Morrison(Wm.)Supermarkets PLC - MRW Final Results
Released 07:00 09-Mar-2017

RNS Number : 9315Y
Morrison(Wm.)Supermarkets PLC
09 March 2017

Release date: 9 March 2017

PRELIMINARY RESULTS FOR THE YEAR ENDED 29 JANUARY 2017
A year of strengthening performance

Financial summary

- LFL sales ex-fuel/ex-VAT up 1.7%, positive in all four quarters and 2.5% in Q4
- Turnover up 1.2% to £16.3bn (2015/16: £16.1bn) despite store closures
- UPBT up 11.6% to £337m, at the upper end of the £330m-£340m guided range (2015/16 UPBT before restructuring costs: £302m)
- UPBT up 39.3% (2015/16 UPBT including restructuring costs: £242m)
- Underlying EPS up 39.8% to 10.86p (2015/16: 7.77p)
- Reported PBT up 49.8% to £325m (2015/16: £217m)
- Free cash flow of £670m (2015/16: £854m)
- Operating working capital improvement of £360m
- Gross debt reduced by £717m, net debt reduced by £552m to £1,194m
- Triennial pension valuation complete, with funding surplus of £111m
- Final dividend of 3.85p, full year total dividend up 8.6% to 5.43p (2015/16: 5.00p)

Strategic and operating highlights

- First year of positive LFL sales and UPBT growth since 2011/12
- Strong cash flow, gross and net debt down substantially
- First year of new dividend policy. Dividend sustainable and covered around two times by underlying EPS
- Fix, Rebuild and Grow strategy starting to build a broader, stronger Morrisons
- New partnerships with Amazon, Ocado, Timpson, Rontec, and the revival of the Safeway brand are all capital light growth opportunities
- Further forty *'Morrisons Daily'* forecourt convenience stores planned with Rontec

Financial targets update

- £18m of the £50m-£100m incremental PBT target delivered in the first year
- £1bn cost savings achieved. Further productivity and cost savings to come
- Good progress with medium-term cash flow targets: achieved over £900m of £1bn working capital, and almost £900m of £1.1bn disposals
- Net debt expected to fall to less than £1bn by the end of 2017/18

Andrew Higginson, Chairman, said:

"Food retail is a simple business, but it is not easy. Only consistent and outstanding execution differentiates. I am delighted that the whole Morrisons team are making a real difference.

"I am confident that strong execution will drive sustained dividend growth and improving returns for Morrisons shareholders."

David Potts, Chief Executive, said:

"Our full year of like-for-like sales and profit growth was powered by listening to customers, and shows what our hard-working team of food makers and shopkeepers can do.

"But, it's only one year. Our turnaround has just started, and we have more plans and important work ahead. If we keep improving the customer shopping trip, I am confident that Morrisons will continue to grow."

Outlook

We are confident we can continue to turnaround and grow Morrisons. There are some uncertainties ahead, especially around the impact on imported food prices if sterling stays at lower levels. We also expect depreciation and pension costs to increase, and we will continue to invest in colleague pay rates. However, all of this is incorporated into our plan.

During the year, we achieved £18m of incremental profit from wholesale, services, interest and online, and remain confident of our £50m-£100m medium-term target.

We have identified further cost saving opportunities beyond the £1bn already achieved, in: ordering, distribution between Manufacturing and Retail, in-store administration, and procurement of goods not for resale.

Our medium-term targets of £1bn improvement in working capital and at least £1.1bn of disposal proceeds remain unchanged.

We expect net debt to continue to fall to less than £1bn by the end of 2017/18.

Figure 1 - 2016/17 profit reconciliation

£m		FY 15/16	H1 16/17	H2 16/17	FY 16/17	Y-on-Y
Reported operating profit		314	224	244	468	49.0%
Reported profit before tax		217	143	182	325	49.8%
Underlying adjustments	A					
Impairment and provision for onerous commitments		87	-	-6	-6	
Profit on disposal, and exit of properties, and sale of businesses and investments		-131	-17	-15	-32	
Costs associated with repayment of borrowings*		-	35	21	56	
Loss on disposal of 140 M local stores		34	-	-	-	
Pension scheme set-up costs		35	-	-	-	
Net pension income*		-	-4	-4	-8	
Other		-	-	2	2	
Underlying operating profit		339	207	225	432	27.4%
Underlying profit before tax		**242**	**157**	**180**	**337**	**39.3%**
Restructuring	B	60	-	-	-	
Underlying operating profit before (A) + (B)		399	207	225	432	8.3%
Underlying profit before tax and before (A) + (B)		**302**	**157**	**180**	**337**	**11.6%**

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

Figure 2 - Sales performance (ex-VAT)

	2015/16	2016/17						
	Q4	Q1	Q2	H1	Q3	Q4	H2	FY
Group LFL:								
Sales ex-fuel*	0.1%	0.7%	2.0%	1.4%	1.6%	2.5%	2.1%	1.7%
Sales inc-fuel*	-0.2%	1.2%	2.4%	1.8%	3.4%	4.5%	4.0%	2.9%

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

Figure 3 - Summary of supermarkets' operational key performance indicators

	2015/16	2016/17						
LFL:	**Q4**	**Q1**	**Q2**	**H1**	**Q3**	**Q4**	**H2**	**FY**
Number of transactions*	1.6%	3.1%	4.3%	3.7%	4.1%	4.6%	4.3%	4.0%
Items per basket*	-3.4%	-2.8%	-5.0%	-3.9%	-5.5%	-5.3%	-5.4%	-4.6%

** Excludes online and convenience*

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 relevant Alternative Performance Measures identified by the Group 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 the Annual report. The key metrics are outlined below:

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

Total turnover during the period was up £195m year-on-year, 1.2%, comprising positive LFL of 1.7% (ex-fuel, ex-VAT), negative net new space of 2.2% as a result of the planned programme of disposals and underperforming store closures, and positive fuel and other sales of 1.7%.

(2) **Underlying profit before tax (UPBT), underlying operating profit and underlying earnings per share (EPS):** include restructuring costs, but exclude profit/(loss) relating to disposals and exit of properties, sale of businesses and investments, net pension income, impairment and provision for onerous contracts, 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 £670m (2015/16: £854m), being the movement in net debt of £552m (2015/16: £594m) adjusted for dividends paid of £118m (2015/16: £260m).

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Management will host an analyst presentation this morning at 09:30.

***** Pre-registration is required to attend the meeting. *****

If you are not already registered and would like to attend, please register via the following link by 09:00 this morning.

https://docs.google.com/forms/d/e/1FAIpQLScztIahaiJSAVWxigfuTfEP0-1BANW7oI-nkBUUnpffs1h0iA/viewform

A webcast of this meeting is available at http://www.morrisons-corporate.com/Investor-centre/

Dial-in details:

Participant dial in:	+44 (0) 330 336 9105
Password:	Morrisons

Replay facility available for 7 days:

Replay access number:	+44 (0) 207 984 7568
Replay access code:	2602250

- ENDS -

Certain statements in this half-yearly financial report are forward-looking. Where the half-yearly 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

We were pleased with our sales performance for the year. Total turnover was £16.3bn, up 1.2% year-on-year despite negative net new space as a result of the planned programme of disposals and underperforming store closures. Store turnover excluding fuel was £12.7bn, down 0.5%, comprising LFL(1) of 1.7% (online of 0.9% and supermarkets of 0.8%) and -2.2% contribution from net new space.

LFL was strong throughout the year and has now been positive for five consecutive quarters. LFL volume has now been positive for seven quarters. Despite tougher prior year comparatives, LFL strengthened to 2.5% in Q4, with LFL Number of transactions also strong at 4.6%. Online contributed 0.6% to Q4 LFL sales.

Fuel performance continued to be strong, with sales up 7.3% to £3.4bn and LFL up 7.5%. As the oil price rose during the year, deflation moved to inflation.

Underlying operating profit(2) was up 8.3% to £432m (2015/16: £399m before restructuring costs), with margin up 17 basis points to 2.6%.

Underlying net finance costs were £97m (2015/16: £99m).

Reported profit before tax (PBT) was £325m (2015/16: £217m).

Underlying PBT (UPBT(2)) was up 39.3% to £337m (2015/16: £242m). Adjusted for last year's restructuring costs, UPBT was up 11.6% (2015/16: £302m). Adjustments recognised outside UPBT were £12m, as listed in Figure 1. UPBT included £18m of the incremental £50m-£100m profit target from wholesale, services, interest and online.

Underlying basic EPS(2) was up 39.8% to 10.86p (2015/16: 7.77p).

Capital expenditure was £419m (2015/16: £365m).

Free cash flow(3) pre-dividend was £670m, which included a further £360m improvement in operating working capital and £123m of disposal proceeds.

Overall, post-dividend and pre-disposal proceeds, the business was again cash flow positive, generating £408m during the year.

Group net debt fell to £1,194m, down £552m from the end of 2015/16.

The proposed final dividend is 3.85p and total 5.43p (up 8.6%), in line with the new policy to pay a sustainable dividend covered around two times by underlying EPS.

Eight stores were closed in the year, one new store opened, and five were extended slightly during their Fresh Look refits. Overall, space fell by 48,000 square feet.

Return on capital employed (ROCE) was 6.9%, up from 5.3% in 2015/16.

Strategy update

Our strategy to Fix, Rebuild and Grow is powered by listening and by delivering our six priorities. We are still in Fix phase and have more plans, but we are making good progress for all stakeholders - customers, colleagues, suppliers and shareholders.

The shopping trip is improving and more customers are buying more from Morrisons. During the year, LFL sales were up 1.7% driven by higher volumes, and LFL transactions were up 4.0%. These are two key metrics for Morrisons.

Our turnaround is colleague-led, and our ambition is for our motivated and valued colleagues to increasingly share in our success. We are striving to reward our unique team of food makers and shopkeepers with a pay and bonus structure to reflect their contribution towards great customer service.

For suppliers, we are building long-term partnerships, improving our ways of working together to reduce complexity and lowering the cost of doing business. For shareholders, we are building a broader, stronger business to maximise and sustain growth in profits and dividends.

The three turnaround phases - Fix, Rebuild, Grow - are distinct and also concurrent. Our improved performance during the year showed this, as we again made progress both with core supermarkets and with plans to build a broader, stronger business.

UPBT grew by 11.6%, the first year of growth for five years. Investment in the shopping trip drove positive LFL sales and improved productivity, which we are now recycling into further improvements for customers. We also realised £393m of cost savings during the year, bringing the three-year total to £1.04bn, above our £1bn target. Our new automated ordering system was launched in the second half and is already saving time and money, and improving the customer shopping trip. We are working on further cost-saving opportunities in distribution between Manufacturing and Retail, in-store administration, and procurement of goods not for resale.

We are making good progress with the £50m-£100m medium-term incremental profit opportunity in wholesale, services, interest and online, of which we realised £18m during the year. We announced new partnerships with Amazon, Timpson, Rontec, and the revival of the Safeway brand, plus an updated plan for Morrisons.com to grow profitably with Ocado. In addition, we either retired or bought back £717m across the USPP and bonds, thereby reducing future interest payments.

The strong cash flow and balance sheet remain the foundations on which we will continue to turnaround and grow Morrisons. We expect net debt to be below £1bn by the end of 2017/18, and improved sales, margin and asset intensity continue to be the levers driving profit and ROCE growth. That growth will be capital light and sustainable, and will be across both our core supermarkets and a broader base as the Morrisons brand starts to become more popular and accessible. As we keep improving profitability and further de-leverage, we will continue to be guided by our capital allocation framework.

Six priorities update

1. To be more competitive

Morrisons is becoming more competitive for customers.

Our prices are lower. *'Price Crunch'* has been running for more than a year, during which we have *'Crunched'* thousands of prices and held hundreds below their original level. This is a break from the traditional promotion cycle, and helps us drive volume growth and develop a Morrisons price list across a wide basket of products that we know matter most to our customers.

As we deliver a notch down in price, we also notch up in quality. We are investing in improving Fresh, for example in Fruit & Vegetables, and our unique *'Morrisons Makes It'* freshly prepared products. Innovation in new and improved items and an ongoing flow of resets, category by category, ensures our range, product quality and packaging are constantly improving, thereby broadening our appeal. We have made good progress in improving our own label ranges, and still have more than half to do.

Our *'Best'* premium own-label launch was a major new initiative during the Autumn and in the run up to Christmas. Sales have been strong, and feedback on the quality and breadth of range has been excellent.

As we become more competitive, we are winning more recognition. During the year we won Meat and Fish Retailer of the Year, In-store Bakery Retailer of the Year, National Café Chain of the Year, Cheddar Cheese Retailer of the Year, Multiple Drinks Retailer of the Year, and International Wine Challenge Supermarket of the Year for the second year running.

2. To serve customers better

Colleagues are leading the turnaround by serving customers better.

During the second half, we introduced a new automated ordering system into all stores in Grocery and many Fresh categories. We plan to roll it out across all categories during 2017. The system is capital light, utilising cloud technology and store-specific historic sales data to forecast stock requirements. It is reducing cost and stock levels, while also saving time for colleagues, and providing a better offer for customers. Availability is improving, with gaps reduced by up to 30%.

We are improving our front-end labour scheduling, ensuring more colleagues are available for customers at the busiest times. We also continue to invest in serving customers better, with the introduction of new customer service desks and belted self-scan checkouts, and more customer greeters.

Customers continue to notice the improvements and respond. Queues are shorter and our satisfaction survey scores remain high. We are serving more customers, with LFL transactions up 4.0% year-on-year which is 450,000 more each week.

3. Find local solutions

Our new local solutions team is making good progress. For many individual stores, we are sourcing locally grown fruit and vegetables, which is very popular with customers. We are introducing ranges such as Lincolnshire Pork and Beef, and improving range, quality and price around major regional events such as Hogmanay. Local sales were up 20% year-on-year, and we expect further progress in the future. For example, in February we launched an initiative to identify and source products from two hundred of the nation's best local growers, farmers, fishermen, and other food makers.

Our customer listening programme before and after a Fresh Look refit, together with the increasingly insightful data provided by our More card, is helping us to limit the impact of competitor new store openings.

4. Develop popular and useful services

Our existing services continue to become more popular and our new services are beginning to take shape.

Customers are responding well to the improved menus, service, and standards in our cafés. We modernised over 130 cafés last year, introducing a contemporary new look and feel. Overall, café LFL sales were up 3.7%. Our fuel business continues to be more competitive and LFL sales were strong, up 7.5%.

Timpson is now in 150 Morrisons stores. Where Timpson now operates a full dry cleaning, key cutting and repairs offer, its sales are up by an average of 40%.

Morrisons has high footfall supermarkets which are proving very popular for pick-up services, with Amazon lockers now in over 400 stores and, after a successful trial, a roll-out is planned with Doddle.

Opportunities to locate complementary retail services for customers have been identified at more than 30 initial stores. The first of these is planned shortly, and we expect longer-term potential across the estate. In addition, we will soon be trialling hand carwash and tyre-change concessions, both of which also will provide new services for customers and income for Morrisons.

5. To simplify and speed up the organisation

During the year, we continued to simplify in-store reporting structures by reducing the number of managerial roles. We also improved capability further by recruiting or promoting over 150 store and area managers.

We are building stronger, lasting, mutually beneficial relationships with our suppliers. We have listened, and are working together to buy and sell simply, and develop more efficient ways of working. We are introducing a standard supply agreement, removing charges - such as those for customer complaints and some legal checks - and are working together to reduce future administration and cost. In addition, we are removing range duplication while improving choice, and developing '*Price Crunch*' as a simple and effective mechanic for both customers and suppliers.

The new automated ordering system is making the process simpler and quicker. We are also working on opportunities to improve and simplify distribution between Manufacturing and Retail, and on halving or digitising existing in-store administration.

6. To make core supermarkets strong again

We completed 100 Fresh Look refits last year. The local Fresh Look listening and improvements continue to provide us with insights which we are introducing across the estate. Examples last year included: installing wine-chiller fridges; introducing customer greeters; and making our specialists' food maker craft skills more visible in areas such as butchery and bakery.

We are also improving other aspects of the shopping trip. For example, last year almost all in-store colleagues received a brand new uniform, and those on Market Street now have freshly laundered whites every day.

Morrisons.com

Morrisons.com is progressing well and, with our partner Ocado, we continue to provide industry-leading customer service metrics for on-time delivery and order accuracy. We are working together to keep improving the profitability of our existing Morrisons.com offer out of the Dordon customer fulfilment centre (CFC). In addition, this year we will launch a home delivery service picked from our stores, using technology developed together with Ocado for our customers. We also look forward to the opening of the Erith CFC in 2018, which will significantly increase Morrisons.com access to areas in the south of England including London.

Wholesale supply

We started to wholesale to Amazon in June, and now supply thousands of items to Amazon for its customers across a number of its propositions. These include *'Morrisons at Amazon,'* which is a same-day and one-hour delivery service available in selected postcodes in London and Hertfordshire.

We are also developing other wholesale opportunities to make our brand more accessible and build a broader, stronger business. The convenience market is an opportunity for Morrisons, especially petrol forecourts and independent retailers. We recently opened ten *'Morrisons Daily'* convenience stores, owned and operated by Rontec on its forecourts. These are proving successful, and we now plan to open a further forty with Rontec in coming months. We have agreed with Motor Fuel Group to end our five-store pilot. We have also recently announced that we are reviving the Safeway brand by introducing hundreds of Safeway products for wholesale to independent retailers, which will enable us to leverage our sourcing and food maker skills and give independent retailers' customers access to our great quality products.

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
As announced last year, the annual dividend will be sustainable and covered around two times by underlying earnings per share. The final dividend will be 3.85p per share, bringing the total for the year to 5.43p.

Optimise assets
During the year we completed a programme of closing underperforming stores, thereby further improving ROCE. We closed eight stores, bringing the total of closed or disposed space to 5% over the last two years. As previously announced, we acquired the freeholds of three short-lease stores during the second half.

During the second half, we sold our 10% stake in the US online retailer Fresh Direct for £45m. Profit on disposal was £13m.

One component of our future growth will be the opening of new supermarkets, where we can enter a new catchment, and where we expect investment returns to exceed our stringent returns criteria. We intend to open a small number of new supermarkets during 2018/19, with none planned for 2017/18.

Cost savings
We achieved cost savings of £393m, bringing the three-year total to £1.04bn and exceeding our £1bn target as we guided at our 2016/17 interim results.

We have identified future cost savings beyond the original £1bn. We plan to roll out our new automated ordering system this year across all product categories except Clothing, which will mean fewer labour hours, better availability, and reduced stock. We also expect cost-saving opportunities in distribution between Manufacturing and Retail, in-store administration, and procurement of goods not for resale.

Cash flow and working capital
Strong cash flow is a firm foundation of the Morrisons turnaround. 2016/17 was a good year for cash improvement programmes. We generated £670m of free cash flow bringing the three-year total to £2.3bn, well ahead of our £2bn target.

Operating working capital generation was £360m, and is now £914m over the last three years. The contributors were consistent throughout the year, with the biggest being improved commercial dynamics in fuel. The working capital improvements we have achieved are structural and sustainable, and our medium-term target remains £1bn.

Disposal proceeds were £123m including Fresh Direct, bringing the total to £893m since the start of the programme. Profit on disposal was £32m. We still expect to achieve at least £1.1bn of disposal proceeds in the medium-term.

Capital expenditure/depreciation and amortisation
Capital expenditure was £419m, up from £365m for 2015/16, but below our guidance of £450m. This was again due to the timing of certain projects and means we have underspent versus

guidance by c.£65m over the last two years. Some of this timing difference will unwind this year, and we now expect 2017/18 capital expenditure to be £450m-£500m. In addition to this guidance, we will continue to pursue opportunities to buy freeholds where investment returns are attractive.

We incurred £94m in relation to onerous payments in 2016/17, in line with our expectation of around £100m, and we expect a similar level for 2017/18.

We expect 2017/18 depreciation/amortisation to be £420m-£430m, reflecting the mix of our capital expenditure and our prudent depreciation policies.

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 £147m freehold store impairments, £191m of freehold store write-backs, and £38m charges on onerous contracts.

Debt and interest
Group net debt fell to £1,194m, down a further £552m year on year. This was better than our initial guidance of £1.4bn-£1.5bn and in-line with our revised guidance at the interims of around £1.2bn. We maintain our expectation that debt will continue to fall to less than £1bn by the end of 2017/18.

Our strong debt reduction performance and cash position allow us opportunities as they arise to retire surplus facilities on attractive payback terms. During the first half, we redeemed $250m USPP notes, completed a £153m tender offer across two sterling bonds and a euro bond, and did not renew a £150m credit facility that expired. In the second half, a £200m bond matured and we completed a £207m tender offer across one sterling and one euro bond. Overall, gross debt facilities reduced by £867m, of which £717m were drawn.

In addition, liquidity remains strong and the £1.35bn revolving credit facility has been undrawn since October 2015. During the year, the facility was extended by a further year to 2021.

One-off costs relating to debt repayments were £56m, recognised outside UPBT. The underlying net finance charge was £97m, in line with guidance. After the recent bond maturity and repurchases, we expect the 2017/18 interest charge to be £75m-£80m.

Pension
We recently completed the triennial pension valuation, with a funding surplus of £111m across the three schemes. The valuation assumptions remain prudent. At year end, the net pension asset on the balance sheet was £272m, up from £249m at the end of the first half. Net pension income was £8m. Due to the reduction in the real discount rate year-on-year, we expect the non-cash profit & loss pension charge to be c.£20m higher for 2017/18.

2017/18 reporting
From Q1 2017/18, Group LFL will comprise supermarkets, online, wholesale and other sales. We will continue to provide Retail LFL and the contribution from online. Once Morrisons.com starts store pick, these sales will be reported as supermarkets rather than online sales.

From 2017/18, we will be changing the lease multiplier used to calculate ROCE, to ten times from our current 14 times. Ten times uses the weighted average lease length, while 14 times uses the expected life of an equivalent asset.

The financial year 2017/18 will be 53 weeks in duration.

People update

Our colleague-led turnaround continues, as does our commitment to treating everyone with respect. The listening forums in all stores and sites are proving effective, and we aim to respond quickly to feedback. Ensuring that colleague engagement is improving makes Morrisons a better place to work, and in turn means a better shopping trip for our customers.

We continue to invest in our ways of working programme, with all store and regional managers having attended a five-day residential leadership course. Our craft skills apprenticeship is enrolling more and more bakers, butchers, and fishmongers, and our engineering apprenticeship programme has launched within our Manufacturing business.

Last year we increased in-store colleagues' hourly pay to £8.20, £1 per hour above the National Living Wage, and we are currently proposing to move this forward again to £8.50. This supports our company ambition to increase colleague pay, and makes us one of the highest basic-rate payers in the industry. The colleague bonus scheme is now measured solely on improved customer service, and will pay out 9% of underlying Group profit. The colleague discount scheme has also been improved. In addition, recognition reward vouchers are in place to enable managers to say 'thank you' to colleagues, and all our in-store colleagues now have a new uniform that was designed by colleagues, for colleagues.

Corporate responsibility and community

Supporting good causes
Morrisons is a force for good in local communities. Our stores are involved in a wide range of fundraising activity and community engagement. The Morrisons Foundation continues to support local charities across the country with financial grants, and donated a total of £7.5m during the year. Using the proceeds from the single-use carrier bag charge, the Foundation made a number of high-value grants, including £150,000 to fund the purchase of a state-of-the-art surgical microscope for Glasgow Children's Hospital. Meanwhile, our three-year charity partnership with Sue Ryder has drawn to a close as planned. Our customers and colleagues helped to raise £7.2m - beating our previous record for a charity partnership. These much-needed funds are helping to give more people the care they need towards the end of their lives.

Unsold food to charity programme
We want to ensure that good, edible food in our stores is rarely wasted. That is why we introduced the unsold food to charity programme, which allows our stores to donate edible surplus food to local community groups of their choice. We have donated over two million products to local community groups in the first year of the programme. Utilising our data and analysis provided for us by Waste and Resources Action Programme (WRAP), we estimate that this made a positive environmental impact equivalent to around 2,500 tonnes of CO^2 emissions.

'Wonky Veg'
With increased customer interest in mis-shaped or out of specification produce, we launched a *'Wonky Veg'* range in 2015. Working directly with our farmers, and processing through our own manufacturing sites, *'Wonky Veg'* was introduced in a selection of stores and sold separately from our standard range at a cheaper price. In total, we sold over 25,000 tonnes in 2016, and we are now selling on average over 500 tonnes of *'Wonky Veg'* to over 500,000 customers every week across all of our stores and online.

'For Farmers' Range
Our *'For Farmers'* milk, which ensures that an additional premium goes directly back to dairy farmers, has proved popular with our customers and suppliers. As a result, the *'For Farmers'* range has now been extended to include cream, cheese, butter, and bacon. Since October 2015, the *'For Farmers'* range has generated over £5m extra income for farmers.

Wm Morrison Supermarkets PLC - Preliminary results for 52 weeks ended 29 January 2017

Consolidated statement of comprehensive income

52 weeks ended 29 January 2017

	Note	2017 £m	2016 £m
Revenue	4	**16,317**	16,122
Cost of sales		**(15,713)**	(15,505)
Gross profit		**604**	617
Other operating income		**76**	72
Profit/loss on disposal and exit of properties and sale of businesses and investments	3	**32**	97
Administrative expenses		**(244)**	(472)
Operating profit		**468**	314
Finance costs	5	**(160)**	(112)
Underlying finance costs	5	**(104)**	(112)
Adjustments for:			
Costs associated with the repayment of borrowings	3	**(56)**	-
Finance income	5	**15**	13

	Note		
Share of profit of joint venture (net of tax)		**2**	2
Profit before taxation		**325**	217
Analysed as:			
Underlying profit before tax	3	**337**	242
Adjustments for:			
Impairment and provision for onerous contracts	3	**6**	(87)
Profit/loss on disposal and exit of properties	3	**19**	131
Profit arising on disposal of investment	3	**13**	-
Loss arising on disposal of businesses	3	**-**	(34)
Costs associated with the repayment of borrowings	3	**(56)**	-
Pension scheme set-up costs	3	**-**	(35)
Net pension income	17	**8**	-
Other exceptional costs	3	**(2)**	-
		325	217
Taxation	6	**(20)**	5
Profit for the period attributable to the owners of the Company		**305**	222
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Remeasurement of defined benefit pension schemes	17	**86**	236
Tax on defined benefit pension schemes		**(17)**	(47)
		69	189
Items that may be reclassified subsequently to profit or loss:			
Cash flow hedging movement		**30**	16
Items reclassified from hedging reserve in relation to repayment of borrowings	3	**6**	-
Tax on items that may be reclassified subsequently to profit or loss		**1**	(4)
Exchange differences on translation of foreign operations		**(1)**	1
		36	13
Other comprehensive income for the period, net of tax		**105**	202
Total comprehensive income for the period attributable to the owners of the Company		**410**	424
Earnings per share (pence)			
- basic	8	**13.11**	9.51
- diluted	8	**12.95**	9.47

Consolidated balance sheet

29 January 2017

	Note	**2017 £m**	2016 £m
Assets			
Non-current assets			
Goodwill and intangible assets	9	**445**	483
Property, plant and equipment	10	**7,227**	7,161
Investment property	11	**33**	37
Pension asset	17	**293**	186
Investment in joint venture		**56**	63
Investments	13	**-**	31
Derivative financial assets	19	**16**	30
		8,070	7,991
Current assets			
Stock	14	**614**	616
Debtors	15	**214**	192
Derivative financial assets	19	**22**	12
Cash and cash equivalents	19	**326**	496
		1,176	1,316
Assets classified as held-for-sale	12	**-**	-
		1,176	1,316
Liabilities			
Current liabilities			
Creditors	16	**(2,837)**	(2,518)
Short term borrowings		**-**	(209)

Derivative financial liabilities	19	**(3)**	(17)
Current tax liabilities		**(24)**	(11)
		(2,864)	(2,755)
Non-current liabilities			
Borrowings	19	**(1,550)**	(2,003)
Derivative financial liabilities	19	**(5)**	(55)
Pension liability	17	**(21)**	-
Deferred tax liabilities		**(417)**	(429)
Provisions		**(326)**	(309)
		(2,319)	(2,796)
Net assets		**4,063**	3,756
Shareholders' equity			
Share capital		**234**	234
Share premium		**128**	127
Capital redemption reserve		**39**	39
Merger reserve		**2,578**	2,578
Retained earnings and other reserves		**1,084**	778
Total equity attributable to the owners of the Company		**4,063**	3,756

Consolidated cash flow statement

52 weeks ended 29 January 2017

	Note	**2017 £m**	2016 £m
Cash flows from operating activities			
Cash generated from operations	18	**1,113**	1,026
Interest paid		**(100)**	(99)
Taxation paid		**(35)**	(41)
Net cash inflow from operating activities		**978**	886
Cash flows from investing activities			
Interest received		**6**	4
Dividends received from joint venture		**8**	8
Proceeds from sale of property, plant and equipment		**79**	300
Proceeds from sale of businesses and investments	13	**44**	20
Purchase of property, plant and equipment, investment property and assets classified as held-for-sale		**(374)**	(266)
Purchase of intangible assets		**(45)**	(99)
Net cash outflow from investing activities		**(282)**	(33)
Cash flows from financing activities			
Purchase of shares in subsidiary		**-**	(3)
Purchase of own shares for trust		**(5)**	(13)
Net repayment of revolving credit facility		**-**	(320)
Repayment of other borrowings		**(729)**	(10)
Proceeds on settlement of derivative financial instruments		**37**	-
Costs incurred on repayment of borrowings		**(42)**	-
Dividends paid	7	**(118)**	(260)
Net cash outflow from financing activities		**(857)**	(606)
Net (decrease)/increase in cash and cash equivalents		**(161)**	247
Cash and cash equivalents at start of period		**487**	240
Cash and cash equivalents at end of period	19	**326**	487

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

	Note	**2017 £m**	2016 £m
Net (decrease)/increase in cash and cash equivalents		**(161)**	247
Cash outflow from decrease in debt		**692**	330
Non-cash movements		**21**	17

Opening net debt		**(1,746)**	(2,340)
Closing net debt	19	**(1,194)**	(1,746)

Consolidated statement of changes in equity

52 weeks ended 29 January 2017

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 1 February 2016		234	127	39	2,578	(10)	788	3,756
Profit for the period	3	-	-	-	-	-	305	305
Other comprehensive income/(expense):								
Cash flow hedging movement		-	-	-	-	30	-	30
Items reclassified from hedging reserve in relation to repayment of borrowings	3	-	-	-	-	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:		-	1	-	-	-	(1)	-
Share-based payments		-	-	-	-	-	20	20
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**

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 2 February 2015		234	127	39	2,578	(22)	638	3,594
Profit for the period		-	-	-	-	-	222	222
Other comprehensive income/(expense):								
Cash flow hedging movement		-	-	-	-	16	-	16
Exchange differences on translation of foreign operations		-	-	-	-	-	1	1
Remeasurement of defined benefit pension schemes	17	-	-	-	-	-	236	236
Tax in relation to components of other comprehensive income		-	-	-	-	(4)	(47)	(51)
Total comprehensive income for the period		-	-	-	-	12	412	424
Purchase of trust shares		-	-	-	-	-	(13)	(13)
Employee share option schemes:								
Share-based payments		-	-	-	-	-	11	11
Dividends	7	-	-	-	-	-	(260)	(260)
Total transactions with owners		-	-	-	-	-	(262)	(262)
At 31 January 2016		**234**	**127**	**39**	**2,578**	**(10)**	**788**	**3,756**

1. General information and basis of preparation

The financial information, which comprises the consolidated statement of comprehensive income, consolidated balance sheet, consolidated cash flow statement, consolidated statement of changes in equity, and related notes, is derived from the full Group financial statements for the 52 week period ended 29 January 2017, 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 full financial statements (comprising the consolidated statement of comprehensive income, consolidated balance sheet, consolidated cash flow statement, consolidated statement of changes in equity, and related notes) are available for download on the Group's website at www.morrisons-corporate.com.

The full annual report and financial statements for the 52 week period ended 29 January 2017 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 52 week period ended 29 January 2017 which can be found on the Group's website (www.morrisons-corporate.com).

New IFRS and amendments to IAS and interpretations
The following amendments to standards are mandatory for the first time for financial period ended 29 January 2017:

- Amendments to IAS 1 'Presentation of Financial Statements'; and
- Amendments to IFRS 11 'Joint arrangements' on accounting for acquisitions of interests in joint operations; and
- Amendments to IAS 16 'Plant, property and equipment' and IAS 38 'Intangible assets' on acceptable methods of depreciation and amortisation; and
- Amendments to IAS 27 'Consolidated and separate financial statements' which allows entities to equity account for joint ventures and associates in their separate financial statements; and
- Annual improvements 2012-2014.

There are a number of standards and interpretations issued by the IASB that are effective for financial statements after this reporting period, including IFRS 9 'Financial instruments' and IFRS 15 'Revenue from contracts with customers', both of which are effective for annual periods beginning on or after 1 January 2018, and IFRS 16 'Leases' which is effective for annual periods beginning on or after 1 January 2019.

The Group is in the process of assessing the impact that the application of these standards and interpretations will have on the Group's financial statements.

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 principal risks have been identified following a robust assessment by the Directors. Key changes in the year include the introduction of a 'regulation' risk and the consideration of the impact that an exit from the EU would have on the business. The risks, which are shown in no particular order, are disclosed along with their alignment to the six priorities and the movement in residual risk during the year. Residual risk is stated after considering the actions taken by management in response to new and emerging issues impacting the identified risks.

RISKS	DESCRIPTION	MITIGATION
Business Interruption	There is a risk that a major incident, such as 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.	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; • A Crisis Management Group is in place to oversee these plans and to manage and respond to any major incidents; and • We conduct supplier risk assessments and have contingency plans in place, where possible, to manage the risk of loss of supply.
Competitiveness	The Grocery sector continues to have high levels of competitive activity, particularly in relation to price and enhancement of service. The impact of the EU referendum on exchange rates has affected some commodity prices and we need to remain competitively priced through these fluctuations. If we do not engage with our suppliers and effectively manage our trade plan to remain competitive there is a risk that we will not achieve our financial targets.	• We review and actively manage our key price points, sales proposition, and promotional and marketing campaigns such as 'Morrisons Makes It' which emphasises our point of difference; • We work closely with our suppliers to build joint business plans, ensuring a competitive customer offer and a resilient supply base; • We continually review our range and quality, for example 'The Best' premium range was launched in 2016; • Competitor pricing positions and market trends are reviewed on a weekly basis; and • Our strong balance sheet and proven ability to generate cash will allow us to further invest in

		our proposition.
Customer	There is a risk that we don't 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 resulting from changes to the economy and the UK's exit from the EU. If we don't 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; • 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

RISKS	DESCRIPTION	MITIGATION
Customer (continued)		• 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 the forthcoming General Data Protection Regulation (GDRP).	• The Group has an Information Management Security Group which has the responsibility for overseeing data management practices, policies, 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; and • The Group is taking steps to ensure compliance with the GDPR which applies from 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, fluctuations in commodity prices and foreign exchange rate movements.	• 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; • 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.	• Strict standards and monitoring processes are in place to manage food safety and product integrity throughout the Group and our supply chain; • Regular assessments of our suppliers and own manufacturing facilities are undertaken by a dedicated team to ensure adherence to standards; • Our vertical integration model gives us control over the integrity of a significant proportion of our fresh food; • 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.

RISKS	DESCRIPTION	MITIGATION
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, factories 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 make changes to 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.	• We have competitive employment policies, 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;

	Business change and the challenging trading environment may impact on colleagues leading to an increase in this risk. There is uncertainty on 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.	• 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' needs; and • A senior level 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 strict regulations including GSCOP (Groceries Supply Code of Practice), competition, employment, health and safety and regulations over the Group's products. There is uncertainty on 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 penalties 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; • Additionally we have a channel for suppliers to provide feedback and a Code Compliance Officer; • 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; and • We have training, policies and legal guidance in place to support compliance with Competition Law and other regulations.

Responsibility statement

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

To the best of each Director's knowledge:

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

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

2. Segmental Reporting

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

The Group is required to determine and present its operating segments based on the way in which financial information is organised and reported to the chief operating decision-maker (CODM). The CODM has been identified as the Executive Committee as 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 loss to (a) remove impairment, provision for onerous contracts, or other items that do not relate to the Group's principal activities on an ongoing basis; (b) remove profit/loss arising on disposal and exit of properties and sale of businesses and investments; (c) remove the impact of pension volatility; and (d) apply a normalised tax rate of 25% (2016: 25%).

	2017	2016
	£m	£m
Profit after tax	**305**	222
Add back: tax charge/(credit) for the period[1]	**20**	(5)
Profit before tax	**325**	217
Adjustments for:		
Impairment and provision for onerous contracts[1]	**(6)**	87
Profit/loss arising on disposal and exit of properties[1]	**(19)**	(131)
Profit arising on disposal of investment[1]	**(13)**	-
Loss on disposal of convenience business[1]	**-**	34
Costs associated with the repayment of borrowings[1]	**56**	-
Pension scheme set-up costs[1]	**-**	35
Net pension income[1]	**(8)**	-
Other exceptional costs[1]	**2**	-
Underlying profit before tax	**337**	242
Normalised tax charge at 25% (2016: 25%)[1]	**(84)**	(61)
Underlying profit after tax	**253**	181

Underlying earnings per share (pence)

- basic	**10.86**	7.77
- diluted	**10.73**	7.73

[1] Adjustments marked [1] decrease post-tax underlying earnings by £52m (2016: decrease of £41m) 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, which is made up of £44m net impairment reversal and £38m charge in relation to provision for onerous contracts.

The net impairment reversal of £44m (£191m impairment reversal offset by £147m impairment charge) reflects fluctuations from store level performance. This has been partially offset by a £38m additional charge relating to the Group's provision for onerous contracts primarily relating to onerous property contracts. In the prior year the additional charge of £87m reflected changes in estimates related to provisions for stores in the new space pipeline.

3. Underlying profit (continued)

Costs associated with the early repayment of borrowing facilities and other refinancing activities total £56m. This includes £33m relating to financing charges on redemption of financial instruments (primarily premiums), other fees incurred on the repayment of bonds and refinancing; write off of facility fees; the payment of £17m relating to the early settlement of the US Private Placement loan notes (USPP); and £6m relating to losses which had previously been recognised in reserves which have been reclassified to the income statement on termination of hedging arrangements.

Profits arising on disposal and exit of properties amounted to £19m (2016: £131m). A £13m profit has been recognised on the disposal of the Group's investment in Fresh Direct Inc (see note 13).

Other exceptional costs represent legal costs incurred in relation to cases which the Group pursued in respect of historic events. There are no contingent liabilities associated with these cases.

The 2016 underlying profit before tax included £60m relating to restructuring one-off costs. When adjusted to exclude these items, underlying profit before restructuring and tax for 2016 was £302m.

2016/17 Impairment and provision for onerous contracts

Impairment and provision for onerous contracts resulted in a net credit of £6m. This includes a net impairment release of £44m and charge of £38m relating to provisions for onerous contracts (£191m impairment reversal offset by £147m impairment)

2015/16 Impairment and provision for onerous contracts

Impairment and provision for onerous contracts in 2015/16 totalled £87m including £52m relating to onerous leases and £35m in relation to onerous commitments for changes in estimates related to provisions for stores in the new space pipeline. No impairment was recognised during 2015/16.

4. Revenue

	Like-for-like sales £m	**Other £m**	**2017 Total £m**	2016 Total £m
Sale of goods in-stores and online	12,727	20	**12,747**	12,811
Fuel	3,351	-	**3,351**	3,124
Total store based sales and online	16,078	20	**16,098**	15,935
Other sales	-	219	**219**	187
Total revenue	16,078	239	**16,317**	16,122

5. Finance costs and income

	2017 £m	2016 £m
Interest payable on short term loans and bank overdrafts	**(3)**	(4)
Interest payable on bonds	**(86)**	(98)
Interest capitalised	**1**	4
Total interest payable	**(88)**	(98)
Provisions: unwinding of discount	**(13)**	(11)
Other finance costs	**(3)**	(3)
Underlying finance costs[1]	**(104)**	(112)
Costs associated with the repayment of borrowings	**(56)**	-
Finance costs	**(160)**	(112)
Bank interest received	**6**	5
Amortisation of bonds	**1**	1
Other finance income	**-**	7
Underlying finance income[1]	**7**	13
Net pension income	**8**	-
Finance income	**15**	13
Net finance cost	**(145)**	(99)

[1] Underlying net finance costs marked [1] amount to £97m (2016: £99m).

6. Taxation

	2017 £m	2016 £m
Current tax		
- UK corporation tax	**57**	35
- overseas tax	**2**	5

- adjustments in respect of prior periods	**(11)**	(8)
	48	32
Deferred tax		
- origination and reversal of timing differences	**(10)**	15
- adjustments in respect of prior periods	**3**	(8)
- impact of change in tax rate	**(21)**	(44)
	(28)	(37)
Tax charge/(credit) for the period	**20**	(5)

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 period. Accordingly, deferred tax has been provided at 19%, 18% or 17% depending upon when the temporary difference is expected to reverse (2016: 20%, 19% or 18%).

The reduction in tax rate at which deferred tax is provided has reduced the Group's deferred tax liabilities by £21m, resulting in a credit of £21m being recognised in the tax charge for the period.

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:

	2017 £m	2016 £m
Interim dividend for the period ended 29 January 2017 of 1.58p (2016: 1.50p)	**37**	35
Final dividend for the period ended 31 January 2016 of 3.50p (2015: 9.62p)	**81**	225
	118	260

The Directors propose a final dividend in respect of the financial period ending 29 January 2017 of 3.85p per share which will absorb an estimated £90m of shareholders' funds. Subject to approval at the AGM, it will be paid on 29 June 2017 to shareholders who are on the register on 26 May 2017.

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 (2016: two) classes of instrument that are potentially dilutive: those share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the period and contingently issuable shares under the Group's long term incentive plans (LTIP).

a) Basic and diluted EPS (unadjusted)

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

	2017			2016		
	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	**305.0**	**2,327.1**	**13.11**	221.8	2,332.5	9.51
Effect of dilutive instruments						
Share options and LTIPs	**-**	**27.9**	**(0.16)**	-	9.0	(0.04)
Diluted EPS	**305.0**	**2,355.0**	**12.95**	221.8	2,341.5	9.47

b) Underlying EPS

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

	2017			2016		
	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	**305.0**	**2,327.1**	**13.11**	221.8	2,332.5	9.51
Adjustments to determine underlying profit (note 3)	**(52.2)**	**-**	**(2.25)**	(40.6)	-	(1.74)
	252.8	**2,327.1**	**10.86**	181.2	2,332.5	7.77

Effect of dilutive instruments						
Share options and LTIPs	**-**	**27.9**	**(0.13)**	-	9.0	(0.04)
Diluted EPS	**252.8**	**2,355.0**	**10.73**	181.2	2,341.5	7.73

9. Goodwill and intangible assets

	2017 £m	2016 £m
Net book value		
At beginning of the period	**483**	520
Additions	**55**	65
Disposals	**-**	(10)
Interest capitalised	**-**	4
Amortisation	**(93)**	(96)
At end of the period	**445**	483

The carrying value of goodwill and intangible assets principally consists of software development costs of £418m (2016: £460m).

Included within software development costs are assets under construction of £3m (2016: £16m).

10. Property, plant and equipment

	2017 £m	2016 £m
Net book value		
At beginning of the period	**7,161**	7,252
Additions	**367**	288
Disposals	**(17)**	(89)
Interest capitalised	**1**	-
Transfers to investment properties	**(4)**	-
Transfers to assets classified as held-for-sale	**(20)**	(4)
Depreciation	**(305)**	(286)
Net reversal impairment	**44**	-
At end of the period	**7,227**	7,161

Included within the above are leasehold land and buildings held under finance lease with a cost of £294m (2016: £308m) and accumulated depreciation of £80m (2016: £94m). 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 £198m (2016: £197m).

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

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

- use the actual cash flows for each store in the current year;
- allocate a proportion of the Group's central costs to each store on an appropriate basis;
- project each store's cash flows over the next five years by applying forecast sales and cost growth assumptions;
- project cash flows beyond year five for the remaining useful life of each store by applying a long term growth rate; and
- discount the cash flows using a pre-tax rate of 9.0% (2016: 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.

10. Property, plant and equipment (continued)

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

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

Having applied the above methodology and assumptions, the Group has recognised a net impairment reversal of £44m during the year (2016: £nil) (£191m impairment reversal offset by £147m impairment charge). This movement reflects fluctuations expected from store level trading performance and local market conditions. At 29 January 2017, 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 £56m.

11. Investment property

	2017 £m	2016 £m
Net book value		
At beginning of the period	**37**	68
Additions	**-**	3
Disposals	**-**	(2)
Transfer from property, plant and equipment	**4**	-
Transfers to assets classified as held-for-sale	**(7)**	(30)
Depreciation charge	**(1)**	(2)
At end of the period	**33**	37

12. Assets classified as held-for-sale

	2017 £m	2016 £m
Net book value		
At beginning of the period	**-**	84
Additions	**19**	-
Transfer from property, plant and equipment	**20**	4
Transfers from investment properties	**7**	30
Disposals	**(46)**	(118)
At end of the period	**-**	-

13. Investments

	2017 £m	2016 £m
Net book value		
At beginning of period	**31**	31
Fair value adjustments	**14**	-
Disposals	**(45)**	-
	-	31

On 16 August 2016, the Group disposed of its 10% stake in Fresh Direct Inc, a US internet grocer for cash consideration of £45m net of £1m 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 profit or loss net of £1m of transaction costs. This profit is one-off in nature and therefore has been excluded from reported underlying earnings (see note 3).

Following the transaction the undrawn loan facility provided to Fresh Direct Inc ceased.

14. Stock

	2017 £m	2016 £m
Finished goods	**614**	616

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

15. Debtors

	2017 £m	2016 £m
Trade debtors:		
- Commercial income trade debtors	**4**	13
- Accrued commercial income	**38**	26
- Other trade debtors	**101**	99
Less: provision for impairment of trade debtors	**(6)**	(6)
	137	132
Prepayments and accrued income	**68**	56
Other debtors	**9**	4
	214	192

As at 29 January 2017 and 31 January 2016, 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 5 March 2017, £4m of the £4m commercial income trade debtor balance had been settled and £28m of the £38m accrued commercial income balance had been invoiced and settled.

16. Creditors - current

	2017 £m	2016 £m
Trade creditors	**2,160**	1,775
Less: commercial income due, offset against amounts owed	**(34)**	(85)
	2,126	1,690
Other taxes and social security payable	**68**	86
Other creditors	**198**	267
Accruals and deferred income	**445**	475
	2,837	2,518

Included within accruals and deferred income is £3m (2016: £5m) in respect of deferred commercial income.

As of 5 March 2017, £25m of the £34m 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 or career average revalued earnings (CARE) (the 'CARE Schemes'). The CARE Schemes are not open to new members and were closed to future accrual in July 2015. The RSP is a cash balance scheme, which provides a lump sum benefit based upon a defined proportion of an employee's annual earnings, which is revalued each year in line with inflation subject to a cap.

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

	2017	2016
	£m	£m
Net pension asset/(liability) at start of the period	**186**	(39)
Net interest income	**8**	-
Curtailment gain	**1**	3
Remeasurement in other comprehensive income	**86**	236
Employer contributions	**66**	76
Current service cost	**(71)**	(86)
Administrative cost	**(4)**	(4)
Net pension asset at end of the period	**272**	186

At the year end, 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, this 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.

The disclosures below show the details of the schemes combined:

	2017 CARE	**2017 RSP**	2016 CARE	2016 RSP
	£m	**£m**	£m	£m
Fair value of scheme assets	**4,455**	**219**	3,812	138
Present value of obligations	**(4,162)**	**(240)**	(3,634)	(130)
Net pension asset/(liability)	**293**	**(21)**	178	8

18. Cash flow from operating activities

	2017	2016
	£m	£m
Profit for the period	**305**	222
Net finance costs	**145**	99
Taxation charge/(credit)	**20**	(5)
Share of profit of joint venture	**(2)**	(2)
Operating profit	**468**	314
Adjustments for:		
Depreciation and amortisation	**399**	384
Impairment	**147**	-

Impairment reversal	**(191)**	-
Profit arising on disposal and exit of properties and sale of businesses and investments	**(32)**	(97)
Adjustment for non-cash element of pension charges	**7**	11
Share-based payments	**20**	11
Other non-cash charges	**2**	1
Decrease in stocks[1]	**2**	40
(Increase)/decrease in debtors[1]	**(19)**	30
Increase in creditors[1]	**306**	313
Increase in provisions[1]	**4**	19
Cash generated from operations	**1,113**	1,026

Total working capital inflow (the sum of items marked [1] in the table) is £293m in the year. This includes £38m as a result of the current year onerous contract charge, net of £94m of onerous payments and other non-operating payments of £11m. When adjusted to exclude these items, the working capital inflow is £360m.

19. Analysis of net debt

	2017	2016
	£m	£m
Cash and cash equivalents per balance sheet	**326**	496
Bank overdrafts	**-**	(9)
Cash and cash equivalents per cash flow statement	**326**	487
Cross-currency contracts and interest rate swaps	**6**	30
Fuel and energy price contracts	**10**	-
Non-current financial assets	**16**	30
Foreign exchange forward contracts	**11**	12
Fuel and energy price contracts	**11**	-
Current financial assets	**22**	12
Foreign exchange forward contracts	**(2)**	-
Fuel and energy price contracts	**(1)**	(17)
Bonds	**-**	(200)
Current financial liabilities	**(3)**	(217)
Bonds	**(1,550)**	(1,834)
Private placement loan notes	**-**	(174)
Revolving credit facility	**-**	5
Cross-currency contracts and interest rate swaps	**-**	(46)
Fuel and energy price contracts	**(5)**	(9)
Non-current financial liabilities	**(1,555)**	(2,058)
Net debt	**(1,194)**	(1,746)

Cash and cash equivalents include restricted balances of £9m (2016: £16m) which is held by Farock Insurance Company Limited, a subsidiary of Wm Morrison Supermarkets PLC.

19. Analysis of net debt (continued)

In March 2016, the IFRS Interpretations Committee issued an agenda decision regarding the treatment of offsetting and cash-pooling arrangements in accordance with IAS 32 'Financial instruments: Presentation'. This provided additional guidance on when bank overdrafts in cash-pooling arrangements would meet the requirements for offsetting in accordance with IAS 32. Following this additional guidance, the Group has reviewed its cash-pooling arrangements and recognised £nil of cash-pooling facilities within bank overdrafts and short term borrowings in the current period that would previously have been offset against cash and cash equivalent balances. Comparatives at 31 January 2016 have been restated by £8m. There is no impact of this change in presentation on cash flows or net debt.

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.

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

		2017		2016
	£m	% of VSE	£m	% of VSE
Commercial income:				
Marketing and advertising funding	**52**	**0.4**	260	2.1

Volume-based rebates	**257**	**2.1**	143	1.1
Total commercial income	**309**	**2.5**	403	3.2

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 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 (2016: £8m) from MHE JVCo. The Group owns 50% of the equity of MHE JVCo.

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