been reported outside of UPBT.

Cash flow and working capital

Free cash flow was again strong, with another £350m during the year, bringing the total to £2.7bn since the start of 2014/15.

Operating working capital generation was £35m and is now £949m over the last four years, close to our £1bn medium-term target. As previously guided, there was some seasonal working capital unwind in the second half. In addition, the 53rd week and earlier timing of Mother's Day and Easter 2018 led to a slightly higher year-end stock position. Supplying tobacco to McColl's earlier than initially planned also had a slight impact on working capital. Although we have almost achieved our original working capital generation target, we expect further improvements in future as long as sales remain robust and we continue to simplify processes in store and with our suppliers.

Disposal proceeds were £108m, the largest component being the sale of Dordon, bringing the total to £1,001m since we started the programme. Profit from disposals was £19m, reported outside UPBT. We remain confident in our medium-term disposals target of £1.1bn.

Capital expenditure/depreciation and amortisation

Capital expenditure was £500m, within our £450m–£500m guided range. For 2018/19, we expect capital expenditure to be around £500m. We will open three new stores and expect 2018/19 net new space sales contribution to be +0.2%.

In addition, we incurred £42m of onerous payments, lower than our guidance of around £100m. In future years, we expect to incur around £100m of further onerous payments, around £60m of which we expect in 2018/19.

We expect 2018/19 depreciation/amortisation to be £440m–£450m, reflecting the mix of our capital expenditure.

Impairment review

We perform an annual store-by-store review of impairment and onerous contracts. The net write-back was £6m, recognised outside of UPBT. It comprised £119m impairment charge, £126m of freehold store write-backs, and £1m net charges on onerous contracts and commitments.

Debt and interest

Group net debt fell to £973m, below our target of less than £1bn and down a further £221m since the end of 2016/17.

Including the cash outflow from the special dividend (£94m), we expect net debt to fall further during 2018/19.

Underlying net finance costs were £73m (2016/17: £97m). During the year, we completed tender offers of £241m across two sterling bonds and one euro bond. One-off costs relating to these debt repayments were £16m, recognised outside UPBT. We expect 2018/19 net finance costs to be around £65m. Liquidity remains very strong, and our £1.35bn revolving credit facility has been undrawn since October 2015.

Towards the end of the year, Moody's upgraded its Morrisons credit rating from Baa3 (positive outlook) to Baa2 (stable outlook), reflecting the sustained improvement in Morrisons financial results and credit profile.

Pension

The net pension surplus was £594m at year end, up from £392m at the end of the first half and £272m at the end of 2016/17. During the year we continued to work with the pension trustees to identify opportunities to de-risk the schemes. In December 2017, the trustees completed a £377m buy-in of part of the Safeway scheme liabilities.

During the year, we updated the methodology for deriving the discount rate assumption used in valuing the pension scheme liabilities. We believe that this revised approach better reflects expected yields on high quality corporate bonds over the duration of the Group's pension schemes, as required by IAS 19. The new method uses high quality corporate bond yields where available. At very long durations, where there are no high quality corporate bonds, the yield curve is extrapolated based on available corporate bond yields of mid to long duration. This change reduced the value placed on the IAS 19 pensions liabilities of the Group by £242m and improved the pre-tax balance sheet position by £234m.

Around 30,000 colleagues were enrolled into the new defined contribution pension scheme during the year, thereby almost doubling the number of colleagues saving for retirement in a company sponsored scheme. At the half-year, we announced a provision release of £10m, relating to backdating the cost of auto-enrolment for the new scheme. Updating to reflect the actual number of colleagues eligible for backdated contributions, the provision release is now £13m which is reported outside of UPBT.

Net pension income was £9m, also reported outside of UPBT.

People update

Our turnaround is colleague-led. Customers notice great service and how friendly our colleagues are. We value our colleagues' significant contribution and are committed to them sharing in Morrisons success. We have again increased the hourly pay rate for front-line colleagues, this time to £8.70 per hour from April 2018, and the average colleague bonus payment has more than doubled over the last two years.

In our recent *'Your Say'* survey, the number of colleagues who said they received a fair day's pay has increased by 25% in the last three years. Our overall colleague engagement score is now at its highest level since we started the '*Your Say'* survey, with every business function in positive growth.

Our new *'MyMorri'* website provides colleagues with all the information they need on a single digital communication platform and is proving very popular, with over 95% of colleagues using it since the recent launch. It gives access to online learning, company information and updates, the colleague handbook, and payslips. We have also launched *'MyPerks';* giving colleagues access to discounts across many high-street retailers; and *'MyLearning'* providing a single platform to access all training materials.

We remain committed to improving the representation of females in leadership roles. We now have around 100 females who are either store managers or on the development programme to store manager, and nearly 30% of the senior leadership team are female.

Corporate responsibility and community

Our corporate responsibility programme ensures we operate in a way that is right for our customers, colleagues, suppliers and shareholders whilst making a positive contribution to society and taking good care of the environment.

Supporting British farmers

In 2017/18, we reinforced our commitment to British products by announcing our intention to sell only 100% fresh British Morrisons-branded meat. Our *'Milk for Farmers'* range comes from a dedicated pool of British farmers, who produce to a higher welfare standard. The extra 10p per litre paid by customers is shared among all the British farmers in the dedicated Morrisons dairy group. Since the *'For Farmers'* range launched we have contributed an additional £9m to farmers.

Reducing food waste

Through our Unsold Food programme our stores partner with local community groups to donate any unsold food that is safe to eat. Since the programme began in 2016, we have donated 3.5 million unsold food products, involving 80% of our stores working with over 420 community groups. We launched our *'Wonky Veg'* range in

2015 and now sell 18 varieties throughout the year, selling over 500 tonnes per week.

Reducing the environmental impact of our packaging

We are committed to removing or reducing unnecessary packaging, using recyclable or recycled material wherever possible, and working with suppliers on packaging innovation to ensure our packaging is only there to protect and preserve the product it contains, thereby preventing food waste. We also use On Pack Recycling Labels to help customers clearly identify products that can be recycled. We prohibited the use of plastic microbeads ahead of legislation, as well as plastic stem cotton buds in our own-brand cosmetic and personal care products. In 2018, we are removing the sale of single-use plastic bags and phasing out plastic drinking straws, as well as offering customers the option to refill their water bottles for free in our cafés.

Making a positive difference to the communities we serve

Each of our stores works with local communities and supports a range of other important charity campaigns during the year including, the Marie Curie Great Daffodil Appeal, the Poppy Appeal, and Children in Need. Last year the Morrisons Foundation donated a total of £10m to more than 400 charities, with an additional £577,000 in colleague match-funding. Our three-year national charity partnership with CLIC Sargent began in February 2017, and we have raised over £3.3m so far – money which is already being spent supporting young cancer patients and their families.

Consolidated statement of comprehensive income

53 weeks ended 4 February 2018

	Note	**2018 £m**	2017 £m
Revenue	4	**17,262**	16,317
Cost of sales		**(16,629)**	(15,713)
Gross profit		**633**	604
Other operating income		**78**	76
Profit/loss on disposal and exit of properties and sale of investments	3	**19**	32
Administrative expenses		**(272)**	(244)
Operating profit		**458**	468
Finance costs	5	**(94)**	(160)
Underlying finance costs	5	**(78)**	(104)
Adjustments for:			
Costs associated with the repayment of borrowings	3	**(16)**	(56)
Finance income	5	**14**	15
Share of profit of joint venture (net of tax)		**2**	2
Profit before taxation		**380**	325
Analysed as:			
Underlying profit before tax	3	**374**	337
Adjustments for:			
Impairment and provision for onerous contracts	3	**6**	6
Profit/loss on disposal and exit of properties	3	**19**	19
Profit arising on disposal of investment	3	**-**	13
Costs associated with the repayment of borrowings	3	**(16)**	(56)
Pension scheme set-up credit	3,17	**13**	-
Net pension income	3,17	**9**	8
Other exceptional costs	3	**(25)**	(2)
		380	325
Taxation	6	**(69)**	(20)
Profit for the period attributable to the owners of the Company		**311**	305
Other comprehensive income/(expense):			
Items that will not be reclassified to profit or loss:			
Remeasurement of defined benefit pension schemes	17	**323**	86
Tax on defined benefit pension schemes		**(55)**	(17)
		268	69
Items that may be reclassified subsequently to profit or loss:			
Cash flow hedging movement		**(18)**	30
Items reclassified from hedging reserve in relation to repayment of borrowings	3	**(2)**	6
Tax on items that may be reclassified subsequently to profit or loss		**(2)**	1
Exchange differences on translation of foreign operations		**(1)**	(1)
		(23)	36
Other comprehensive income for the period, net of tax		**245**	105
Total comprehensive income for the period attributable to the owners of the Company		**556**	410
Earnings per share (pence)			
- basic	8	**13.30**	13.11
- diluted	8	**13.03**	12.95

Consolidated balance sheet

4 February 2018

	Note	2018 £m	2017 £m
Assets			
Non-current assets			
Goodwill and intangible assets	9	**428**	445
Property, plant and equipment	10	**7,243**	7,227
Investment property	11	**33**	33
Pension asset	17	**612**	293
Investment in joint venture		**53**	56
Investments	13	**-**	-
Derivative financial assets	19	**16**	16
		8,385	8,070
Current assets			
Stock	14	**686**	614
Debtors	15	**250**	214
Derivative financial assets	19	**15**	22
Cash and cash equivalents	19	**327**	326
		1,278	1,176
Assets classified as held-for-sale	12	**4**	-
		1,282	1,176
Liabilities			
Current liabilities			
Creditors	16	**(2,981)**	(2,837)
Short term borrowings	19	**(72)**	-
Derivative financial liabilities	19	**(13)**	(3)
Current tax liabilities		**(15)**	(24)
		(3,081)	(2,864)
Non-current liabilities			
Borrowings	19	**(1,245)**	(1,550)
Derivative financial liabilities	19	**(1)**	(5)
Pension liability	17	**(18)**	(21)
Deferred tax liabilities		**(478)**	(417)
Provisions		**(299)**	(326)
		(2,041)	(2,319)
Net assets		**4,545**	4,063
Shareholders' equity			
Share capital		**236**	234
Share premium		**159**	128
Capital redemption reserve		**39**	39
Merger reserve		**2,578**	2,578
Retained earnings and other reserves		**1,533**	1,084
Total equity attributable to the owners of the Company		**4,545**	4,063

Consolidated cash flow statement

53 weeks ended 4 February 2018

	Note	2018 £m	2017 £m
Cash flows from operating activities			
Cash generated from operations	18	**884**	1,113
Interest paid		**(66)**	(100)
Taxation paid		**(74)**	(35)
Net cash inflow from operating activities		**744**	978
Cash flows from investing activities			
Interest received		**4**	6
Dividends received from joint venture		**8**	8
Proceeds from sale of property, plant and equipment		**108**	79
Proceeds from sale of businesses and investments	13	**-**	44
Purchase of property, plant and equipment, investment property and assets classified as held-for-sale		**(429)**	(374)
Purchase of intangible assets		**(71)**	(45)
Net cash outflow from investing activities		**(380)**	(282)
Cash flows from financing activities			
Purchase of own shares for trust		**(4)**	(5)
Settlement of employee tax liability for share awards		**(7)**	-
Proceeds from exercise of employee share options		**33**	-
Proceeds on settlement of derivative financial instruments		**6**	37
Repayment of borrowings		**(245)**	(729)
Costs incurred on repayment of borrowings		**(17)**	(42)
Dividends paid	7	**(129)**	(118)
Net cash outflow from financing activities		**(363)**	(857)
Net increase/(decrease) in cash and cash equivalents		**1**	(161)
Cash and cash equivalents at start of period		**326**	487
Cash and cash equivalents at end of period	19	**327**	326

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

	Note	2018 £m	2017 £m
Net increase/(decrease) in cash and cash equivalents		**1**	(161)
Cash outflow from decrease in debt		**239**	692
Non-cash movements		**(19)**	21
Opening net debt		**(1,194)**	(1,746)
Closing net debt	19	**(973)**	(1,194)

Consolidated statement of changes in equity

53 weeks ended 4 February 2018

Current period

		Attributable to the owners of the Company						
		Share capital	Share premium	Capital redemption reserve	Merger reserve	Hedging reserve	Retained earnings	Total equity
	Note	£m	£m	£m	£m	£m	£m	£m
At 30 January 2017		234	128	39	2,578	18	1,066	4,063
Profit for the period		-	-	-	-	-	311	311
Other comprehensive (expense)/income:								
Cash flow hedging movement		-	-	-	-	(18)	-	(18)
Items reclassified from hedging reserve in relation to repayment of borrowings	3	-	-	-	-	(2)	-	(2)
Exchange differences on translation of foreign operations		-	-	-	-	-	(1)	(1)
Remeasurement of defined benefit pension schemes	17	-	-	-	-	-	323	323
Tax in relation to components of other comprehensive income		-	-	-	-	4	(61)	(57)
Total comprehensive (expense)/income for the period		-	-	-	-	(16)	572	556
Purchase of trust shares		-	-	-	-	-	(4)	(4)
Employee share option schemes:								
Share-based payments charge		-	-	-	-	-	33	33
Settlement of employee tax liability for share awards		-	-	-	-	-	(7)	(7)
Share options exercised		2	31	-	-	-	-	33
Dividends	7	-	-	-	-	-	(129)	(129)
Total transactions with owners		2	31	-	-	-	(107)	(74)
At 4 February 2018		**236**	**159**	**39**	**2,578**	**2**	**1,531**	**4,545**

Consolidated statement of changes in equity (continued)

53 weeks ended 4 February 2018

Prior period

		Attributable to the owners of the Company						
		Share capital	Share premium	Capital redemption reserve	Merger reserve	Hedging reserve	Retained earnings	Total equity
	Note	£m	£m	£m	£m	£m	£m	£m
At 1 February 2016		234	127	39	2,578	(10)	788	3,756
Profit for the period		-	-	-	-	-	305	305
Other comprehensive income/(expense):								
Cash flow hedging movement		-	-	-	-	30	-	30
Items reclassified from hedging reserve in relation to repayment of borrowings		-	-	-	-	6	-	6
Exchange differences on translation of foreign operations		-	-	-	-	-	(1)	(1)
Remeasurement of defined benefit pension schemes	17	-	-	-	-	-	86	86
Tax in relation to components of other comprehensive income		-	-	-	-	(8)	(8)	(16)
Total comprehensive income for the period		-	-	-	-	28	382	410
Purchase of trust shares		-	-	-	-	-	(5)	(5)
Employee share option schemes:								
Share-based payments charge		-	-	-	-	-	20	20
Proceeds and settlements of employee share award		-	1	-	-	-	(1)	-
Dividends	7	-	-	-	-	-	(118)	(118)
Total transactions with owners		-	1	-	-	-	(104)	(103)
At 29 January 2017		234	128	39	2,578	18	1,066	4,063

1. General information and basis of preparation

The financial information, which comprises the consolidated statement of comprehensive income, consolidated balance sheet, consolidated cash flow statement, consolidated statement of changes in equity, and related notes, is derived from the full Group financial statements for the 53 week period ended 4 February 2018, 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 statutory financial statements within the meaning of section 434 of the Companies Act 2006. This financial information has been agreed with the auditor for release. The Group's financial statements (comprising the consolidated statement of comprehensive income, consolidated balance sheet, consolidated cash flow statement, consolidated statement of changes in equity, and related notes) are available for download on the Group's website at https://www.morrisons-corporate.com/investor-centre/financial-reports/

The Annual Report and Financial Statements for the 53 week period ended 4 February 2018 on which the auditor has given an unqualified report and which does not contain a statement under section 498 of the Companies Act 2006, will be delivered to the Registrar of Companies in due course.

The accounting policies used in completing this financial information have been consistently applied in all periods shown. These accounting policies are detailed in the Group's financial statements for the 53 week period ended 4 February 2018 which can be found on the Group's website https://www.morrisons-corporate.com/investor-centre/financial-reports/

New IFRS and amendments to IAS and interpretations

The following amendments to standards are mandatory for the first time for the financial period ended 4 February 2018:

Amendments to IAS 7 'Statement of Cash Flows'

The amendment to IAS 7 requires additional disclosures about changes in an entity's financing liabilities arising from both cash flow and non-cash flow items. The amendment applies to changes in financial assets as well as liabilities if the cash flows from those financial assets are included in cash flows from financing activities in the cash flow statement. The Group has applied the amendment to the disclosures in the financial statements and has modified the presentation of the analysis of net debt. There is no material impact on the Group as a result of applying this amendment.

Other than the amendment to IAS 7 noted above, there have been no significant changes to accounting under IFRS which have affected the Group's reported results for the period. The Group has considered the following amendments to published standards that are effective for the first time for the 53 weeks ended 4 February 2018 and concluded that they are either not relevant to the Group or they do not have a significant impact on the Group's financial statements. These amendments are:

- Amendments to IAS 12 'Income taxes' on recognition of deferred tax assets for unrealised losses; and
- Annual improvements 2014-2016.

There are a number of standards and interpretations issued by the IASB that are effective for financial statements after this reporting period. These are detailed below:

IFRS 9 'Financial Instruments'

IFRS 9 'Financial Instruments' was published in July 2014 and will be effective for the Group from the period beginning 5 February 2018. The standard replaces IAS 39 'Recognition and Measurement' and is applicable to financial assets and financial liabilities. The main changes the new standard introduces are:

- new requirements for the classification and measurement of financial assets and financial liabilities;
- a new model for recognising impairments of financial assets; and
- changes to hedge accounting by aligning hedge accounting more closely to an entity's risk management objectives.

The Group will apply the modified retrospective approach for transition, including no requirement to restate comparative amounts. Any differences in carrying values will be recognised as an adjustment to the opening balance sheet at 5 February 2018.

1. General information and basis of preparation (continued)

New IFRS and amendments to IAS and interpretations (continued)

IFRS 9 'Financial Instruments' (continued)

The Group has assessed in detail the impact of the three areas of the new standard on the consolidated financial statements. The Group does not expect any material changes in relation to accounting policies, classification and measurement of financial assets and liabilities, nor for hedge accounting as detailed in notes to the financial statements. IFRS 9 also introduces a forward looking approach to impairment of financial assets which results in earlier recognition of credit losses. The Group has assessed the impact of IFRS 9 in this area (with reference to all financial assets including trade receivables) and concluded that the impact will be immaterial.

IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 'Revenue from Contracts with Customers' was published in May 2014 and will be effective for the Group from the period beginning 5 February 2018. The standard replaces IAS 18 'Revenue', IAS 11 'Construction contracts' and related interpretations. The standard introduces a five-step approach to the timing and recognition of revenue based on performance obligations in customer contracts. Under IFRS 15, revenue should only be recognised when a customer obtains control of goods or services and has the ability to direct the use and obtain the benefits from the goods or services. It applies to all contracts with customers, except those in the scope of other standards.

The Group will apply the modified retrospective approach for transition set out in the standard. The cumulative effect of initial application will be recognised as an adjustment to the opening balance sheet at 5 February 2018, without restating comparative amounts.

The Group has performed a detailed impact assessment, identifying all current sources of revenue and analysing accounting requirements for each under IFRS 15. The Group believes that the adoption of IFRS 15 will not have a material impact on the consolidated financial statements as the vast majority of transactions (volume and value) are for sale of goods in stores or online where the transfer of control is clear (either at the till or on delivery of goods). The impact assessment also covered areas which require further specific consideration such as customer loyalty schemes, rights of return and wholesale supply arrangements and concluded that there is no material impact on the current accounting policies for revenue recognition applied by the Group, which are disclosed in notes to the financial statements.

IFRIC 22 'Foreign Currency Transactions and Advance Consideration'

IFRIC 22 'Foreign Currency Transactions and Advance Consideration' was issued in December 2016 and will be effective for the Group from the period beginning 5 February 2018. The interpretation clarifies the date to be used in determining the initial exchange rate for transactions, relating to advance payments or receipts in a foreign currency, to be the date the related non-monetary asset or liability is first recognised. The Group will apply the interpretation prospectively to assets, expenses and income recognised on or after 5 February 2018, including where related non-monetary assets and liabilities from advance consideration have been recognised before this date.

The Group has performed an impact assessment and believes that the interpretation will not have a material impact on the consolidated financial statements as sales and purchases involving advanced consideration in a foreign currencies are negligible.

IFRS 16 'Leases'

IFRS 16 'Leases' was published in January 2016 and will be effective for the Group from the period beginning 4 February 2019, replacing IAS 17 'Leases'. The main principal of the standard is to eliminate the dual accounting model for lessees under IAS 17, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases, and to provide a single model for lessee accounting. IFRS 16 requires lessees to recognise right-of-use assets and lease liabilities for leases. Accounting requirements for lessors will be substantially unchanged from IAS 17.

The standard represents a significant change in the accounting and reporting of leases for lessees and it will impact the income statement and balance sheet as well as statutory and alternative performance measures used by the Group.

1. General information and basis of preparation (continued)

New IFRS and amendments to IAS and interpretations (continued)

IFRS 16 'Leases' (continued)

The impact on the financial statements on transition to IFRS 16, where the Group is the lessee, will depend on the approach taken by the Group. The new standard allows for two different transition approaches, fully retrospective and modified retrospective. Both approaches will impact the income statement, balance sheet and disclosure when adopted including the opening balance sheet at 4 February 2019, although the amounts will differ dependent on the approach taken.

The Group is currently in the process of assessing the impact of the new standard, deciding on the transition approach and identifying process, systems and information required when adopted. The initial phase of work, which is still in progress, has involved assessing and modelling the impact of the new standard for a sample of leases and beginning to consider assumptions and assessing data requirements.

The Group has not yet concluded on a transition approach and as such it is not possible to fully quantify the impact of IFRS 16 at this stage.

Amendment to IAS 19 'Employee Benefits'

An amendment to IAS 19 'Employee Benefits' was published in February 2018 and will be effective for the Group from the period beginning 4 February 2019. The amendment applies prospectively in connection with accounting for plan amendments, curtailments and settlements. The amendment requires entities to use updated assumptions to determine current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement.

The Group is in the process of assessing the impact of the amendment. However, at this stage it is not yet practicable to fully quantify the effect of this amendment on these consolidated financial statements.

IFRIC 23 'Uncertainty over income tax treatments'

IFRIC 23 'Uncertainty over income tax treatments' was issued in June 2017 and will be effective for the Group from the period beginning 4 February 2019. The interpretation covers how the Group accounts for taxation, where there is some uncertainty over whether treatments in the tax return will be accepted by HMRC or the relevant overseas jurisdictions. Each uncertain treatment (or combination of treatments) is considered for whether it will be accepted, and if probable taxable profits/losses, tax bases, unused tax losses, unused tax credits and tax rates are accounted for consistently with the tax return. Otherwise the Group accounts for each treatment using whichever of the two allowed measurement methods is expected to best predict the final outcome - the single most likely outcome or a probability weighted-average value of a range of possible outcomes.

The new standard allows for two different transition approaches, fully retrospective and modified retrospective. The Group has not yet concluded on a transition method and as such it is not possible to fully quantify the impact of IFRIC 23 at this stage, though it is not expected to be material as the Group has taken a comparable approach to the interpretation in previous periods.

1. General information and basis of preparation (continued)

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 Executive Committee 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. The risks are shown in no particular order.

RISKS	DESCRIPTION	MITIGATION
Business Interruption	There is a risk that a major incident, such as a significant failure of technology, a natural disaster or strike action, could cause significant disruption to business operations. The Group's response must be appropriate to minimise disruption and reputational damage. The growing wholesale business increases the complexity of operations and technology.	• We have recovery plans in place covering our stores, depots, factories and offices; • These plans include, where appropriate, secondary locations which would be used as a backup in case of an incident; • Business continuity resilience exercises are undertaken to test processes and management's ability to respond effectively; • A Crisis Management Group is in place to oversee these plans and to manage and respond to any major incidents; • We conduct supplier risk assessments and have contingency plans in place, where possible, to manage the risk of loss of supply; and • The technology plan is aligned with the business strategy and considers the future needs of the business including greater investment in cloud technologies to provide further resilience.
Competitiveness	The Grocery sector continues to have high levels of competitive activity. The continued impact of the EU referendum, and subsequent negotiations, on exchange rates and the supply chain has affected costs of goods. If we do not engage with our suppliers and effectively manage our trade plan to remain competitive there is a risk this will adversely impact performance.	• We review and actively manage our pricing, trade plan and promotional and marketing campaigns; • We have simplified how we work with suppliers building joint business plans, ensuring a competitive customer offer; • We continually review our range, category plan, and quality and respond to customer feedback, for example the 'Best' premium own brand range has grown to meet customer demand; • Competitor pricing positions and market trends are reviewed on a weekly basis; and • Our strong balance sheet and strong cash flow will allow us to continue to invest in our proposition.
Customer	There is a risk that we do not meet the needs of our customers in respect of price, range, quality and service. We need to be responsive to changes in customer confidence and trends which have been impacted by changes to the economy and the UK's planned exit from the EU. If we do not provide the shopping trip that customers want, we could lose sales and market share.	• One of our six priorities is 'to serve customers better' and we have a range of activities to support that; • A large scale programme of customer listening groups is in place to gain a deep understanding of what our customers want and, where we can improve, these have informed key activities such as our store Fresh Look programme and changes to range;

RISKS	DESCRIPTION	MITIGATION
Customer (continued)		• We closely monitor research on customer perceptions and respond quickly where possible with support from a senior level steering group to address any particular risks arising from the UK's exit from the EU; and • We have worked with wholesale partners to make Morrisons products accessible to more customers and continue with plans to further expand the geography covered by our Online offering.
Data	A security breach leading to loss of customer, colleague or Group confidential data is a key aspect of this principal risk. A major data security breach could lead to significant reputational damage and fines. The risk environment is challenging, with increased levels of cybercrime and regulatory requirements.	• The Group's Data Steering Group has the responsibility for overseeing data management practices, policies, regulatory awareness and training; • Information security policies and procedures are in place, including encryption, network security, systems access and data protection; • This is supported by ongoing monitoring, reporting and rectification of vulnerabilities; • Focused working groups are in place – looking at the management of data across the business including colleague data, customer data, commercial data and financial data; and • A project team is in place which is implementing the plan to meet General Data Protection Regulations (GDPR) in advance of May 2018.
Financial and treasury	The main areas of this principal risk are the availability of funding and management of cash flow to meet business needs. There is a risk of a working capital outflow if there was a significant reduction in payment terms to suppliers. Some suppliers benefit from access to supply chain finance facilities. The withdrawal of these facilities may require some terms to be reviewed. In addition, fluctuations in commodity prices and foreign exchange rates could impact the Group's profitability.	• The Group's treasury function is responsible for the forward planning and management of funding, interest rate, foreign currency exchange rate and certain commodity price risks. They report to the Treasury Committee and operate within clear policies and procedures which are approved by the Board; • The Group's treasury policy is to maintain an appropriate borrowing maturity profile and a sufficient level of headroom in committed facilities. This includes an assumption that supply chain finance facilities are not available for the benefit of suppliers; • There are governance processes in place to control purchases in foreign currency and management of commodity prices; and • For livestock and produce, we track prices and forecasts and enter into long term contracts where appropriate to ensure stability of price and supply.
Food safety and product integrity	There is a risk that the products we sell are unsafe or not of the integrity that our customers expect. It is of utmost importance to us, and to the confidence that customers have in our business, that we meet the required standards. If we do not do this it could impact business reputation and financial performance.	• Monitoring processes are in place to manage food safety and product integrity throughout the Group and supply chain; • Regular assessments of our suppliers and own manufacturing and store facilities are undertaken to ensure adherence to standards; • Our vertical integration model gives us control over the integrity of a significant proportion of our fresh food;

RISKS	DESCRIPTION	MITIGATION
Food safety and product integrity (continued)		• Management regularly monitors food safety and product integrity performance and compliance as well as conducting horizon scanning to anticipate emerging issues; and • The process is supported by external accreditation and internal training programmes.
Health and safety	The main aspect of this principal risk is of injury or harm to customers or colleagues. Failure to prevent incidents could impact business reputation and customer confidence and lead to financial penalties.	• We have clear policies and procedures detailing the controls required to manage health and safety risks across the business; • An ongoing training programme is in place for front line operators and management; • A programme of health and safety audits is in place across our stores, depots, sites and offices with resources dedicated to manage this risk effectively; and • Management regularly monitors health and safety performance and compliance.
People	Our colleagues are key to the achievement of our plan, particularly as we improve the business. There is a risk that if we fail to attract, retain or motivate talented colleagues, we will not provide the quality of service that our customers expect. Business change and the challenging trading environment may impact on colleagues leading to an increase in this risk. There is uncertainty about potential changes to employment regulations when the UK leaves the EU and this could result in a retention and recruitment risk, particularly at some manufacturing sites.	• We have fair employment policies, and competitive remuneration and benefits packages; • A Group wide reward framework is in place and roles are evaluated against an external framework, driving stronger consistency of rewards; • Our training and development programmes are designed to give colleagues the skills they need to do their job and support their career aspirations; • Line managers conduct regular talent reviews and processes are in place to identify and actively manage talent; • Colleague engagement surveys, listening sessions and networking forums are used to understand and respond to our colleagues; and • A steering group is in place to monitor and take action on any particular people risks relating to the UK's exit from the EU.
Regulation	The Group operates in an environment governed by numerous regulations including GSCOP (Groceries Supply Code of Practice), competition, employment, health and safety, and regulations over the Group's products. There is uncertainty about any potential changes to regulations relating to the UK's exit from the EU. In all cases, the Board takes its responsibilities very seriously and recognises that breach of regulation can lead to reputational damage and financial damages to the Group.	• We have a GSCOP compliance framework in place including training for relevant colleagues and processes to monitor compliance; • We have a senior level working group in place to review and improve GSCOP compliance activity; • We have an independent whistleblowing line for suppliers to provide feedback to the Group and a Code Compliance Officer so that action can be taken as necessary; • We have a senior level steering group in place to monitor and take action on any potential regulatory change resulting from the UK's exit from the EU; • We have training, policies and legal guidance in place to support compliance with Competition Law and other regulations; and • We actively engage with government and regulatory bodies on policy changes which could impact our colleagues and our customers.

1. General information and basis of preparation (continued)

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

b) the strategic report includes a fair review of the development and performance of the business and the position of the Group 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. Segmental Reporting

The Group's principal activity is that of retailing, derived from the UK.

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 this makes the key operating decisions of the Group and is responsible for allocating resources and assessing performance.

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.

3. 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 investments; (c) remove the impact of pension volatility; and (d) apply a normalised tax rate of 23.8% (2017: 25.0%).

	2018 £m	2017 £m
Profit after tax	**311**	305
Add back: tax charge for the period[1]	**69**	20
Profit before tax	**380**	325
Adjustments for:		
Impairment and provision for onerous contracts[1]	**(6)**	(6)
Profit/loss arising on disposal and exit of properties[1]	**(19)**	(19)
Profit arising on disposal of investment[1]	**-**	(13)
Costs associated with the repayment of borrowings[1]	**16**	56
Pension scheme set-up credit[1]	**(13)**	-
Net pension income[1]	**(9)**	(8)
Other exceptional costs[1]	**25**	2
Underlying profit before tax	**374**	337
Normalised tax charge at 23.8% (2017: 25.0%)[1]	**(89)**	(84)
Underlying profit after tax	**285**	253
Underlying earnings per share (pence)		
- basic	**12.19**	10.86
- diluted	**11.94**	10.73

[1] Adjustments marked [1] decrease post-tax underlying earnings by £26m (2017: decrease of £52m) as shown in the reconciliation of earnings disclosed in note 8(b).

Following the Group's annual impairment and onerous contract review a net credit of £6m has been recognised. This included a net impairment reversal of £7m (£126m impairment reversal offset by £119m impairment charge). The £119m impairment charge includes £118m in relation to property, plant and equipment and £1m in relation to intangible assets. The £126m impairment reversal relates entirely to property, plant and equipment. A net £1m credit has been recognised in relation to provisions for onerous contracts (£22m charge offset by £23m release). In addition, amounts provided for onerous commitments has increased by a net £2m. Impairment and provision for onerous contracts in 2016/17 totalled a net credit of £6m. This included a net impairment reversal of £44m (£191m impairment reversal offset by £147m impairment) and charge of £38m relating to provisions for onerous contracts.

Profits/losses arising on disposal and exit of properties amounted to £19m (2017: £19m) and includes £14m (2017: £nil) relating to the disposal of the customer fulfilment centre (CFC) at Dordon in June 2017. In the 52 weeks ended 29 January 2017, a profit of £13m was recognised on the disposal of the Group's investment in Fresh Direct Inc.

Costs associated with the early repayment of borrowing facilities and other refinancing activities total £16m (2017: £56m). This includes £17m relating to financing charges on redemption of financial instruments (primarily premiums) and £1m of fees written off on the repayment of bonds, offset by £2m relating to gains which had previously been recognised in reserves which have been reclassified to the income statement on termination of hedging arrangements.

The pension scheme set-up credit of £13m relates to back dated contributions in respect of the Group's new defined contribution scheme which was established in the year and is the auto enrolment scheme for the Group. The credit represents the difference between the expected back dated contributions and the cost based on actual participation rates.

3. Underlying profit (continued)

Other exceptional costs include restructuring costs of £21m (2017: £nil) primarily relating to the restructuring of store management teams, and legal costs incurred in relation to cases in respect of historic events.

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

- impairment and provision for onerous contracts has been included within administrative expenses;
- profit/loss arising on disposal and exit of properties, profit arising on disposal of investments are classified within profit/loss arising on disposal and exit of properties and sale of investments;
- pension scheme set-up credit is classified within administrative expenses;
- costs associated with the repayment of borrowings are classified within finance costs;
- net pension income is included within finance income; and
- other exceptional costs have been recognised in administrative expenses.

4. Revenue

	2018 £m	2017 £m
Sale of goods in-store and online	**13,246**	12,747
Other sales	**290**	219
Total sales excluding fuel	**13,536**	12,966
Fuel	**3,726**	3,351
Total revenue	**17,262**	16,317

5. Finance costs and income

	2018 £m	2017 £m
Interest payable on short term loans and bank overdrafts	**(2)**	(3)
Interest payable on bonds	**(63)**	(86)
Interest capitalised	**1**	1
Total interest payable	**(64)**	(88)
Provisions: unwinding of discount	**(13)**	(13)
Other finance costs	**(1)**	(3)
Underlying finance costs[1]	**(78)**	(104)
Costs associated with the repayment of borrowings	**(16)**	(56)
Finance costs	**(94)**	(160)
Bank interest received	**5**	6
Amortisation of bonds	**-**	1
Underlying finance income[1]	**5**	7
Net pension income	**9**	8
Finance income	**14**	15
Net finance cost	**(80)**	(145)

[1] Underlying net finance costs marked [1] amount to £73m (2017: £97m).

6. Taxation

	2018 £m	2017 £m
Current tax		
- UK corporation tax	**69**	57
- overseas tax	**4**	2
- adjustments in respect of prior periods	**(8)**	(11)
	65	48
Deferred tax		
- origination and reversal of timing differences	**(2)**	(10)
- adjustments in respect of prior periods	**6**	3
- impact of change in tax rate	**-**	(21)
	4	(28)
Tax charge for the period	**69**	20

The effective tax rate for the year was 18.2% (2017: 6.2%). The normalised tax rate for the year (excluding the impact of property transactions, business disposals and tax rate changes) was 23.8% (2017: 25.0%). The normalised tax rate was 4.64% above the UK statutory tax rate of 19.16%. The main factor increasing the normalised tax rate is disallowed depreciation on UK properties which reflects the Group's strategy to maintain a majority freehold estate.

Legislation to reduce the standard rate of corporation tax to 17% from 1 April 2020 was included in the Finance Bill 2016 and was enacted in the prior period. Accordingly, deferred tax has been provided at 19% or 17% depending upon when the temporary difference is expected to reverse (2017: 19% or 17%).

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

7. Dividends

Amounts recognised as distributed to equity holders in the period:

	2018 £m	2017 £m
Interim dividend for the period ended 4 February 2018 of 1.66p (2017:1.58p)	**39**	37
Final dividend for the period ended 29 January 2017 of 3.85p (2016: 3.50p)	**90**	81
	129	118

The Directors propose a final ordinary dividend in respect of the financial period ended 4 February 2018 of 4.43p per share which will absorb an estimated £104m of shareholders' funds. The Directors also propose a special dividend of 4.00p per share which will absorb an estimated £94m of shareholders' funds. Subject to approval at the AGM, these dividends will be paid on 28 June 2018 to shareholders who are on the register of members on 25 May 2018.

The dividends paid and proposed during the year are from cumulative realised distributable reserves of the Company.

8. 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 excluding shares held in trust. 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 (2017: two) classes of instrument that are potentially dilutive: those share options granted to employees where the exercise price together with the future IFRS 2 charge of the option is less than the average market price of the Company's ordinary shares during the period and contingently issuable shares under the Group's long term incentive plans (LTIP).

a) Basic and diluted EPS (unadjusted)

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

		2018			2017	
	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 attributable to ordinary shareholders	**311.1**	**2,338.6**	**13.30**	305.0	2,327.1	13.11
Effect of dilutive instruments						
Share options and LTIPs	**-**	**49.3**	**(0.27)**	-	27.9	(0.16)
Diluted EPS	**311.1**	**2,387.9**	**13.03**	305.0	2,355.0	12.95

b) Underlying EPS

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

		2018			2017	
	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 attributable to ordinary shareholders	**311.1**	**2,338.6**	**13.30**	305.0	2,327.1	13.11
Adjustments to determine underlying profit (note 3)	**(26.1)**	**-**	**(1.11)**	(52.2)	-	(2.25)
	285.0	**2,338.6**	**12.19**	252.8	2,327.1	10.86
Effect of dilutive instruments						
Share options and LTIPs	**-**	**49.3**	**(0.25)**	-	27.9	(0.13)
Diluted EPS	**285.0**	**2,387.9**	**11.94**	252.8	2,355.0	10.73

9. Goodwill and intangible assets

	2018 £m	2017 £m
Net book value		
At beginning of period	**445**	483
Additions	**68**	55
Impairment	**(1)**	-
Amortisation charge	**(84)**	(93)
At end of period	**428**	445

The carrying value of goodwill and intangible assets principally consists of software development costs of £404m (2017: £418m).

Following the annual impairment review conducted by the Group, an impairment charge of £1m (2017: £nil) has been recognised in relation to intangible assets. This has been included as an adjustment to underlying earnings (see note 3).

10. Property, plant and equipment

	2018 £m	2017 £m
Net book value		
At beginning of period	**7,227**	7,161
Additions	**427**	367
Disposals	**(87)**	(17)
Interest capitalised	**1**	1
Transfers to investment properties	**-**	(4)
Transfers to assets classified as held-for-sale	**-**	(20)
Depreciation charge	**(333)**	(305)
Net impairment reversal	**8**	44
At end of period	**7,243**	**7,227**

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.

During June 2017, the Group sold the land and buildings of its customer fulfilment centre (CFC) at Dordon to a third party for cash consideration of £92m. The disposal is included within the disposals during the 53 weeks ended 4 February 2018. The disposal resulted in a profit of £14m. This profit has been included in profit/loss on disposal and exit of properties as an adjustment to underlying earnings (see note 3).

Included within the table above are leasehold land and buildings held under finance lease with a cost of £293m (2017: £294m) and accumulated depreciation of £75m (2017: £72m).

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 £199m (2017: £198m).

10. Property, plant and equipment (continued)

Impairment

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

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

- use the actual cash flows for each store in the current year;
- allocate a proportion of the Group's central costs to each store on an appropriate basis;
- project each store's cash flows over the next five years by applying forecast sales and cost growth rate; and
- project each store's 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% (2017: 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; and
- 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 a net impairment reversal of £8m (£126m impairment reversal offset by £118m impairment charge) during the year in respect of property, plant and equipment (2017: £44m; £191m impairment reversal offset by £147m impairment charge). This movement reflects fluctuations from store level trading performance and local market conditions.

At 4 February 2018, 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 £96m.

11. Investment property

	2018 £m	2017 £m
Net book value		
At beginning of period	**33**	37
Additions	**5**	-
Transfer from property, plant and equipment	**-**	4
Transfers to assets classified as held-for-sale	**(4)**	(7)
Depreciation charge	**(1)**	(1)
At end of period	**33**	33

12. Assets classified as held-for-sale

	2018 £m	2017 £m
Net book value		
At beginning of period	**-**	-
Additions	**-**	19
Transfer from property, plant and equipment	**-**	20
Transfers from investment properties	**4**	7
Disposals	**-**	(46)
At end of period	**4**	-

13. Investments

	2018 £m	2017 £m
Net book value		
At beginning of period	**-**	31
Fair value adjustments	**-**	14
Disposals	**-**	(45)
At end of period	**-**	-

In the 52 weeks ended 29 January 2017, the Group disposed of its 10% stake in Fresh Direct Inc, a US internet grocer, for cash consideration of £45m, net of £1m of transaction costs. In line with IAS 39 'Financial Instruments: Recognition and Measurement', the asset was remeasured to fair value before the sale completed, resulting in a £14m increase in the book value of the investment. On disposal the £14m revaluation gain was recognised in the income statement net of £1m of transaction costs. This profit is one-off in nature and was excluded from reported underlying earnings for the 52 weeks ended 29 January 2017 (see note 3). Following the transaction the undrawn loan facility provided to Fresh Direct Inc ceased.

14. Stock

	2018 £m	2017 £m
Finished goods	**686**	614

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

15. Debtors

	2018 £m	2017 £m
Trade debtors:		
– Commercial income trade debtors	**3**	4
– Accrued commercial income	**29**	38
– Other trade debtors	**123**	101
Less: provision for impairment of trade debtors	**(6)**	(6)
	149	137
Prepayments and accrued income	**91**	68
Other debtors	**10**	9
	250	214

As at 4 February 2018 and 29 January 2017, 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 11 March 2018, £2m of the £3m commercial income trade debtor balance had been settled and £16m of the £29m accrued commercial income balance had been invoiced and settled.

16. Creditors - current

	2018 £m	2017 £m
Trade creditors	**2,298**	2,160
Less: commercial income due, offset against amounts owed	**(28)**	(34)
	2,270	2,126
Other taxes and social security payable	**93**	68
Other creditors	**147**	198
Accruals and deferred income	**471**	445
	2,981	2,837

Included within accruals and deferred income is £4m (2017: £3m) in respect of deferred commercial income.

As of 11 March 2018, £20m of the £28m commercial income due above had been offset against payments made.

17. Pensions

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 and/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 Retirement Saver Plan ('RSP') is a cash balance scheme, which provides a lump sum benefit based upon a defined proportion of an employee's annual earnings in each year, which is revalued each year in line with inflation subject to a cap.

17. Pensions (continued)

The disclosures below show the details of the schemes combined:

	2018 CARE	**2018 RSP**	2017 CARE	2017 RSP
	£m	**£m**	£m	£m
Fair value of scheme assets	**4,542**	**315**	4,455	219
Present value of obligations	**(3,930)**	**(333)**	(4,162)	(240)
Net pension asset/(liability)	**612**	**(18)**	293	(21)

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

	2018	2017
	£m	£m
Net pension asset at start of the period	**272**	186
Net interest income	**9**	8
Settlement and curtailment gain	**10**	1
Remeasurement in other comprehensive income	**323**	86
Employer contributions	**75**	66
Current service cost	**(91)**	(71)
Administrative cost	**(4)**	(4)
Net pension asset at end of the period	**594**	272

At 4 February 2018, schemes in surplus have been disclosed within the 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. In respect of the RSP this is on the basis that paragraph 11(a) of IFRIC 14 applies enabling a refund of surplus during the life of the RSP. In respect of the Morrison Scheme, it is on the basis that paragraph 11(b) or 11(c) of IFRIC 14 applies enabling a refund of surplus assuming the gradual settlement of the scheme liabilities over time until all members have left the scheme or the full settlement of the Scheme's liabilities in a single event (i.e. as a scheme wind up). In respect of the Safeway Scheme, a refund is available on the basis that paragraph 11(b) of IFRIC14 applies. Amendments to the current version of IFRIC 14 are currently being considered. The legal advice received by the Group has considered the proposed new wording to paragraph 12(A) of IFRIC 14 concerning whether other parties have a unilateral power to use a scheme's surplus to settle in full the scheme's liabilities and has concluded that the above accounting treatment should not be affected by the current exposure draft of the revised wording to IFRIC 14.

Settlement and curtailment gains in the 53 weeks ended 4 February 2018 include £8m relating to the settlement of retirement benefits resulting from actions taken to further de-risk the Group's pension schemes.

During the year, the Group has updated the methodology for deriving the discount rate assumption used in valuing the pension scheme liabilities. The Group believes that this revised approach better reflects expected yields on high quality corporate bonds over the duration of the Group's pension schemes, as required by IAS 19. The previous methodology estimated the discount rate with reference to both corporate bond and gilt yields. The new method uses high quality corporate bond yields where available. At very long durations, where there are no high quality corporate bonds, the yield curve is extrapolated based on available corporate bond yields of mid to long duration. This change reduced the value placed on the IAS 19 pensions liabilities of the Group by £242m and improved the pre-tax balance sheet position by £234m.

17. Pensions (continued)

Defined Contribution Scheme

As previously announced, the Group opened a new defined contribution pension scheme called the Morrisons Personal Retirement Scheme ('MPRS') for colleagues during the 53 weeks ended 4 February 2018. The MPRS has become the auto enrolment scheme for the Group and as such the Group was liable for backdated contributions for eligible colleagues to 1 October 2012. This was paid in January 2018. The pension scheme set-up credit of £13m recognised as an adjustment to underlying earnings (see note 3), relates to the cost of back dated contributions in respect of this new defined contribution scheme. The credit represents the difference between the expected back dated contributions previously accrued for and the cost based on actual participation rates.

As the MPRS is a defined contribution scheme, the Group is not subject to the same investment, interest rate, inflation or longevity risks as it is for the defined benefit schemes. The benefits that colleagues receive are dependent on the contributions paid, investment returns and the form of benefit chosen at retirement. Over the period, the Group paid contributions of £4m to the MPRS, and expects to contribute £23m for the following period.

18. Cash generated from operations

	2018 £m	2017 £m
Profit for the period	**311**	305
Net finance costs	**80**	145
Taxation charge	**69**	20
Share of profit of joint venture (net of tax)	**(2)**	(2)
Operating profit	**458**	468
Adjustments for:		
Depreciation and amortisation	**418**	399
Impairment charge	**119**	147
Impairment reversal	**(126)**	(191)
Profit arising on disposal and exit of properties and sale of investments	**(19)**	(32)
Adjustment for non-cash element of pension charges	**10**	7
Share-based payments charge	**33**	20
Other non-cash charges	**-**	2
(Increase)/decrease in stocks[1]	**(72)**	2
Increase in debtors[1]	**(50)**	(19)
Increase in creditors[1]	**153**	306
(Decrease)/increase in provisions[1]	**(40)**	4
Cash generated from operations	**884**	1,113

Total working capital outflow (the sum of items marked [1] in the table) is £9m in the year (29 January 2017: £293m inflow). This includes £1m (29 January 2017: £38m) as a result of the current year charges in respect of onerous contracts and accruals of onerous commitments, net of £42m (29 January 2017: £94m) of onerous payments and other non-operating payments of £3m (29 January 2017: £11m). When adjusted to exclude these items, the working capital inflow is £35m (29 January 2017: £360m).

19. Analysis of net debt

	2018 £m	2017 £m
Cross-currency contracts and interest rate swaps[1]	**12**	6
Fuel and energy price contracts	**4**	10
Non-current financial assets	**16**	16
Foreign exchange forward contracts	**1**	11
Fuel and energy price contracts	**14**	11
Current financial assets	**15**	22
Bonds[1]	**(72)**	-
Foreign exchange forward contracts	**(13)**	(2)
Fuel and energy price contracts	**-**	(1)
Current financial liabilities	**(85)**	(3)
Bonds[1]	**(1,245)**	(1,550)
Fuel and energy price contracts	**(1)**	(5)
Non-current financial liabilities	**(1,246)**	(1,555)
Cash and cash equivalents per balance sheet	**327**	326
Net debt	**(973)**	(1,194)

Total net liabilities from financing activities (the sum of items marked [1] in the table) is £1,305m in the 53 weeks ended 4 February 2018 (2017: £1,544m).

Cash and cash equivalents include restricted balances of £7m (2017: £9m) which is held by Farock Insurance Company Limited, a subsidiary of Wm Morrison Supermarkets PLC.

20. Commercial income

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

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

The amounts recognised as a deduction from cost of sales relating to the two types of commercial income are detailed as follows:

	2018 £m	2017 £m
Commercial income:		
Marketing and advertising funding	**34**	52
Volume-based rebates	**192**	257
Total commercial income	**226**	309

21. Related party transactions

The Group's related party transactions in the period include the remuneration of the senior managers, and the Directors' emoluments and pension entitlements, share awards and share options as disclosed in the audited section of the Directors' remuneration report, which forms part of the Group's Annual Report and Financial Statements.

During the year, the Group received a dividend of £8m (2017: £8m) from MHE JVCo. The Group has a 51.5% interest in MHE JV Co.

22. Guarantees and contingent liabilities

Following the disposal of the land and building of its customer fulfilment centre (CFC) at Dordon to a third party (see note 10) the Group continues to guarantee the lease in respect of this site. If the lessee were to default, their lease obligations could revert back to the Group under the terms of the guarantee and become a liability of the Group. Should the lessee default, the additional future commitment is estimated at up to £32m.

The Group has an ongoing legal case brought by a number of current and former colleagues relating to employee data theft in the 52 weeks ended 1 February 2015. In December 2017, the High Court concluded that the Group was liable for the actions of the former employee who conducted the data theft. The Group has since launched an appeal to this judgement and the High Court has confirmed that there will be no hearings on the level of compensation until the appeal has been concluded. It is the Director's view that at this stage of the process the Group cannot reliably assess the outcome of the case nor reasonably estimate the quantum of any loss and as such no provision has been recognised.

23. 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 19 February 2018, the Group acquired Chippindale Foods Limited, a leading supplier of free range eggs, for a consideration of £6m. The Directors consider this event as a non-adjusting post balance sheet event.

Glossary

Alternative Performance Measures

In response to the Guidelines on Alternative Performance Measures (APMs) issued by the European Securities and Markets Authority (ESMA), we have provided additional information on the APMs used by the Group. The Directors use the APMs listed below as they are critical to understanding the financial performance and financial health of the Group. As they are not defined by IFRS, they may not be directly comparable with other companies who use similar measures.

<table>
<tr><th>Measures</th><th>Closest equivalent IFRS measure</th><th>Definition and purpose</th><th>Reconciliation for 2017/18 Group measures [1]</th></tr>
<tr><td colspan="4">Profit Measures</td></tr>
<tr><td>Like-for-like (LFL) sales growth</td><td>Revenue</td><td>Percentage change in year-on-year sales (excluding VAT), removing the impact of new store openings and closures in the current or previous financial year.

The measure is used widely in the retail industry as an indicator of underlying sales performance. It is also a key measure for Director and management remuneration.</td><td><table>
<tr><th></th><th>53 weeks ended 4 February 2018 %</th></tr>
<tr><td>Group LFL (exc. fuel)</td><td>2.8%</td></tr>
<tr><td>Group LFL (inc. fuel)</td><td>4.1%</td></tr>
<tr><td>53rd week impact</td><td>2.0%</td></tr>
<tr><td>Impact of store closures</td><td>(0.3)%</td></tr>
<tr><td>Total revenue year on year</td><td>5.8%</td></tr>
</table></td></tr>
<tr><td>Total sales growth</td><td>Revenue</td><td>Including fuel:
Percentage change in year-on-year total reported revenue.

Excluding fuel:
Percentage change in year-on-year total reported sales excluding fuel.

This measure illustrates the total year-on-year sales growth.

This measure is a key measure for Director and management remuneration.</td><td>A reconciliation of total sales including and excluding fuel is provided in note 4.</td></tr>
<tr><td>Underlying profit before tax (UPBT)</td><td>Profit before tax</td><td>Reported profit before tax excluding impairment and provisions for onerous contracts, profit/loss on disposal and exit of properties and sale of businesses and investments, the impact of pension volatility and other items that do not relate to the Group's principal activities on an ongoing basis.

This measure is a key measure used by the Directors. It provides key information on underlying trends and performance of the Group and is used for Director and management remuneration.</td><td>A reconciliation of this measure is provided in note 3.</td></tr>
<tr><td>Underlying profit after tax</td><td>Profit after tax</td><td>UPBT adjusted for a normalised tax charge.

This measure is used by the Directors as it provides key information on underlying trends and performance of the Group, including a normalised tax charge.</td><td>UPBT of £374m less a normalised tax charge of £89m (note 3).</td></tr>
</table>

[1] Certain ratios referred to in the financial statements are calculated using more precise numbers rather than rounded numbers. These stated ratios may therefore differ slightly to those calculated by the numbers in this report due to rounding (as numbers in the financial statements are presented in round millions).

Glossary (continued)

Measures	Closest equivalent IFRS measure	Definition and purpose	Reconciliation for 2017/18 Group measures [1]
Profit Measures (continued)			
Underlying operating profit	Operating profit[2]	Reported operating profit excluding impairment and provisions for onerous contracts, profit/loss on disposal and exit of properties and sale of investments and other items impacting operating profit that do not relate to the Group's principal activities on an ongoing basis. This measure is used by the Directors as it provides key information on underlying trends and performance of the Group.	Reported operating profit (£458m) less impairment and provisions for onerous contracts (£6m), profit/loss on disposal and exit of properties and sale of investments (£19m), pension scheme set-up credit (£13m), plus other exceptional costs of £25m.
Underlying net finance costs	Finance costs	Reported net finance costs excluding net pension income and other items impacting net finance costs that do not relate to the Group's principal activities on an ongoing basis. This measure is used by the Directors as it provides key information on underlying cost of financing excluding the impact of exceptional items.	A reconciliation of this measure is provided in note 5.
Underlying basic earnings per share	Basic earnings per share	Basic earnings per share based on underlying profit after tax rather than reported profit after tax as described above. This measure is a key measure used by the Director's. It provides key information on underlying trends and performance of the Group and is used for Director and management remuneration.	A reconciliation of this measure is included in note 8.
Underlying diluted earnings per share	Diluted earnings per share	Diluted earnings per share based on underlying profit after tax rather than reported profit after tax as described above.	A reconciliation of this measure is included in note 8.
Tax measures			
Normalised tax	Effective tax	Normalised tax is the tax rate applied to the Group's principal activities on an ongoing basis. This is calculated by adjusting the effective tax rate for the period to exclude the impact of profit/loss relating to property disposals and sale of investments, pension interest volatility, impairment and provisions for onerous contracts, and other items that do not relate to the Group's principal activities on an ongoing basis. This measure is used by the Directors as it provides a better reflection of the normalised tax charge for the Group.	A reconciliation of the tax charge is found in note 2.2.3 of the Group financial statements.

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[2] Operating profit is not defined under IFRS. However, it is a generally accepted profit measure.

Glossary (continued)

Measures	Closest equivalent IFRS measure	Definition and purpose	Reconciliation for 2017/18 Group measures [1]
Cash flows and net debt measures			
Free cash flow	No direct equivalent	Movement in net debt before dividends. This measure is used by the Directors as it provides key information on the level of cash generated by the Group before the payment of dividends.	£350m being the movement in net debt (£221m) before payment of dividend (£129m).
Net debt	Borrowings less cash and cash equivalents and financial assets and liabilities	Net debt is cash and cash equivalents, non-current financial assets and current financial assets, less borrowings, current financial liabilities and non-current financial liabilities.	A reconciliation of this measure is provided in note 19.
Working capital movement	No direct equivalent	Movement in stock, movement in debtors, movement in creditors and movement in provisions.	A reconciliation of this measure is provided in note 18.
Operating working capital movement	No direct equivalent	Working capital movement adjusted for charges for onerous contracts, onerous payments and other non-operating payments. This measure is used by the Directors as it provides a more appropriate reflection of the working capital movement by excluding certain nonrecurring movements relating to property balances.	A reconciliation of this measure is provided in note 18.
Other measures			
Return on capital employed	No direct equivalent	Return on capital employed is calculated as return divided by average capital employed. Return is defined as annualised underlying profit after tax adjusted for underlying net finance costs and operating lease rentals (on land and buildings). Capital employed is defined as average net assets excluding net pension assets and liabilities, less average net debt, plus the lease adjustment (10 times rent charged). This measure is used by the Directors as it is a key ratio in understanding the performance of the Group.	ROCE (7.7%) equals return divided by average capital employed: Return (£451m) = Underlying profit after tax annualised (£285m) adjusted for underlying net finance costs (£73m) and operating lease rentals (on land and buildings) (£93m). Average capital employed (£5,884m) = Average net assets excluding the net pension asset (£3,871m), average net debt (£1,084m) and the lease adjustment (£929m).

[1] Certain ratios referred to in the financial statements are calculated using more precise numbers rather than rounded numbers. These stated ratios may therefore differ slightly to those calculated by the numbers in this report due to rounding (as numbers in the financial statements are presented in round millions).