Food maker and shopkeeper

Wm Morrison Supermarkets PLC
Strategic report and supplementary material
2015/16

Morrisons
Since 1899

Strategic report

Supplementary material

Throughout the Strategic report and supplementary material:

(1) Unless otherwise stated, 2015/16 refers to the 52 week period ended 31 January 2016 and 2014/15 refers to the 52 week period ended 1 February 2015. 2015 and 2016 refer to calendar years. (2) Underlying profit is defined as profit before impairment, provision for onerous contracts and other items that do not relate to the Group's principal activities on an ongoing basis, profit/loss arising on disposal and exit of properties and sale of businesses and IAS 19 pension interest, at a normalised tax rate, as reconciled in note 1.4 of the Group financial statements. Underlying operating profit is operating profit before impairment, provision for onerous contracts and other items that do not relate to the Group's principal activities and profit/loss arising on disposal and exit of properties and sale of businesses. (3) Like-for-like (LFL) sales reflects the percentage change in year-on-year store sales (excluding VAT and fuel), stripping out the impact of new store openings and closures in the current or previous financial year.

We are listening hard to our key stakeholder groups – customers, colleagues, suppliers and shareholders – and have developed six priorities to help shape our plan to turnaround Morrisons.

This journey will be a long one, but there are some early signs of improvement and customers are beginning to notice.

We will continue to invest to improve the customer shopping trip and fix, rebuild and grow Morrisons – **food maker and shopkeeper.**

Online Annual report 2015/16
For more information visit:
www.morrisons-corporate.com/annual-report-2016

Chairman's statement

Delivering the turnaround

"We have the team to turnaround Morrisons and create value for all stakeholders."

What is right for our customers is also right for colleagues, suppliers and shareholders

HIGHLIGHTS

Net debt
£1.75bn
£594m reduction year on year

5p dividend
in line with guidance

Andrew Higginson
Chairman

It has been a busy first year as your new Chairman, both in the stores and on the Board.

David Potts joined as Chief Executive in March. He very quickly formed a new senior Executive Committee that combines the best of Morrisons home grown and externally recruited talent. That team set about injecting a new pace into the turnaround. By listening hard to customers and responding quickly wherever possible, the team are rebuilding Morrisons around its key strengths – good quality fresh food, great value for money, good customer service and authentically British.

It will take time, and we are not assuming the trading environment will improve, but I am confident that we have made the right changes to simplify and focus the business, and to begin to drive sales volumes and deliver improved profits and returns for shareholders.

As your new Chairman, I was keen to ensure a smooth succession of the Non-Executive team, replacing the skill sets of those coming to the end of their tenure.

I was delighted to welcome five new Non-Executive members to the Board during the year – Irwin Lee, Belinda Richards, Neil Davidson, Paula Vennells and Rooney Anand. They bring us a wealth of executive and non-executive experience across a broad range of areas that will prove invaluable to Morrisons. I am confident we now have a Board well equipped to deliver all aspects of the challenging turnaround ahead. I wish to express our gratitude to the outgoing Non-Executives for their considerable contribution to Morrisons over the years.

A highlight of the year was once again cash generation, with year end net debt of £1.75bn particularly pleasing and well below our initial target range. The strong balance sheet, together with our commitment to retain a predominantly freehold store property portfolio and well-funded pension schemes in surplus, means we have firm foundations on which to build Morrisons turnaround.

Strong and sustained cash flow also provides good visibility for future dividend payments. For 2015/16, we committed to an annual dividend for shareholders of not less than 5p per share and the 3.5p announced at the time of the preliminary results takes the full year dividend to 5p per share.

The Board recognises the importance of sustainable dividends to shareholders. From 2016/17, subject to AGM approval, we will be paying a dividend covered around two times by underlying earnings per share.

In addition, we remain committed to returning surplus capital to shareholders. At the moment, our focus continues to be on delivering the cash improvement programmes and reducing debt. This will remain so until trading is stable for a sustained period, profitability starts to rebuild and debt is lower.

I believe that all stakeholders' interests are aligned. What is right for our customers is also right for colleagues, suppliers and shareholders. As I said last year, it all starts with simplifying and focusing the business, improving the customer offer and driving volume growth, which, in turn, will drive like-for-like sales, operational leverage, cost efficiencies and profitability.

David and his new team have started that journey and we are aligning remuneration to this value-creation virtuous circle. The new 2016 LTIP will reward long-term cash generation, sales growth and earnings per share.

Looking forward to 2016/17, we have another busy year ahead and there is still much to do. However, the team are stabilising like-for-like sales and have started some good work to begin the turnaround, which David describes over the next few pages of this report. I am confident that we are on the right track to begin to improve all aspects of the customer shopping trip and create value for all stakeholders.

Andrew Higginson
Chairman

Governance highlights

Board composition and membership

- The Board comprises six independent Non-Executive Directors and two Executive Directors.
- All Directors stand for re-election annually at the AGM.
- Rooney Anand has been appointed as the Board's Senior Independent Director and a Non-Executive.
- As Audit Committee Chair, the Board is satisfied that Belinda Richards has recent and relevant experience appropriate to her position.
- There is clear division of responsibilities between the roles of Chairman and the Chief Executive.

Board effectiveness

- The Directors have all attended an acceptable number of Board and Committee meetings.
- The Board is satisfied that Non-Executive Directors commit sufficient time to the Group and contribute to its governance and operations.

External auditor

- The Audit Committee is satisfied that the Company's statutory auditor PwC, who were appointed in 2014/15 are performing effectively.
- The Board has a policy on the engagement of the external auditor to supply non-audit services.

Accountability

- The Board is satisfied with the effectiveness of internal control and that risk is being managed effectively across the Group.
- Consideration has been given to financial reporting matters with sufficient challenge provided to management relating to judgemental areas.
- The Group's internal audit function perform periodic reviews of the key areas of the business, including the recognition of commercial income.

See **Corporate governance report** in the Annual report 2015/16 on pages 22 to 32

Our business model

We care about food

At Morrisons we are passionate about providing good quality fresh food at great value for money.

WHAT WE DO

We **make** things

We have more butchers, bakers, fishmongers and other in-store skilled colleagues than anywhere else in UK food retail

Manufacturing sites

15

We have 15 well run and well-invested manufacturing sites, making half of the fresh food we sell

Running our own sites gives greater control over the supply chain and quality of the food we sell

The craft skills of in-store colleagues provides customers with what they want, when they want it, in a way they can trust

And we **buy** things

We have expanded our range of products in response to customer feedback, to offer products such as Free From, World Foods, Food To Go and Nutmeg clothing in more stores

We work directly with suppliers to reduce the length of our supply chain and build long term relationships

Our high manufacturing standards are also expected of our suppliers, ensuring the integrity and quality of the products we sell

The personal relationships we have with farmers and other suppliers means we can ensure sustainable and ethical sourcing to guarantee the integrity and quality of the products we sell

Morrisons own brand fresh meat is British sourced

100%

Then we **move** them

We operate regional distribution centres and a national centre, servicing our supermarkets

Regional distribution centres	National distribution centre
7	1

Our fleet consists of over 550 tractors and nearly 1,700 trailers that cover around 100m kilometres per year. This has been streamlined to make it more efficient in terms of delivery time and frequency, reducing the amount of kilometres travelled and our carbon emissions

Continued investment in the chilled supply chain provides even greater freshness of the products we sell

Morrisons.com home deliveries are supported through our service agreement with Ocado, allowing us to utilise best in class technology and provide industry leading customer service online

And **sell** them in our stores or online

We have improved the look, feel and maintenance of every store this year in our 'Back to Best' programme

The whole estate will be upgraded through our 'Fresh Look' programme by the end of 2018/19

We have recruited additional staff and rescheduled other colleagues to provide support at the busiest times of the day – reducing queues and improving service levels

We have introduced new self-service and express checkouts into all of our stores

Continued investment in sharper prices provides customers with a consistently great value for money offer

We have introduced simple display ends and fewer, more impactful promotions with clear in-store communication for customers

Over 50% of the UK population has access to our online offer, bringing great value, fresh food to those customers who prefer to shop online

We offer a range of popular and useful services in-store and aim to provide more for customers

'Fresh Look' programme complete by the end of

2018/19

HOW WE ARE DIFFERENT

Food maker

- We buy direct from farmers and fishermen, so we have more control over the provenance and quality of the food we sell.
- We own our fresh food factories.
- We prepare and make half of the fresh food we sell.
- Owning the supply chain means we get food onto the shelves faster and fresher.
- Customers trust us and our food because they see us making it in store.
- We have more butchers, bakers, fishmongers and other in-store skilled colleagues than anywhere else in UK food retail.
- Our skilled craftspeople can prepare what customers want, when they want it.

Shopkeeper

- Our 'Fresh Look' programme will upgrade the whole estate by 2018/19.
- Every store has its own identity and can reflect its own local neighbourhood and community.
- New and existing popular and useful services will be tailored to the customers of each store.
- We are improving the ranges that our customers want to buy, such as Free From, World Foods, Food To Go, and Nutmeg clothing.
- We are working on shorter queues and better availability and customers are beginning to notice the difference.
- We have simpler display ends, clearer price points, and fewer and more impactful promotions.
- Communication in-store is more consistent and clearer for customers.

Chief Executive's statement

Improving the customer shopping trip

"We are listening to customers and they are informing the plan to rebuild Morrisons."

HIGHLIGHTS OF THE YEAR

We have introduced new self-service and express checkouts into all of our stores.

We are showcasing 'Made by Morrisons' products.

David Potts
Chief Executive

I have just completed my first year as your Chief Executive. It has been a year of listening hard to customers, responding quickly wherever possible, and improving the business.

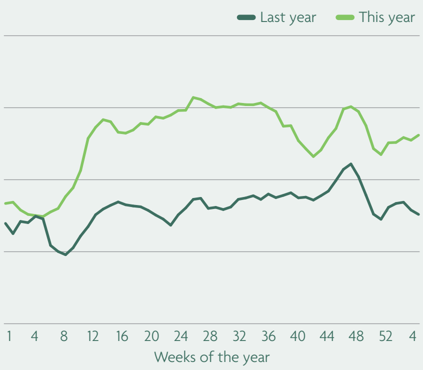
Morrisons is a business I have admired for many years. It was clear from listening to our four key stakeholders (customers, colleagues, suppliers and shareholders), that it has many strengths.

First and foremost our colleagues are our greatest asset – highly skilled and passionate about their company. This turnaround will be employee-led.

Customers appreciate that we are a British grocer, with a strong heritage. We are a food maker and shopkeeper. Good quality fresh food and great value for money are our key strengths, and Market Street is special. Half of what we sell is fresh food and half our fresh food we produce ourselves, providing unrivalled provenance from our own manufacturing capacity.

Our financial strength is also important. We have a strong cash flow, a strong and improving balance sheet, a largely freehold property portfolio and pension schemes in surplus. So, we have much to be optimistic about and firm foundations on which to build the turnaround. That turnaround will have three phases – fix, rebuild and grow.

Customer satisfaction



Our first aims during the year were to begin to stabilise sales, and lower costs. To do this we identified the management talent we required and built a leaner, more focused team at our head office, in Bradford. The smaller Executive Committee is complete and many other important senior appointments have been made from inside and outside Morrisons.

We have started to deliver on our initial aims. Trading has begun to stabilise and volume growth is returning. This has been achieved while continuing the journey of lowering everyday prices for customers. This means more price deflation and significantly fewer coupons, both of which have created headwinds for like-for-like sales but have improved the clarity of our offer for customers.

We have continued our programme to remove wasted effort and reduce costs, albeit with some changes to some components, and remain confident of saving £1bn in the period 2014/15 – 2016/17. This has involved some difficult choices, particularly around restructuring head office and closing or selling some underperforming stores, but these were necessary to start to create a cost effective and more responsive organisation.

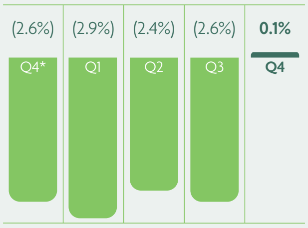
This turnaround is a journey that has now started. It has been informed by a listening programme that identified six priorities – to be more competitive, to serve customers better, to find local solutions, to develop popular and useful services, to simplify and speed up the organisation, and to make the core supermarkets strong again. We go through the details of these on the following pages.

If we execute successfully, I am confident we can grow volumes, improve like-for-like sales, rebuild profits and improve our return on capital, while continually generating cash.

We recruited 5,000 new colleagues to better serve customers during the busiest times of the week

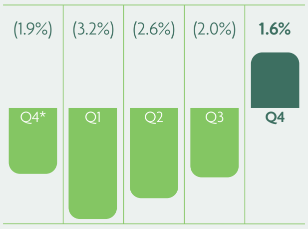
Key Measures

2015/16 Quarterly Group LFL sales performance



Definition
LFL sales performance measures the 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.

2015/16 LFL Quarterly number of transactions



Definition
LFL number of transactions, year-on-year change. Excludes online and convenience.

* 2014/15.

Morrisons as food maker

Our food manufacturing capabilities – in Meat, Fish, Bakery, Fruit & Veg, Deli, and Flowers – make us unique as a British food maker as well as a shopkeeper. We operate from 15 manufacturing sites across Britain. The business is well-run and well-invested, with plenty of capacity to grow sales both for Morrisons and others. After reviewing the business during my first year, it is clear to me that manufacturing is core for Morrisons – part of both the solution and the considerable opportunity for the business.

During the year, we began making the freshness, quality and provenance provided by our unique manufacturing capabilities more visible to our customers. 'Made by Morrisons' showcases some of the best in-store skills of our highly trained butchers, bakers, fishmongers and other craftspeople, and we are introducing many good quality, great value products into this important and exclusive range.

As we keep improving the shopping trip, customers will see more of Morrisons as a food maker in our stores. Those food maker skills will help to both win more customers back to Morrisons and gain new ones.

Morrisons as shopkeeper

We spent much of the year improving the shopping trip for customers. First, we recruited 5,000 new colleagues and re-scheduled the hours of others to better serve customers during the busiest times of the week.

We improved the look, feel and maintenance of every store inside and out through a programme called 'Back to Best'. Store layouts improved, especially in Beers, Wines & Spirits and Fruit & Veg. We also started a 'Fresh Look' refit programme that will upgrade the entire store estate by 2018/19, including 200 stores that have not been freshened up in more than five years.

We also introduced new self-service and express checkouts into all our stores, and improved all our point-of-sale material to be clearer for customers.

Our promotions are now better and easier to shop, and our prices lower, more consistent and well communicated. We simplified our 'Match & More' card so customers could use it on every shopping trip, and invested in everyday round pound and sharper pricing, to begin to cut every penny we can for customers.

Outlook

To begin the turnaround, we made some tough choices during the year – the head office restructuring and some particularly difficult decisions around underperforming store closures and the sale of the M local chain. These were necessary steps for the long term benefit of all stakeholders.

I am optimistic for the future. As the Chairman said, we are not planning for the trading environment to improve. Despite improving consumer confidence, the return of real wage increases, and higher disposable income, we are not assuming changing shopping habits will reverse. Deflation will persist in our business as we continue to invest in lower prices for our customers and strive to improve the value for money we offer.

Despite this tough backdrop, I am convinced we are doing the right things to begin the turnaround. Customer satisfaction levels are significantly up and we are beginning to welcome customers back to Morrisons.

And, as I said, it will be Morrisons skilled and passionate colleagues who will make the difference and are key to our future success. I would like to thank all of our colleagues, particularly those helping to improve the shopping trip for customers every day, for all the hard work and dedication so far.

Our manufacturing facilities have capacity to grow. Whilst we sold the M local stores, the broader convenience market remains a sizeable opportunity for Morrisons and we are currently trialling a franchise petrol forecourt convenience offer. We also have many new ideas of how to provide popular and useful services at our stores. With our partner, Ocado, we have expanded the reach of Morrisons.com to over 50% of British households and online losses are reducing. There are wholesale opportunities as the recent partnership with Amazon shows. And there are plenty of new growth opportunities, such as Nutmeg clothing that we can further explore. All of these have the common feature of being capital light which is the future growth route for Morrisons.

David Potts
Chief Executive

Our six priorities

1

To be more competitive

Morrisons is a value for money brand. Customers tell us they want the great Morrisons range at low prices.

Morrisons should be a place customers can always trust – low prices every day. During the year, we invested over £370m into the customer offer, most of it into price, bringing the total to nearly £700m over the last two years. We cut prices of key commodities and everyday items. Via our unique manufacturing skills, we are also building a range of 'Made by Morrisons' products, such as fresh quiche and freshly baked Coburg Cob bread, at great value which are proving very popular with customers.

We have made our stores easier to shop for customers. We introduced fewer and more impactful offers, many at simple round pound price points, and sharper prices, saving our customers every penny we can. We have also simplified our 'Match & More' card to make it easier for customers to understand and use. All of this is being communicated more clearly and simply, without complicated claims, through new and improved in-store marketing.

Our aim is to use our strengths to provide a simpler and competitive Morrisons price list for all our customers – one that is unique to us. Those strengths include our broader business, such as wholesale supply, which help us lower costs and continue to cut prices in our supermarkets.

During the year ahead we will continue to invest to become more competitive. For example, Price Crunch cut the price of more than 1,000 everyday items in February and there is more to come throughout the year.

2

To serve customers better

Good customer service is part of Morrisons. Market Street and our skilled colleagues make Morrisons different from other supermarkets.

We want to serve our customers better. Customers tell us they want great service, shorter queues and products to be available especially at the busiest times.

During the year, we recruited 5,000 new in-store colleagues and re-scheduled hours towards the busiest times of the week.

We launched initiatives to remove wasted effort, improve on-shelf availability and ease pressure at the tills. For example, there were major programmes to introduce express checkouts, replace and upgrade the self-scan checkouts in all our stores, and relay our Beers, Wines & Spirits and Fruit & Veg departments to a new look.

We are ensuring we have the right technology and in-store colleague structure to more effectively and directly manage queues, and we will be improving the customer offer on Market Street.

We are also working on ways of improving product availability, particularly in Fresh which we know is so important to our customers.

There is still a lot to do, but customers are beginning to notice the difference. There has already been a reduction in queue lengths and a significant improvement in our customer satisfaction scores.

3

Find local solutions

Morrisons has almost 500 neighbourhood supermarkets that can serve local customers better.

Morrisons stores are well-located, serving neighbourhoods and communities. We have an opportunity to improve our local customer offer both by region and store-by-store, and make every square foot count.

Scotland, Wales and big cities have their own identity which we can better serve. Every store is unique.

By listening to our customers and colleagues, we will tailor the offer of each one to local tastes and demographics. A core offer will apply, with managers able to flex outside the core to best suit local customers. The organisation will be largely central, but the execution local – local solutions for national benefit.

Elements of each store's ranging, promotions and services can be localised, and thereby become more relevant and successful. We have appointed a small team responsible for identifying key local opportunities including seasonality, ethnicity, affluence and life stage (for example, students).

In addition, the 'Fresh Look' programme is being shaped by the communities served by Morrisons stores. Specific popular and useful services will be tailored to provide local solutions for each store.

We are also introducing programmes to be more active with local marketing, and to better utilise our stores as centres of the local community.

4

Develop popular and useful services

Popular and useful services will give our customers more reasons to visit their local Morrisons.

Morrisons has some strong services – 336 petrol filling stations, 398 cafés, 118 pharmacies and 147 dry cleaners.

We also have a great opportunity. We own 85% of our stores, and we see several opportunities to provide third party in-store or on-site services that will help our stores be more attractive places to visit. These will not require us to commit significant capital, but will generate income and enhance returns.

For example, we have been trialling various in-store formats, such as Timpson at Morrisons, and we have the opportunity for complementary retail developments in our car parks.

Cafés	Petrol filling stations
398	336
Dry cleaners	**Pharmacies**
147	118

5

To simplify and speed up the organisation

Morrisons is building a culture based on speed and teamwork, so we become agile and responsive.

We continue to simplify and improve, and build a culture based on speed and teamwork, with clear and consistent ways of working.

Progress on costs is good and we remain confident of saving £1bn in the three years to the end of 2016/17. This has involved some difficult choices, particularly around restructuring the head office, where c.800 roles have been removed, and also closing underperforming stores and selling the M local chain.

However, these programmes are about much more than just cutting costs. They are helping to create a leaner, more efficient business which is more responsive for customers.

The leadership team has reduced from 110 to around 65 people. This smaller team has greater responsibility and accountability for bigger areas of the business. We have continued to refine both the in-store and field leadership structures. The field team is nearly complete and will include a mix of internal and external appointees, with a breadth of experience across a range of retail backgrounds. We expect this to bring a renewed vigour to our retail leadership. For example one third of regional managers are female, compared to just one person previously.

We have started to simplify and improve our relationships with suppliers. We are working together to develop a 'sell for less' culture which will mean lower every day prices for customers. This will involve substantially reducing the 37 different sub-categories of commercial income agreements to a target of just three.

We are also working with our suppliers category-by-category and shelf-by-shelf to simplify the range in some areas and add space in others.

6

To make core supermarkets strong again

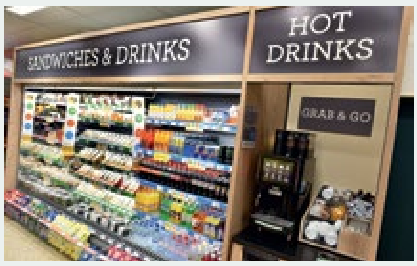
Customers tell us what Morrisons stands for – good quality fresh food, great value for money, good customer service and authentically British.

We aim to deliver those strengths in every store. During the year, we completed a programme to ensure all of the estate is at a consistent high standard, 'Back to Best', both inside and out. Maintenance has been brought back in-house which is improving the service standards to our stores.

We have over 200 stores that have not been brightened-up for over five years. Our new 'Fresh Look' programme upgraded over 50 stores last year and we are aiming for 100 a year from now on.

There are many improvements that 'Fresh Look' can apply almost universally across the estate. Improving the look and feel of Fresh, and allocating more space to growth categories such as Nutmeg clothing, Free From, World Foods, and Food to Go, as well as improving customer facilities such as the customer service desk and Café, are important components of the 'Fresh Look' programme.

However, 'Fresh Look' is much more than a standardised refit. At each store, customer listening groups tell us what a store needs before work starts and we listen to feedback again after the work has been done. So, 'Fresh Look' covers all aspects of the store – management, structure, range and labour scheduling, not just the physical layout.



Chief Financial Officer's review

Financial review of the year

Creating value for all stakeholders.

A strong balance sheet and robust cash flow is a platform for the business

Trevor Strain
Chief Financial Officer

Introduction

2015/16 was another year of strong cash flow generation for Morrisons. We achieved our initial aim of beginning to stabilise sales whilst operating from a lower cost base.

For the second consecutive year we generated cash after dividends and before property disposals. In the last two years we have delivered £1.6bn of free cash flow, and net debt at the end of the year was £1.75bn. We are focused on delivery of our cash improvement programmes and are committed to capital discipline with strong cost control. We are working to reduce debt further and are targeting a range of £1.4bn to £1.5bn by the end of 2016/17.

During 2016/17, we will continue to invest in the business, specifically in our six priorities. We can also become a stronger, broader business.

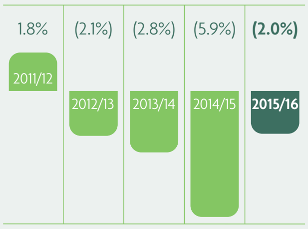
The turnaround and the broader business opportunities aim to improve sales, margin and asset intensity, which in turn will improve returns for shareholders. Growth will be capital light, disciplined and sustainable.

Summary income statement

	2015/16 £m	2014/15 £m
Turnover	16,122	16,816
Operating profit/(loss)	314	(696)
Net finance costs	(99)	(98)
Share of profit of joint ventures	2	2
Profit/(loss) before tax	217	(792)
Underlying profit before tax	242	345
One-off restructuring costs	60	68
Underlying profit before restructuring costs and tax	302	413
Underlying earnings per share	7.8p	10.9p

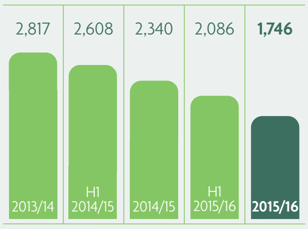
Key Measures

Group LFL sales performance



Definition
LFL sales performance measures the 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.

Net debt



Definition
A metric that shows the Group's indebtedness.

Turnover

Total turnover during the period was £16.1bn, down 4.1% year-on-year. Store turnover of £12.8bn, excluding fuel, was down by 1.4%. This comprised like-for-like (LFL) down 2.0% (including a contribution of 1.0% from online) and 0.6% contribution from new space.

We were pleased with the improvement in sales towards the end of the year. In line with our aim to begin to stabilise trade, fourth quarter LFL ex-fuel was up 0.1%, despite deflation remaining above 3%, and lower coupon activity having an impact on basket size. The LFL number of customer transactions were also positive in the fourth quarter. Overall in the second half of the year, LFL was down 1.3%, an improvement on the first half which was down 2.7%.

Fuel sales fell by 12.6% to £3.1bn, with the impact of deflation becoming more severe through the year. Towards the end of the year we led the market lower on fuel prices, and volumes responded. In the fourth quarter, despite deflation of nearly 20%, fuel LFL was almost flat.

Cost savings

We achieved full year cost savings of £423m, bringing the two year total to £647m. We remain focused on costs and are on track to deliver our target of £1bn of savings over the three years to the end of 2016/17.

Operating profit

	2015/16 £m	2014/15 £m
Operating profit/(loss)	314	(696)
Underlying adjustments:		
– Impairment and provision for onerous contracts	87	1,273
– Profit/loss on disposal and exit of properties	(131)	(131)
– Pension scheme set-up costs	35	–
– Loss/(profit) arising disposal of businesses	34	(4)
Underlying operating profit	339	442

Operating profit was £314m (2014/15: loss of £696m). Underlying operating profit, which excludes impairment and provision for onerous contracts, property disposal profits, losses on the disposal of M local, and the one-off set-up cost of the defined contribution pension scheme, was £339m (2014/15: £442m). The year on year reduction reflects our ongoing investment in being more competitive and serving customers better with £373m invested this year.

Underlying profit

	2015/16 £m	2014/15 £m
Reported profit/(loss) before tax	217	(792)
Underlying adjustments:		
– Impairment and provision for onerous contracts	87	1,273
– Profit/loss arising on disposal and exit of properties	(131)	(131)
– Pension scheme set-up costs	35	–
– Loss/(profit) on disposal of businesses	34	(4)
– Net pension interest income	–	(1)
Underlying profit before tax	242	345
Underlying profit margin	1.5%	2.1%

Reported profit before tax was £217m (2014/15: loss of £792m), and underlying profit before tax was £242m (2014/15: £345m), or £302m (2014/15: £413m) after adjusting for £60m (2014/15: £68m) store closure and restructuring costs. Underlying basic earnings per share reduced to 7.8p (2014/15: 10.9p), reflecting the reduction in underlying profit before tax.

Debt, cash flow and working capital

Summary cash flow

	2015/16 £m	2014/15 £m
Cash generated from operations before onerous capital payments	1,055	1,044
Onerous capital payments	(29)	(74)
Cash generated from operations	1,026	970
Proceeds from sale of plant, property and equipment and sale of businesses	320	450
Capital expenditure	(365)	(520)
Dividends paid	(260)	(308)
Dividends received	8	–
Purchase of shares in subsidiary	(3)	–
Purchase of own shares	(13)	(8)
Tax and interest	(136)	(92)
Other non-cash movements	17	(15)
Net cash flow	594	477
Opening net debt	(2,340)	(2,817)
Closing net debt	(1,746)	(2,340)

Group net debt fell to £1.75bn, down £594m year on year.

Our plans to improve free cash flow are progressing very well with £854m delivered during the year. We now expect to exceed our target of generating £2bn of free cash flow over the three years to 2016/17.

Continued strong cash generation meant our committed working capital facilities were called upon only temporarily in the second half. We made good progress in all areas of working capital, delivering an operating working capital improvement of £348m, taking the two year improvement to £554m.

Chief Financial Officer's review continued

During the year we realised net proceeds relating to property and businesses of £320m, generating a profit on disposal of £131m, before the £34m loss on disposal of the M local business. Over the last two years, we have realised £750m of property disposal proceeds. We remain committed to a predominantly freehold store portfolio. At year end, we owned 85% of our stores, a ratio that is broadly unchanged since the start of our disposal and underperforming store closure programmes.

Interest

Net finance costs were £99m (2014/15: £98m). In February 2016, we agreed to redeem our $250m US private placement (USPP) notes, which were due to mature in 2026 generating an annual interest benefit of around £8m. The one-off payment of £17m was half of the contracted 'make whole' cost. We will recognise this cost outside of underlying profit before tax for 2016/17.

Tax

The management of our tax affairs is focused on ensuring that we pay the tax we are obliged to pay in accordance with the law and that our tax affairs are consistent with our broader corporate objectives. We regard this as being important in protecting our reputation and brand, and have a tax management framework which ensures that the needs of all of our stakeholders are considered.

The Group is committed to paying all of its taxes in full and on time. It is a major contributor across a wide range of UK taxes. In 2015/16, Morrisons made net payments of £1,109m to the UK government of which £538m was borne by Morrisons and the remaining £571m was collected on behalf of our colleagues, customers and suppliers.

Summary balance sheet

	2015/16 £m	2014/15 £m
Fixed assets and investments	7,775	8,023
Working capital	(1,710)	(1,324)
Provisions and tax	(749)	(726)
Net pension asset/ (liability)	186	(39)
Net debt	(1,746)	(2,340)
Net assets	3,756	3,594

Pension

Our pension schemes remain well-funded and we recognised a £186m surplus at year end. The planned launch of our new defined contribution pension scheme has resulted in a charge of £35m being incurred in the second half of the year. This has been excluded from underlying earnings.

Capital expenditure

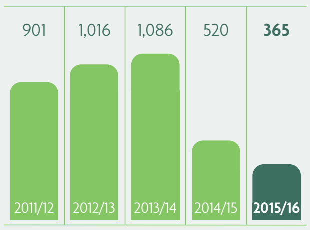
Capital expenditure fell to £365m, from £520m in 2014/15. This was lower than the planned c.£400m, as some projects moved into 2016/17.

A large part of our expenditure was spent on refreshing our stores. We completed over 50 'Fresh Look' refits during the year and expect to complete around 100 per annum going forward, with the aim of having the whole estate updated by the end of 2018/19.

In addition, we incurred £29m of capital payments on onerous contracts in 2015/16, which were previously provided for.

Key Measures

Capital expenditure (£m)



Definition
Measured as additions to property, plant and equipment, investment properties, intangible assets and investments.

Optimise assets

We are committed to optimising our assets, addressing underperformance and improving returns. We closed 21 underperforming supermarkets and exited the M local business during the year, and in January announced a proposal to close a further seven supermarkets. In total, these closures represent 5% of Morrisons space. We have no further plans for a programme of store closures.

We opened one new store during 2015/16 and will open one during 2016/17. Looking forward to 2016/17, the sales contribution from net new space will be negative as a result of the impact of the store closures.

Space

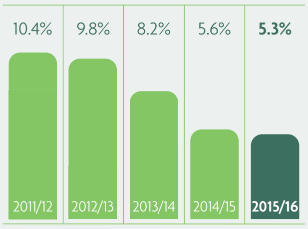
	At 2 February 2015	New stores	Transfers	Store closures	At 31 January 2016
Number of core stores	514	1	4	(21)	498
Number of convenience stores	153	5	(5)	(153)	–
Total number of stores	667	6	(1)	(174)	498
Total area in square feet (000)	14,732	38	–	(628)	14,142
Number of petrol filling stations	335	–	1	–	336

Return on Capital Employed

Return on Capital Employed at 5.3%, remains a key measure. We are focused on improving returns through the work we are doing on the operational performance drivers, specifically volume and costs. We are also optimising existing assets and dealing with assets which are underperforming.

Key Measures

Return on capital employed (ROCE)



Definition
ROCE is a relative profit measure showing the return generated from investments in assets.

Key balance sheet metrics

	2015/16	2014/15
Interest cover	4 times	5 times
Net debt/EBITDA	2.2	2.6
Gearing	46%	65%
ROCE	5.3%	5.6%

Financial strategy

CAPITAL ALLOCATION FRAMEWORK

1. Investing in maintaining estate and reducing cost
2. Maintaining debt ratios to support investment grade rating
3. Investing for profitable growth
4. Paying dividends in line with stated policy
5. Returning surplus capital to shareholders

Our capital allocation framework is set out above and is unchanged. Our first priority is to invest in our stores and infrastructure, and to 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; finally, any surplus capital will be returned to shareholders.

Shareholder returns

The 2015/16 dividend was re-aligned to reflect the Board's commitment to the capital allocation framework described above, whilst providing the necessary financial resources to invest in delivering the turnaround. In line with the guidance we set out last year, the final dividend will be 3.50p per share, bringing the total for the year to 5.00p.

The business is profitable. It is deleveraging rapidly and generating positive cash, before disposals and after dividend. The balance sheet is strong and getting stronger. The Board therefore feels well-placed to set a future dividend policy that provides an appropriate balance between continued investment in our business and shareholder returns. The Board believes that total annual dividends should be covered around two times by underlying earnings.

We remain committed to returning surplus capital to shareholders, and will do so at an appropriate time. However, our focus has been – and continues to be – delivering robust free cash flow to reduce debt.

Trevor Strain
Chief Financial Officer

Approval of the Strategic report
Pages 2 to 21 of this report form the Strategic report.
The Strategic report was approved by the Board on 9 March 2016 and signed on its behalf by:

Mark Amsden
Company Secretary
9 March 2016

Relationships

Our colleagues and partners

“We continue to focus on getting the right people in the right place at the right time to support our customers’ needs and to deliver our priorities.”

HIGHLIGHTS

People progressing from the shop floor to more senior positions in 2015/16

1,465

2015: 1,650

Percentage of colleagues who participated in the engagement surveys

72%

2015: 79%

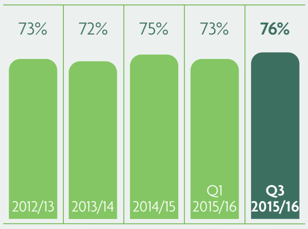
Colleague Engagement Index: How engaged are colleagues?

76%

2015: 75%

Key Measures

Colleague Engagement



Definition

Colleague engagement is measured through our two annual surveys in Spring and Autumn.

Restructuring our colleague base

We have completed significant structural change during the year across all areas of the business to ensure we have the right number of people, with the right skills in the right place to serve our customers. During this process and the closure of 21 supermarkets we have worked hard to retain the skills and talents of our colleagues with over 40% being redeployed into different roles.

The restructuring in head office has resulted in over c.800 roles being removed which have allowed us to reinvest in frontline colleague hours on smaller, flexible contracts, creating 5,000 in-store roles. In addition over 2,000 store colleagues were successfully transferred across to My Local following the sale of M local.

We have agreed significant changes to how we pay and reward our colleagues

Hourly pay rates in retail have been increased to £8.20 which is £1 above the National Living Wage and highly competitive in the market. This has positioned us well for the implementation of the living wage in April 2016 and the legislated increases in subsequent years.

Salaried pay has also been reviewed with pay bands identified for all salaried roles. Our organisational structure has been redesigned and simplified to ensure a maximum of eight levels from colleague to Executive Committee, every role has an updated job description linking to our business priorities.

Listening hard and responding quickly

During 2015/16 we’ve completed customer and colleague listening programmes across the business. This included listening groups at 110 of our stores as part of our ‘Fresh Look’ programme. Customers and colleagues have shared their feedback to enable us to improve their store with the right local solutions for them. We follow up on all actions raised and run weekly action meetings where senior managers across the business come together to listen and respond to the issues raised. We’ve seen both local and national improvements as a result of this work, for example, a redesign of our colleagues’ uniform which following further colleague feedback and involvement will be in all stores by the Autumn.

Our two colleague engagement surveys during the year received a record level of responses, including over 142,000 unique free text responses to each survey. We continue to see a high response rate with over 70% of our colleagues taking time to participate. We’ve continued to make it easier for colleagues to have their say online via their mobile or tablet. This insight has been used to shape our corporate engagement plan.

During 2015/16 our measure of overall colleague engagement has improved from 75% to 76% which is pleasing in the context of the difficult decisions we have needed to make on restructuring of the business.

Store colleague engagement index has increased by 3.5%, with the key drivers being:

- increased confidence in the future of Morrisons;
- good reasons for customers to shop at Morrisons; and
- strong links to the local community.

Head office engagement index fell by 14.3% impacted by the restructuring programme during the year.

Mastercraft competition
Our annual competition, which challenges the specialist knowledge and practical skills of our colleagues in our specialist craft areas from our Market Street, was a huge success this year. The competition included colleagues from our eight craft trades – butchery, bakery, fishbar, delicatessen, wine, flowers, cakeshop and produce.

Talent, training and development

To help our colleagues find opportunities to get on in the business we offer a number of programmes focusing on developing core skills, craft skills, technical skills and leadership skills. Over 550 store colleagues have completed retail or craft apprenticeships.

Accelerated learning programmes were launched in stores and logistics as a new way of fast tracking colleagues to gain new skills they need at pace to secure promotion at the next level.

Following the restructure in our retail stores we supported development into new roles by training c.9,500 team managers and c.3,500 duty managers on job specific functional and behavioural skills.

We continue to build our talent pipeline from within by equipping trainees with the knowledge and skills needed to be successful in a dynamic retail environment.

This year we recruited 62 graduates and have 133 graduate trainees completing operational; retail and head office functions schemes. In July, 22 colleagues graduated from Bradford University achieving a BSc. (Hons) in Management & Business in addition to 54 colleagues completing a foundation degree in logistics and supply chain from Hull University.

Within our senior leader population, managers with potential to become Directors participated in a future business leader programme including a business placement in a local charity.

Human rights and diversity

We pride ourselves on being a diverse organisation. We respect the human rights of all individuals as well as the communities in which we work and are committed to providing a workplace free from harassment and offering equal opportunities for promotion and advancement. During 2015/16, Morrisons employed 54,013 men and 66,900 women. In addition, 54 of our senior managers and six of our Board Directors were men, while 12 of our senior managers and two of our Board Directors were women. The retail field team now includes seven female regional managers, up from just one previously.

This year we have continued our work to build a workforce representative of the communities we serve.

Progress has been made against our diversity strategy which operates across all our talent activities, and will focus on addressing the identified gaps in our pipeline, will ensure a balanced slate for all senior promotion and hiring decisions, and adopt a standard assessment process so that our talent is assessed on an unbiased basis.

Our suppliers

At Morrisons, we pride ourselves on good quality fresh food. We work closely with farmers and suppliers to shorten our supply chains and make them more efficient to ensure our food reaches our stores in the freshest possible condition. Our uniquely vertically integrated business model means we own more of our fresh food supply chain. This ensures we have greater control over supply chain visibility, quantity and quality, and reduces risk as we know where our food comes from.

We take pride in our heritage – British born and bred – so we buy British wherever possible. 100% of our Morrisons branded beef, lamb, pork, chicken, milk and eggs are sourced in the UK. Buying British reduces food miles, adds to the national economy, strengthens agricultural industries and supports our rural communities.

We have listened hard to our suppliers, and taken action wherever possible. For example, we recognised the challenges in the dairy industry. In October we launched 'Milk for Farmers' giving customers the choice to buy a brand of milk and cheese where a clear element of the proceeds goes back to dairy farmers.

During the year, we conducted a supplier conference where we launched 12 commitments which laid out our ways of working with our wider supplier base. These commitments are now at the centre of our supplier relationships, ensuring we are more competitive and simplify the way we work, with the aim of building trust and ultimately serving our customers better. We will continue to monitor ourselves against these commitments. We work closely with our suppliers to encourage and promote responsible practices throughout the supply chain, helping to ensure sustainable supply for future generations. We are also a participant in the Advantage survey, a comprehensive and independent survey of over 400 suppliers' views on the status of their relationship with major grocery retailers in the UK.

This year we have focused on how we buy our products including simplifying our agreements. Our supply chain financing option also continues to be popular with our suppliers, with take up continuing to exceed our expectations.

Our ambition is always to have strong, mutually beneficial arrangements with our suppliers, responsible and fair trading terms and practices in line with the Groceries Supply Code of Practice.

Relationships continued

The Groceries Supply Code of Practice

The Groceries Supply Code of Practice (GSCOP) (the 'Code') applies to all grocery retailers with an annual turnover in excess of £1bn. Essentially, the Code creates certain specific rights and obligations that regulate our trading relationship with suppliers.

We actively engage with the relevant regulatory bodies, the Office of the Groceries Code Adjudicator (GCA) and the Competition & Markets Authority (CMA), to build best practice in relation to the Code. We have regular meetings with the GCA and provide updates on our activity, challenges in relation to the Code and details on specific areas of interest for the Adjudicator.

During the year, we continued to build on our training programme for all supplier-facing colleagues. This year we ran two face-to-face briefing and feedback sessions for all buyers and relevant trading colleagues. In addition, we ran bespoke sessions for colleagues in our supply chain team and a further session for finance colleagues who work closely with our trading function. We undertook a further detailed review of relevant processes utilising our Internal Audit team. Building on audits in previous years, additional actions were identified for continued process improvement including the strengthening of the compliance and monitoring team through the addition of a dedicated and independent resource.

Enquiries from suppliers on Code related matters were dealt with in accordance with the regulations. Any matter not resolved directly with a buyer is escalated to the relevant Category Director and, if requested, to our appointed Code Compliance Officer (CCO). Additional day-to-day guidance and advice on the Code is provided by the Group's legal function.

During 2015/16 we have successfully worked with suppliers to resolve the majority of complaints that have arisen with reference to the provisions of the Code. In summary nine new complaints were made by suppliers which were notified to our CCO. In total, eight of those were either resolved or withdrawn during the course of the year. The remaining matter at the financial year end has subsequently been resolved.

For overall governance, routine reports and updates are provided to our Corporate Compliance and Responsibility Committee, Audit Committee and Executive Committee on all aspects of the Code including developments about its operation or regulation. We formally report details of activity over the year and specific complaints made by the suppliers to our CCO, to the GCA, and the CMA at the financial year end.

Contact details and further information can be found at www.morrisons.co.uk/gscop.

Reducing emissions

Methodology

The information below is taken from our Group Carbon Footprint report, prepared internally and independently verified by Jacobs. We have reported for the calendar year 1 January to 31 December for all years in order to remain consistent with our historical footprint reports.

We have used the UK Government's Environmental Reporting Guidance (2013 version) to prepare these numbers, and the latest emissions factors from DEFRA/DECC's GHG Conversion Factors for Company Reporting.

We have revised our historical emissions figures following the sale of a number of sites and revisions to carbon conversion factors.

We have identified some possible inaccuracies with some of the refrigeration emissions figures from the previous year and are working to ensure these numbers are corrected in future reports.

The Carbon Footprint report includes all major sources of carbon emissions from the operation of the Group's supermarkets, manufacturing and distribution sites and operation of its haulage fleet. Some minor exemptions are:

Subsidiaries

- Bos Brothers Fruit and Vegetables B.V. – Dutch vegetable packer that deals with energy locally;
- Wm Morrison (HK) Limited – Hong Kong office that deals with energy locally;
- Wm Morrison Bananas Limited – a subsidiary that during the year was operated by the minority shareholder Global Ripeners Limited; and
- Neerock Farming Limited.

Sites

- A number of distribution sites are operated by third parties who are responsible for the energy and carbon, including Dordon, Birstall, Feltham, Bury, Willand, Droitwich, Clipper, Northfleet, Bathgate and Bunzl.

Sources

- Fuel oil – only four sites have fuel oil, which is estimated to account for less than 0.1% of the total footprint.

Group GHG emissions for year ending 31 December

Emission source	2004/05 Baseline Year	2014/15 Prior Year	2015/16 Current Year	Change vs. Baseline
Combustion of fuel and operation of facilities				
Natural Gas	102,470	146,911	155,087	51.3%
Haulage	139,847	109,990	114,989	(17.8%)
Business miles	4,511	3,643	3,743	(17.0%)
Fugitive Emissions				
Refrigerant	455,929	105,173	237,863	(47.8%)
Energy purchased for own use				
Electricity	798,596	756,595	672,451	(15.8%)
Other				
Staff travel	37,282	24,162	34,266	(8.1%)
Waste	36,730	22,197	20,876	(43.2%)
Total	1,575,365	1,168,671	1,239,275	(21.3%)
Intensity ratio: kg CO_2e per ft² GIA	50.4	29.5	32.0	(36.5%)

Risk

Managing our risks

Recognising the effect of uncertainty on our business means that we are in a better position to achieve our objectives, respond to emerging risks and create opportunities.

Risk management approach

The achievement of our six priorities depends on our ability to make sound, risk-informed decisions. Managing risk and uncertainty is an integral part of doing business. We manage increasing uncertainty as we respond to changes in our industry by maintaining a business wide understanding of our key risks and how to manage them. This assists in delivering our promises to customers and shareholders.

The risk management process

Our risk management framework has been built to identify, evaluate, mitigate and monitor those risks which threaten the achievement of our six priorities. The framework incorporates both a top down approach to identify the Group's principal risks and a bottom up approach to identify operational risks.

At the core of the risk management process are the risk registers for each function. These detail the key operating risks and are used to assess the gross level of risk (likelihood and impact), mitigating controls, the resultant net level of risk, risk mitigation plans and target level of risk. The risk registers are owned and managed by operational management, with the head of each function certifying annually that these have been reviewed and action plans are in place where required. The risk registers are formally reviewed by a sub group of the Executive Committee.

A Group risk register is reviewed and updated at least twice a year by the Executive Committee. It details the Group's principal risks, owners, the level of risk and mitigating actions. The Executive Committee's assessment of these risks takes into account the operating risks, strategic risks, external factors and any emerging risks.

The principal risks are monitored every month by the Executive Committee using key risk indicator reporting, supplemented by specific deep dive reviews as appropriate.

The Risk and Internal Audit function facilitates the preparation of both functional and Group risk registers. It supports the Audit Committee in reviewing the effectiveness of risk management and internal control systems. Where weaknesses are identified, Risk and Internal Audit work with the business to agree actions to mitigate these.

The Audit Committee supports the Board in establishing a robust risk management framework by approving the risk management process and reviewing the Group's principal risks and key risk indicator reporting.

Read more on risk governance in the Audit Committee report on pages 28 to 31 of the Annual report 2015/16.

Key areas of focus

Key activities and developments during 2015/16 include:

- update of the Group risk register by the Executive Committee;
- embedding of risk register reviews by functions and sub group of Executive Committee;
- development of Group risk reporting using key risk indicators; and
- alignment with recent changes to the UK Corporate Governance Code, including development of a viability statement.

Our priorities for 2016/17 include:

- reviewing and updating the controls framework to further develop key controls monitoring and performance at a functional level; and
- developing the Group's risk appetite framework.

Principal risks

The Directors have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.

This assessment of principal risks has resulted in some changes from those risks disclosed last year. Business strategy has been removed as a separate risk but the key elements are included in the other risks listed, notably the newly added risks of customer and supplier relationships. The supply chain management and integrity risk has been removed and incorporated into the supplier relationships and food and product integrity risks. The IT systems upgrade risk has been removed as this project is substantially complete. The regulation risk has also been removed and key elements of it are covered in the health and safety, food safety and product integrity and supplier relationships risks.

The principal risks identified by the Board and corresponding mitigating controls are set out (on the next page) in no order of priority.

Principal risks

RISK TYPE	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 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.
Competition ↑ 1	If we do not effectively manage our trade plan to remain competitive there is a risk that we will not achieve our financial targets. The Grocery sector continues to be challenging with high levels of competitive activity, food price deflation and enhancement of service through technology. This leads to an increase in this risk.	• We have continued to invest heavily in price and to emphasise Morrisons' point of difference through the 'Made by Morrisons' campaign; • We review and actively manage our price points, sales proposition, and promotional and marketing campaigns; • 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 ⇔ 1 2 3 4 6	There is a risk that we don't meet the needs of our customers in respect of price, range, quality and service. If we don't provide the shopping trip that the customer wants, we could lose sales and market share.	• We have focused the business on six priorities (see pages 8 to 9) which puts the customer at the centre of our decision making; • We have implemented a large scale programme of customer listening groups to gain a deep understanding of what our customers want and, where we can improve, these have informed our store refresh programme; • We closely monitor customer perceptions research and respond quickly where possible; and • We have continued to expand the geography covered by our online offering meaning more people are able to shop online with us.
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. Increased regulation and financial penalties in addition to increased incidents of cyber attacks on corporates has led to the increase in this risk.	• We have an Information Management Steering 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; and • This is supported by ongoing monitoring, reporting and rectification of vulnerabilities.
Financial and treasury ⇔ #	The main areas of this principal risk are the availability of funding and management of cash flow to meet business needs. 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 commodity price risks (see note 7). They report to the Treasury Committee and operate within clear policies and procedures which are approved by the Board; 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 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.

RISK TYPE	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 frontline operators and management; • A programme of health and safety audits is in place across our stores, depots, factories and offices with resource 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. Business change and the challenging trading environment may impact on colleagues leading to an increase in this risk.	• We have competitive employment policies, remuneration and benefits packages; • A new Group wide reward framework has been introduced 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 (see more in our people section on page 14 of the Annual report 2015/16); and • Colleague engagement surveys, listening sessions and networking forums are used to understand and respond to our colleagues' needs.
Supplier relationships ↔ 1 5	There is a risk that if we fail to engage effectively with our suppliers we will not be able to deliver the right proposition for our customers. Maintaining strong and effective relationships with our suppliers will be key as we develop a 'sell for less culture' and simplify our ranges. Additionally we need to ensure compliance with Groceries Supply Code of Practice (GSCOP) regulation.	• We work closely with our suppliers to build joint business plans, ensuring a competitive customer offer and a resilient supply base; • We have a GSCOP compliance framework in place including training for relevant colleagues and processes to monitor compliance; and • Additionally we have a channel for suppliers to provide feedback and a Code Compliance Officer.

Key

- ↑ Increase in residual risk
- ↔ No change
- ↓ Decrease in residual risk

Link to six priorities

1. To be more competitive
2. To serve customers better
3. To find local solutions
4. To develop popular and useful services
5. To simplify and speed up the organisation
6. To make the core supermarkets strong again

\# Underpins all six priorities

Viability statement

The Directors have assessed the viability of the Group over a three year period to January 2019.

The Group's business model is not dependent on any particular contract or resource with fixed end dates; the period was selected because the Group's forecasts associated with the detailed strategic and financial plans are prepared over this period and were considered to be the most robust and appropriate means to support its viability statement.

As part of the strategic planning process, the Directors make a number of assumptions about business performance and the ability of the Group to raise debt financing. The Group carefully plans and reviews the maturity profile of debt facilities to avoid coterminous maturity dates and liquidity forecasting gives visibility of headroom under committed facilities over the period of the financial plans.

Key metrics in the plan, such as cash flow, interest cover, liquidity and ability to raise debt financing, were subject to sensitivity testing by flexing a number of the main financial assumptions in order to assess the impact of principal risks in severe but plausible scenarios.

Based on this assessment, and taking into account the Group's current position, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three year period of their assessment.

Corporate Responsibility

Responsible retailing

OUR PRIORITIES	WHAT WE'VE DONE

Sustainable supply chains

100% British own brand fresh meat sold in our stores

Three out of three trees in WWF's UK Timber Sourcing Scorecard

Published Ocean Disclosure Project detailing the fisheries we buy from, catch method and issues

Responsible sourcing

Updated Ethical Trading Policy, in line with industry best practice, launched in October 2015 with training and practical guidance for all suppliers

Actively promoting the Stronger Together initiative to suppliers to raise awareness of the risks of worker exploitation and human trafficking

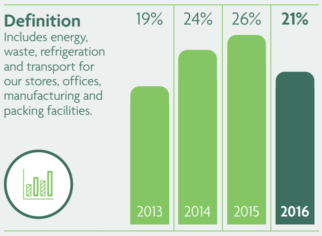
stronger together
tackling modern slavery in supply chains

Actively supporting Responsible Fishing Scheme, ensuring high crew welfare standards on fishing vessels

Managing our environmental footprint

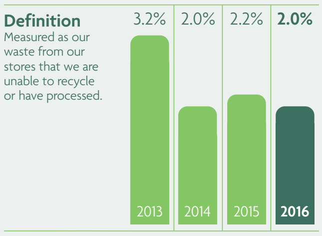
Carbon footprint reduction

Definition
Includes energy, waste, refrigeration and transport for our stores, offices, manufacturing and packing facilities.



Waste to landfill reduction

Definition
Measured as our waste from our stores that we are unable to recycle or have processed.



All stores can now donate unsold food to charity

Healthy eating and obesity

Continued support of the Change 4 Life campaign

change 4 Life
Eat well Move more Live longer

Removed sweets and chocolate from checkouts

Reported **54%** compliance with 2017 salt targets

1bn fewer calories in our customers' baskets over a year

Community engagement

£2.5m raised for Sue Ryder partnership

Sue Ryder

£2.5m given to support local causes through Morrisons Charitable Foundation

£15m raised in our stores for charities and community groups through colleague fundraising and customer donations

The full Corporate Responsibility 2015/16 Review will be available for you to download at **www.morrisons.co.uk/cr**

WHY IT MATTERS	WHAT WE WILL DO NEXT
With the population set to increase to nine billion people by 2050, and the impacts of climate change impacting on agricultural yields, food security issues are becoming a growing concern for us as a food business and for our customers. We operate a complex and fast paced business. Decisions we take about how we operate and where we buy from must be taken with care.	• Continue to focus on time bound commitments for the responsible sourcing of own brand seafood; and • Work with own brand suppliers to ensure compliance of our palm oil sourcing policy. We source only Roundtable on Sustainable Palm Oil certified mass balance or segregated palm oil and derivatives within own brand products.
With thousands of products sold in our stores, our supply chain and the people within it span the globe. Effective management of our complex supply chains is key to ensuring brand integrity, risk management and sustainable supply for our own brand products. Our approach combines a risk-based monitoring programme to track suppliers' compliance with our ethical trading standards, alongside training of suppliers and internal teams to deliver continuous improvement. Media coverage of serious incidents concerning working conditions and hidden exploitation remains topical.	• Work with suppliers in 2016 to meet the updated requirements of the Ethical Trading Policy; • Deliver further training to relevant technical and commercial teams to build understanding of ethical trading issues, impacts on workers, and our policies and procedures; • Continue to promote Stronger Together training to raise awareness of modern slavery risks with our suppliers and relevant internal colleagues; and • Continue to build engagement and influence in relevant external ethical trading networks.
The issue of climate change is one of the greatest challenges to the global community. As well as the clear moral case for emissions and water use reduction, changing climate patterns are a material issue for our business as they are a major threat to food security. Effective resource management relating to energy use, transport, refrigeration and waste, all contribute to emissions and are fundamental to managing our costs.	• Continued progress towards 30% absolute reduction in operational carbon emissions by 2020 target; • Firmly embed and monitor the unsold food to charity programme in all stores; and • Look at opportunities for further food waste reduction and redistribution of surplus food to provide social benefit across the estate.
Childhood obesity is a key focus for the Government and public health organisations. Children consume more sugar than is recommended, with soft drinks the single biggest contributor. Reformulation is one of the most effective ways to reduce sugar consumption. Our ongoing product reformulation, removal of confectionery from the checkout and partnership with Change 4 Life shows our commitment to improving child health.	• Seek supplier partners for sugar reduction projects in key categories and reformulate to maintain our position on salt and to lower sugar levels where possible; and • Continue to support Change 4 Life, especially its Sugar Swaps campaign.
It's important that we play a positive role in the communities we serve. We want our stores to be deeply integrated into the local area, supporting community groups, developing local partnerships and helping charities. With the majority of customers and colleagues from local neighbourhoods, we want our stores to actively engage with the local area and be a force for good in the community.	• Ensure a local approach to community and charity activity, working to deliver local solutions in our stores. Celebrating events and supporting local causes that matter in our regions, through our community champion programme; • Support colleague fundraising and registered charities through the Morrisons Foundation, making a positive difference to people's lives; and • Maximise the final year of our national charity partnership with Sue Ryder.

Supplementary material

Additional information about how we are rewarded and how we have performed this year

Note: The Strategic report and supplementary material does not contain the information which would allow shareholders (as the full Annual report and financial statements do) a complete understanding of the results of the Group, its state of affairs of the policies and arrangements concerning Directors' remuneration. Copies of the Annual report and financial statements may be obtained free of charge as noted in the investor information section at the back of this report.

Committee key

- N Nomination Committee
- R Remuneration Committee
- C Corporate Compliance and Responsibility Committee
- A Audit Committee
- ● Committee Chairman

Board of Directors

Andrew Higginson
Chairman

Appointment
Andrew joined the Group as Deputy Chairman and Chairman Elect in October 2014 and became Chairman at the end of January 2015.

Experience
Andrew is currently the Chairman of N Brown Group PLC and a Non-Executive Director of Woolworths Holdings Limited (South Africa) and McCurrach UK Limited. Andrew stepped down as a Non-Executive Director of the Rugby Football Union at the end of 2015. Andrew was previously the Chairman of Poundland Group PLC and Senior Independent Director of BSkyB PLC. Andrew was an Executive Director at Tesco PLC for 15 years.

Committee membership
N R C

David Potts
Chief Executive

Appointment
David joined the Group as Chief Executive on 16 March 2015.

Experience
David is a vastly experienced retailer who joined Tesco PLC at the age of 16 and worked there for 39 years. He rose to become successively CEO of its Ireland business, its UK retail stores business and then CEO of Tesco Asia. David was also on the Tesco PLC Board from 1998 until he left in 2011. Prior to his appointment as CEO of Morrisons, David held several advisory positions with a number of private equity and consultancy firms and developed his own retail concept to sell general merchandise. He also worked on two extensive retail projects in the UK.

Committee membership
C

Trevor Strain
Chief Financial Officer

Appointment
Trevor joined the Group in June 2009 as Commercial and Operations Finance Director. In June 2011, he became Finance Director Corporate and took responsibility for the Company's productivity programmes. Trevor joined the Board as Chief Financial Officer on 10 April 2013.

Experience
Prior to joining Morrisons, Trevor worked for Tesco PLC in a number of roles until his appointment as UK Property Finance Director in 2006 and subsequently UK Planning and Reporting Finance Director. Trevor began his career with Arthur Andersen and is a member of the Institute of Chartered Accountants in England and Wales.

Rooney Anand
Senior Independent Non-Executive Director

Appointment
Rooney joined the Board as a Non-Executive Director and Senior Independent Director on 1 January 2016.

Experience
Rooney is a highly experienced retail and fast moving consumer goods (FMCG) executive. Following a career with United Biscuits and then Sara Lee, he joined Greene King PLC in 2001 as Managing Director of its brewery company. He was appointed CEO in 2005. Rooney is credited with changing Greene King from a regional brewery and pub business, to a brand-led pub, restaurant and hotel operator. In 2015, he completed Greene King's £770m takeover of the Spirit Pub Group, which made Greene King the largest managed pub group in the UK.

Committee membership
N R C

Neil Davidson
Non-Executive Director

Appointment
Neil joined the Board as a Non-Executive Director on 1 October 2015. He became Chair of the Corporate Compliance and Responsibility Committee on 1 January 2016.

Experience
Neil has had an extensive career in manufacturing, starting with Northern Foods PLC where he rose to become Managing Director of its milk division. He subsequently became CEO of Express Dairies Plc and then Arla PLC. He has also been a Non-Executive Director of Persimmon PLC and Northern Recruitment Group PLC and the Chair of Leicestershire County Cricket Club. He is currently a Non-Executive Director of Produce Investments PLC.

Committee membership
N R C A

Belinda Richards
Non-Executive Director

Appointment
Belinda joined the Board as a Non-Executive Director on 1 September 2015. She became Chair of the Audit Committee on 1 January 2016.

Experience
Belinda worked in professional services for over 25 years, where she operated as a senior adviser in corporate finance and strategy. Belinda is currently the Senior Independent Director of Grainger PLC, where she also chairs the Audit and Remuneration Committees, and a Non-Executive Director of Aviva UK Life & Pensions. Belinda serves on the Advisory Group of Audit Committee Chairmen at the Financial Reporting Council and is a member of the Governing Council of the Centre for the Study of Financial Innovation, a not for profit think-tank focused on research in financial services.

Committee membership
N R C A

Irwin Lee
Non-Executive Director

Appointment
Irwin joined the Board as a Non-Executive Director on 1 September 2015. He became Chair of the Remuneration Committee on 1 February 2016.

Experience
Irwin has had a long career in fast moving consumer goods with Procter & Gamble. He rose to Vice President and Managing Director, Procter & Gamble Northern Europe with responsibility for the UK, Ireland, Denmark, Finland, Norway and Sweden. He retired in August 2015 after 30 years with Procter & Gamble.

Committee membership
N R C A

Paula Vennells
Non-Executive Director

Appointment
Paula joined the Board as a Non-Executive Director on 1 January 2016.

Experience
Paula is currently Chief Executive of the Post Office, a role she has held since April 2012. Paula joined the Post Office in 2007. Previously she was Group Commercial Director of Whitbread PLC having started her career with Unilever and L'Oréal. Paula has held directorships in sales and marketing with a number of major retailers including Dixons Stores Group and Argos. She is Non-Executive Chair of First Rate Exchange Services Limited.

Committee membership
N R C A

Directors' remuneration report

How we are rewarded

Annual statement by the Chairman of the Remuneration Committee

Irwin Lee
Chairman of the Remuneration Committee

Dear Shareholder

On behalf of the Remuneration Committee and the Board, I am pleased to present the Directors' remuneration report for the financial year 2015/16, my first as Chairman of the Remuneration Committee.

Our remuneration policy was approved by shareholders at the 2015 AGM following extensive engagement with major shareholders and investor representative bodies.

The Committee believe that this framework continues to support and promote the link between pay and performance and there are no changes proposed at this time. Key features of our current framework are summarised in the sidebar.

The Committee intend to carry out a comprehensive review of the remuneration policy framework during the year to present to shareholders for approval. We will be consulting with major shareholders on these proposals and I look forward to your input and feedback.

The Committee noted the significant number of votes against the Directors' remuneration report for last year and during the year discussions took place with a number of institutional shareholders who didn't support the remuneration report. We continue to try to incorporate the feedback we receive and this year we have sought to significantly improve the level of retrospective bonus target disclosure so that investors can clearly see the link between pay outcomes and the performance delivered.

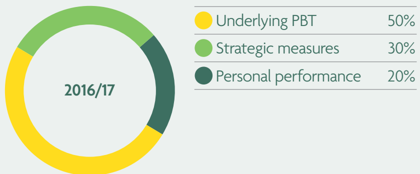
In the remainder of this introductory statement, I have set out the key features and principles of our executive remuneration framework, a summary of the out-turns in respect of 2015/16 performance, and how we intend to implement the policy in 2016/17.

Key features of our executive framework

Salary
- Market competitive fixed remuneration reflecting skills and expertise.

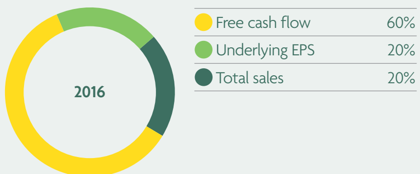
Benefits and pension
- Market competitive benefits package.
- Executive Directors may receive a maximum cash pension allowance of 25% of salary.

Annual bonus
- Maximum opportunity 200% of salary.
- Performance-related remuneration based on targets aligned to our annual financial and operational strategic objectives.



- 50% of any bonus deferred for three years
- Malus and clawback apply.

LTIP
- An opportunity to earn Morrisons shares based on performance against key strategic metrics over a three year performance period.
- Maximum normal award opportunity 240% of salary.
- Awards made in 2016 will be subject to the following performance measures:



- Malus and clawback apply.

Shareholding guidelines
- 200% of salary.

Remuneration principles and alignment to strategy

Our remuneration framework continues to be based on the following key principles:

- The structure of our incentives is designed to align with the delivery of the short and long term objectives set out in our strategy, which also aligns with the creation of sustainable long term shareholder value.
- We encourage a strong and rigorous performance culture through a remuneration package heavily weighted towards performance-related pay, with stretching performance targets calibrated to appropriately reflect the challenging environment.
- Pay must be positioned competitively in our key talent markets to ensure we can attract people of the calibre needed to execute the strategy for shareholders.

Incentive out-turns for 2015/16

Annual bonus

The annual bonus targets for 2015/16 reflected our strategic objectives for the year in the context of a challenging and transitional environment for UK retailers.

We entered 2015 in the context of a declining market and the big four grocers losing further market share. To address these challenges, a new Executive team was put together under the leadership of David Potts, head office costs were reduced, the business was refocused on core supermarkets, and many changes were made to our customer offer and ways of working.

These changes have begun to show some stabilisation effect, with improving customer satisfaction, and positive Christmas trading results for the first time in four years.

Performance was based 50% on underlying profit before tax, 30% on a strategic scorecard and 20% on personal objectives. Strategic scorecard measures focused on objectives in the areas of like-for-like sales (20%) and cost reduction (10%) and were underpinned by personal objectives.

As discussed in more detail on page 11 of the Annual report 2015/16, performance against these measures was strong. Underlying PBT, adjusted for restructuring one-off costs, of £302m was above the target set in the context of the current environment. Like-for-like sales growth of (2%) (more than double our achievement for 2014/15) was also above target; and operational cost savings of £227m significantly exceeded target. This performance resulted in annual bonus awards of 73% of maximum for David Potts and Trevor Strain.

LTIP

No LTIP awards vested in respect of the reporting year. Performance for the 2013/16 LTIP awards was based 75% on underlying EPS growth and 25% on like-for-like non-fuel sales growth, relative to the Institute of Grocery Distribution (IGD) index over a three year period. Performance against both measures was below threshold and therefore no vesting will occur.

Actions in 2015/16

LTIP targets for 2015 awards

As explained in last year's Directors' remuneration report, the Committee decided to wait to set performance targets for LTIP awards made in April 2015 to allow David Potts, who joined in March 2015, time to assess the business and the wider market and provide his input into the formation of a long term business plan.

The targets were agreed in Autumn and published on the corporate website. Full details of the targets for the 2015/18 awards can be found on page 40 of the Annual report 2015/16.

Decisions for 2016/17

Base salary

David Potts was appointed as Chief Executive on 16 March 2015 on a base salary of £850,000. Following the salary review, the Committee proposed an increase of 2.5% which was broadly in line with the increase across the business. However, David Potts waived the increase and his salary for the year ahead will remain unchanged.

Trevor Strain was promoted to the role of CFO in April 2013 on a base salary below that of his predecessor. In reviewing his salary, the Committee has continued to take into account the considerable progress made by the CFO in the period since his appointment, his substantial contribution to the business during this time of significant transition and the addition of Property, Popular and Useful services and Strategy to his responsibilities. As flagged last year, and with our major investors during consultation in the year, the Committee's preference has been to stage increases over time. Therefore, following the increase awarded last year, a second phased increase of 9.5% has been agreed, effective 1 February 2016, taking his salary to £575,000.

Incentives

Annual bonus

The performance measures and weightings will be the same as for the 2015/16 annual bonus. The performance targets will be disclosed in next year's report.

LTIP

Awards will be 240% of base salary. Performance measures and weightings for LTIP awards to be granted in 2016/17 remain: cumulative free cash flow (60%); underlying EPS (20%); total sales (20%). For the underlying EPS element, the Committee has decided to move to a target range based on percentage growth in underlying EPS measured from a 2015/16 base on a compound per annum basis.

Structure of this report

The remainder of the report is split into the following sections:

- **Policy summary and operation**
  This section (pages 35 to 37 of the Annual report 2015/16) presents an extract from the Remuneration policy table (as approved by shareholders in 2014) for information purposes and how we intend to operate the policy for 2016/17.
- **Outcomes for 2015/16**
  This section (pages 38 to 43 of the Annual report 2015/16) describes the implementation of our policy during 2015/16, including the 'single figure of remuneration' and supporting narrative for our bonus and long term incentive outcomes.

Irwin Lee
Chairman of the Remuneration Committee

Summary Directors' remuneration report

Extract of the Annual report on remuneration

Audited information

Single total figure of remuneration

The table below sets out the single total figure of remuneration and breakdown for each Director for 2015/16 and the comparative figure for 2014/15.

	2015/16						2014/15					
	Salary/fees £000	Benefits[1] £000	Annual bonus[2] £000	LTIP £000	Pension benefits[3] £000	Total £000	Salary/fees £000	Benefits[1] £000	Annual bonus[2] £000	LTIP £000	Pension benefits[3] £000	Total £000
Executive Directors												
D Potts[4]	747	226	1,092	–	187	2,252	–	–	–	–	–	–
T Strain	525	35	763	–	126	1,449	490	28	602	–	118	1,238
D Philips[5]	39	1	–	–	10	50	850	28	1,010	–	213	2,101
Non-Executive Directors												
A Higginson[6]	400	1	–	–	–	401	94	–	–	–	–	94
R Anand[7]	7	–	–	–	–	7	–	–	–	–	–	–
P Cox[8]	102	–	–	–	–	102	108	–	–	–	–	108
N Davidson[9]	25	–	–	–	–	25	–	–	–	–	–	–
R Gillingwater[10]	26	–	–	–	–	26	76	–	–	–	–	76
P Hughes[8]	84	–	–	–	–	84	92	–	–	–	–	92
I Lee[11]	32	–	–	–	–	32	–	–	–	–	–	–
B Richards[11]	33	–	–	–	–	33	–	–	–	–	–	–
P Vennells[7]	5	–	–	–	–	5	–	–	–	–	–	–
J Waterous[12]	92	–	–	–	–	92	92	–	–	–	–	92

1 Taxable benefits for the Executive Directors include a car allowance (or other car benefit), transport costs, and private health provision. The Chairman has use of a car and driver for Company business and receives private health provision. All Directors receive the Company's normal staff discount entitlement which is not taxable. The value of Sharesave awards granted in 2015/16 is also included in this figure. D Potts' benefits for the year included c£0.2m of relocation benefits. The company has been advised that for the Chairman, CEO and CFO, certain expenses in relation to travel should be treated as a taxable benefit. The table above includes these travel expenses and the corresponding tax contributions (restated for 2014/15).
2 50% of the annual bonus is deferred in shares for a period of three years. There are no performance conditions attached. For D Philips, the 2014/15 bonus was paid in cash.
3 D Potts and D Philips received a salary supplement equal to 25% of base salary. T Strain received a salary supplement of 24% of base salary. None of the Executive Directors have a prospective entitlement to a defined benefit pension by reason of qualifying services.
4 D Potts was appointed to the Board on 16 March 2015. The figures disclosed for 2015/16 are for the period following appointment to the Board.
5 D Philips stepped down from the Board on 16 February 2015. The figures disclosed for 2015/16 are for the period prior to him stepping down. Loss of office payments disclosed on page 41.
6 A Higginson was appointed to the Board on 1 October 2014. The figure disclosed for 2014/15 includes fees in respect of his induction period (including legal costs) which commenced on 1 September 2014.
7 R Anand and P Vennells were appointed to the Board on 1 January 2016. The figures disclosed for 2015/16 are for the period following appointment to the Board.
8 P Cox and P Hughes stepped down from the Board on 31 December 2015. The figures disclosed for 2015/16 are for the period prior to them stepping down.
9 N Davidson was appointed to the Board on 1 October 2015. The figure disclosed for 2015/16 is for the period following appointment to the Board.
10 R Gillingwater stepped down from the Board on 4 June 2015. The figure disclosed for 2015/16 is for the period prior to him stepping down.
11 I Lee and B Richards were appointed to the Board on 1 September 2015. The figure disclosed for 2015/16 is for the period following appointment to the Board.
12 J Waterous retired from the Board on 31 January 2016.

The Group is required to prepare a Directors' remuneration report for the 52 weeks ended 31 January 2016. The report has been prepared in accordance with the Companies Act 2006 and the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013.

Consolidated statement of comprehensive income

52 weeks ended 31 January 2016

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

Consolidated balance sheet

31 January 2016

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

Consolidated cash flow statement

52 weeks ended 31 January 2016

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

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

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

Consolidated statement of changes in equity

52 weeks ended 31 January 2016

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

	Note	Attributable to the owners of the Company						
		Share capital £m	Share premium £m	Capital redemption reserve £m	Merger reserve £m	Hedging reserve £m	Retained earnings £m	Total equity £m
Prior period								
At 3 February 2014		234	127	39	2,578	(15)	1,729	4,692
Loss for the period		–	–	–	–	–	(761)	(761)
Other comprehensive (expense)/income:								
Cash flow hedging movement		–	–	–	–	(9)	–	(9)
Pension remeasurement	8.2	–	–	–	–	–	(31)	(31)
Tax in relation to components of other comprehensive income	2.3	–	–	–	–	2	6	8
Total comprehensive expense for the period		–	–	–	–	(7)	(786)	(793)
Purchase of trust shares	6.5	–	–	–	–	–	(8)	(8)
Employee share option schemes:								
Share-based payments	1.7	–	–	–	–	–	11	11
Dividends	1.8	–	–	–	–	–	(308)	(308)
Total transactions with owners		–	–	–	–	–	(305)	(305)
At 1 February 2015		234	127	39	2,578	(22)	638	3,594

Further information:
The auditor has reported on the full Annual report and financial statements for the 52 week period ended 31 January 2016. The auditor's report was unqualified, and their statement under section 496 (whether the Strategic report and the Directors' report are consistent with the accounts) of the Companies Act 2006 was unqualified. The independent auditor's report can be found on page 47 of the Annual report and financial statements, available at www.morrisons-corporate.com

Investor relations and financial calendar

Financial calendar 2016/17

Financial events and dividends	
Quarterly management statement	5 May 2016
Final dividend record date	13 May 2016
Annual General Meeting	9 Jun 2016
Final dividend payment date	15 Jun 2016
Half year end	31 Jul 2016
Interim results announcement	15 Sep 2016
Interim dividend record date	30 Sep 2016
Interim dividend payment date	7 Nov 2016
Quarterly management statement	3 Nov 2016
Financial year end	29 Jan 2017

Company Secretary

Mark Amsden

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BD3 7DL
Telephone: 0845 611 5000
www.morrisons.com

Investor relations

Telephone: 0845 611 5710
Email: accinvr@morrisonsplc.co.uk

Corporate responsibility enquiries

Telephone: 0845 611 5000

Annual General Meeting

The AGM will be held on 9 June 2016 at Wm Morrison Supermarkets PLC Head Office, Gain Lane, Bradford BD3 7DL.

A separate notice convening the meeting is sent to shareholders, which includes an explanation of the items of special business to be considered at the meeting.

Dividend reinvestment plan

The Company has a dividend reinvestment plan which allows shareholders to reinvest their cash dividends in the Company's shares bought in the market through a specifically arranged share dealing service. Full details of the plan and its charges, together with mandate forms, are available from the Registrars.

Morrisons website

Shareholders are encouraged to visit our website, www.morrisons.com, to obtain information on Company history, stores and services, latest offers, press information and a local store finder.

Share price information

The investor information section of our website provides our current and historical share price data and other share price tools. Share price information can also be found in the financial press and the Cityline service operated by the Financial Times. Telephone: 0906 843 3545.

Online reports and accounts

Our annual and interim Group financial statements are available to download from the website along with Corporate responsibility reports and other financial announcements. The 2015/16 Annual report is also available to view in HTML format at www.morrisons-corporate.com/annual-report-2016

The information in the Annual report and financial statements, Strategic report, and the Interim reports is exactly the same as in the printed version.

Environmental matters

Our environmental footprint is taken very seriously. In the production of the 2015/16 Annual report, we have contributed to the reduction in environmental damage in the following ways:

a) Website

Shareholders receive notification of the availability of the results to view or download on the Group's website, www.morrisons-corporate.com, unless they have elected to receive a printed version of the results.

Shareholders are encouraged to view the report on the website which is exactly the same as the printed version, but using the internet has clear advantages such as lowering costs and reducing the environmental impact.

b) Recycled paper

This document has been printed on recycled paper that is manufactured in mills with ISO 14001 accreditation from 100% recycled fibre. It is totally chlorine free and is an NAPM certified recycled product.

Information at your fingertips

Customer

Our website, **www.morrisons.com**, allows you to shop online, search hundreds of inspirational recipes for the food we make, move and sell, and even find ideas for popular event-themed activities.

Morrisons.com deliveries currently service 56% of Great Britain; a postcode checker enables you to see if you are eligible for our home delivery service.

At Morrisons.com you can:

- Buy over 18,000 Morrisons grocery products
- Benefit from competitive 'one-off' delivery charges
- Purchase a monthly, weekly or annual delivery pass for flat-fee unlimited delivery
- Check out latest promotions and seasonal events
- Review selected offline-only products
- Sign up for our latest offers by email
- Find recipes based on our ingredients and inspired by our campaigns/events
- Learn about our produce and its journey from 'field to fork'
- Read content on healthy eating, reducing food waste and our support for various causes

You can also sign up to and manage your 'Match & More' account on our website. In our dedicated area, you can find out what our loyalty card scheme has to offer, check your points balance and make changes to preferences.

Not all products are available online. However, the website is an excellent vehicle for raising awareness and interest of the things we offer.

You are also able to preview selected items from ranges such as Nutmeg and Market Street, and our new café offers, in-store services, award wins, pharmacies, glass hire, flower shops and new store openings online.

We also provide an online Store Finder where you can find details of your nearest store, opening times and services.

Corporate

Our corporate website, **www.morrisons-corporate.com**, is a one-stop portal that exists for the benefit of our investors, the public and the media. This site has the following sections:

About Morrisons

You will find information about the Group, its operations, strategy and structure, and past financial information.

Jobs

Career opportunities and information about working for Morrisons. For our dedicated recruitment website, go to www.morrisons.jobs/

Media centre

Latest releases about the growing estate of Morrisons, along with promotions and product news.

Corporate responsibility

Here you can find out about our corporate responsibility ethos, including how we take good care of our environment, society and how we go about business. www.morrisons.co.uk/cr

Investors

Presentations, announcements and financial reports can be quickly and easily downloaded or viewed on-screen as PDFs. You can easily navigate around the Annual report and financial statements 2015/16 on-screen, viewing only the parts you want to, at www.morrisons-corporate.com/annual-report-2016

Webcasts

Webcasts of the Directors delivering the preliminary results for 2015/16 on 10 March 2016 are available.

Shareholder information

Other relevant shareholder information is available, for example share price history, dividends, financial calendar and AGM minutes.

Electronic communications

Electronic communications (eComms) is the fastest and most environmentally friendly way to communicate with our shareholders.

Instead of receiving paper copies of the annual and interim financial results, notices of shareholder meetings and other shareholder documents, you will receive an email to let you know this information is available on our website.

Visiting our website to obtain our results reduces our environmental impact by saving on paper and also reduces our print and distribution costs.

Sign up to eComms on our website at www.morrisons-corporate.com and follow the investor eComms link.

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Visit our website:
www.morrisons.com