



MORRISONS



Building *Momentum*

Annual Report and
Financial Statements 2014/15





Throughout the Directors' report and Strategic report:

(1) Unless otherwise stated, 2014/15 refers to the 52 week period ended 1 February 2015 and 2013/14 refers to the 52 week period ended 2 February 2014. 2014 and 2015 refer to calendar years. (2) Underlying profit is defined as profit before impairment, onerous lease provisions and other similar 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, onerous lease provisions and other similar 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) LFL sales reflects the percentage change in year-on-year store sales (excluding VAT and fuel), removing the impact of new store openings and closures in the current or previous financial year.

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*Below:***Online Annual report 2015**

For more information visit:

www.morrisons-corporate.com/ar2015

Morrisons overview

This is *Morrisons*

“Morrisons has grown from a market stall to the UK’s fourth largest supermarket group.”

Who we are

We are a value-led grocer, British born and bred, focused on fresh food. High quality, fresh products are at the heart of everything we do. We have our own manufacturing production facilities that supply our stores to ensure that we sell only the best products. Our vertical integration gives us both control over the provenance of our supply chain and the flexibility to meet the demands of customers. We have adapted to the changing demands of our customers by launching a multi-channel offer that gives the same great supermarket experience to customers in our convenience stores and online business.

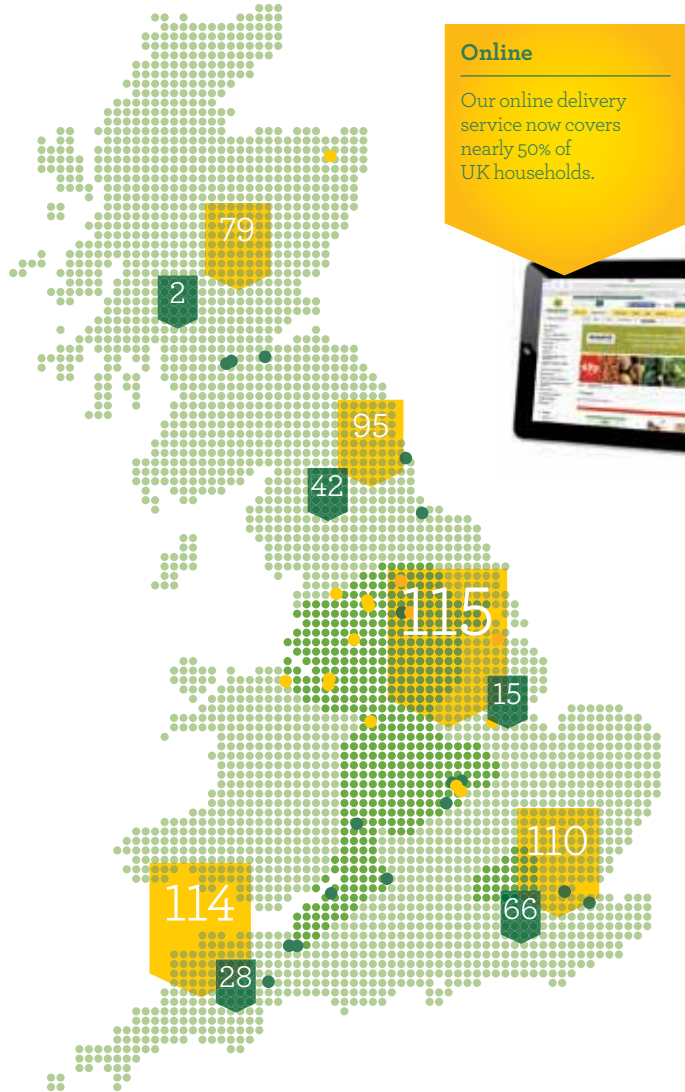
Key

- Supermarkets 
- Morrisons M local 
- Online coverage 
- Distribution centres 
- Manufacturing 

This data is based on internal reporting regions and excludes our store in Gibraltar.

Fresh

Our vertically integrated supply chain and strong supplier relationships ensure only the freshest produce is sold to our customers.



Online

Our online delivery service now covers nearly 50% of UK households.



Number of customers who visit stores per week

12.1M



60%

of the fresh food we sell we make ourselves

Online orders, over

1.1M



Stores across UK, of which 153 are convenience stores

667



Number of colleagues, over 117,000

Building momentum...

...In the year ahead, we will further improve our customer offer through lowering prices, providing better service and great new products.

We will *be* Morrisons. Making great quality fresh food in our factories and shops. Selling at low prices. Market Street *is* Morrisons. Our unique craftspeople – butchers, bakers, fishmongers, greengrocers – *are* Morrisons.

If we get all the everyday small details right, more customers will shop with us more often.

And more customers mean more sales, which will ultimately mean more profit to invest back into improving our customer offer even further...

...Building momentum

by being Morrisons.

Chairman's review

Creating *value*

“We need to put the customer at the heart of what we do.”

Andrew Higginson Chairman



I am delighted and honoured to be your new Chairman, a role I started in January having been with Morrisons as Deputy Chairman since last October. Following a successful handover period, my predecessor, Sir Ian Gibson, retired from Morrisons in January. On behalf of the Board, I wish to express our gratitude to Sir Ian for his very considerable contribution to the Company over the last eight years.

Morrisons is a business I know well, having been a competitor for nearly 20 years – 15 years when I was at Tesco and, for over two years at Poundland. I got to know Morrisons even better in late-2014, ahead of joining and during my induction period. From my many visits to the shops, I could see that Morrisons still has many of the attributes and characteristics that made the business such a formidable competitor – great traders, a strong fresh offer, and a deserved reputation for offering good value.

Morrisons is the most distinctive of the ‘Big 4’ supermarkets. We manufacture much of our fresh food and Morrisons Brand product – in Meat, Produce, Deli, Fish and Bakery – in factories that we own and operate ourselves. This is unique in the UK and gives Morrisons a flexibility, speed-to-market, and provenance not available to our competitors. Market Street is also a distinct part of the Morrisons offer that helps set us apart. We have more qualified butchers, fishmongers, bakers, and greengrocers than any of our competitors – they are the heart of the business and are what helps make Morrisons unique.

On joining the business, the Board and I decided that we needed to build on these firm foundations and return the business to growth by improving trading momentum. This, we concluded, required a change in leadership, to see the business through the next three to five year period.

I am delighted that David Potts joins us as our new CEO. He brings more than 40 years’ experience in grocery retailing and, having worked alongside him for 15 years, I know he will bring a focus on the customer, a track record of delivery, flair, talent, and immense energy to his new role. He will lead our colleagues from the front, and with distinction.

Dalton Philips was CEO for five years. He brought great personal qualities and values to his leadership of the business, having had to manage against a backdrop of considerable industry turmoil and change and we thank him for his contribution.

The strategy, as laid out in March 2014, is broadly correct. We now need to up the pace, especially in our core supermarkets, to regain trading momentum. First and foremost this will be done via a relentless focus on the customer. We need to put the customer at the heart of what we do – a simple aim, but not easy to do well. However, it has traditionally been one of Morrisons strengths and, I believe, is engrained in our great colleagues across the business.

We will free up resources from within the business to re-invest more in the customer proposition – price cuts, but also service and availability. We will work harder than before to restore Morrisons value offer and improve all the everyday small details of the customer shopping experience. Success measures will be simple – more customers buying more from us. More customers means more volume growth. Ultimately, more customers and more volume will lead to better LFLs and profitability, but this will be a gradual improvement and, near-term, the focus is more on freeing up resources to invest in the customer proposition.

Throughout, our primary focus will be on free cash flow generation and optimising our capital structure.

Highlights

Cost savings achieved

£224M

Final dividend

9.62p

Total stores opened in 2014/15

68

of which 57 were convenience stores

In the last year we have made good progress in freeing up resources – cost savings and cash flow – to invest in our customer offer. We remain optimistic that we will deliver on our targets for costs, working capital and debt. We also have a strong balance sheet and remain committed to a predominantly freehold property portfolio (currently 86% of supermarkets). We will maintain a tight control over capital expenditure, focusing our spend on our core supermarkets, to improve the shopping trip for our customers. This all provides good future cash flow visibility, and enables us to commit to an annual dividend for our shareholders of not less than 5.0p per share for 2015/16.

We expect the trading environment to continue to be tough in the year ahead. Although, lower energy prices may well drive lower commodity prices and slightly higher disposable income for customers. Our outlook assumes a period of price deflation as we reinvest back into the customer proposition. However, our destiny is in our own hands. It may take time, but it is this investment in customers that will improve every detail of the shopping trip, restore our fresh and value credentials, drive our trading momentum and, ultimately, return Morrisons to health.

Andrew Higginson
Chairman

Below:

Customer proposition

We will free up resources from within the business to re-invest more in the customer proposition



Governance highlights

Board composition and membership

- Our Board comprises five independent Non-Executive Directors and following the appointment of David Potts on 16 March 2015, two Executive Directors.
- All Directors, stand for re-election annually at the AGM, except for Richard Gillingwater who steps down from the Board at the AGM.
- The Board is committed to a clear division of responsibilities between the roles of Chairman and the CEO.
- Phil Cox has been the Board's Senior Independent Director since May 2013 and a Non-Executive Director since April 2009.
- As Audit Committee Chairman, the Board is satisfied that Phil Cox has recent and relevant experience appropriate to his position.

Board effectiveness

- The Board contains the skills and experience necessary in light of the Group's current activities and strategic direction.
- The Directors have all attended an appropriate 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

- During 2014/15 we conducted a tender process for the appointment of the external auditor. As a result, PricewaterhouseCoopers LLP (PwC) were formally appointed as our new statutory auditor at the 2014 AGM.
- The Board has a clear policy on the engagement of the external auditor to supply non-audit services.

Risk and control

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

Our business model

What we do *differently*

The Morrisons difference

At Morrisons, we **focus on fresh food**. Our Market Street departments, and particularly our butchers, bakers, fishmongers and greengrocers are skilled in a way no other supermarket in the UK can match, and are passionate about what they do. They prepare food the way our customers like it, and often to individual customer specifications. That focus on fresh food is present across the Group as well as in our new online and convenience businesses.

Our focus on fresh is supported by our **vertically integrated** 'farm to fork' business model. Unlike any other major UK supermarket, we manufacture more than half of the fresh food we sell ourselves, operating our own abattoirs and food production factories as well as our own farm for research and development purposes. We also operate our own distribution network.

What we do

We *make* things

- We are the second largest fresh food manufacturer in the UK.
- We own, operate and control a greater proportion of our fresh food supply chain than any other major grocery retailer in the UK.
- Every day we make more than half of the fresh food we sell in store and online.
- Our vertically integrated supply chain gives our customers assurance over the provenance, quality and safety of our food.
- We buy direct from farmers and have the ability to process whole animals or crops, therefore we utilise more of what we buy with less wastage.
- We employ qualified butchers, bakers, fishmongers and greengrocers in store, allowing our customers to tailor quantities and cuts of meat and fish to suit their preferences.



And we *buy* things

- We pride ourselves on buying as much fresh food in the UK as we can – 100% of our Morrisons own brand fresh meat is British sourced, supporting British farmers.
- We work with our suppliers through the Morrisons farming programme to ensure British farming remains competitive and sustainable.
- We are committed to sustainable supply chains through purchasing our products ethically.
- We have made our supply chain shorter by dealing direct with more of our suppliers.
- We insist on high manufacturing standards from our suppliers to ensure the integrity and quality of our products.



Then we *move* them

- We operate seven regional distribution centres and one national centre, servicing our supermarkets, and three convenience distribution centres.
- Our fleet consists of over 545 tractors and 1,606 trailers that cover over 97m kilometres per year.
- We've streamlined our fleet making it more efficient in terms of delivery time and frequency of deliveries, reducing the amount of kilometres travelled in comparison to the volume we transport year-on-year.
- Our scale allows us to reduce costs and increase efficiency throughout our operations, therefore reducing carbon emissions.
- Our secure supply chain to store allows us control over the freshness and availability of products.
- Morrisons.com home deliveries are supported through our service agreement with Ocado, allowing us to use technology and distribution operations that are first class, thoroughly tested and adaptable so they can be rapidly expanded.





Direct control over our vertically integrated **supply chain** is a clear competitive advantage. It helps us to better manage materials and resources, allows us to minimise waste and costs, and makes it easier to react swiftly to changing customer demands. In addition, it gives us confidence in the provenance and safety of our products. The Elliott report into the horsemeat scandal highlighted that Morrisons stood out in its supply chain integrity.

To further reassure customers of our commitment to offering **great value** we have introduced our Match & More card during the year. This means price is never a reason for customers to shop elsewhere, and allows customers to focus on what is different, and better, about Morrisons.

**Above:
Fresh food**

We focus on fresh food across the Group as well as in our new online and convenience businesses

How we are different

And *sell* them in our stores and online

- We provide a distinctive shopping environment, showcasing our focus on fresh food and the skills of our colleagues.
- Our product ranges include Morrisons own brand, giving our customers the flexibility to choose the right product at the right price.
- Our industry-leading Match & More card provides a price comparison tool in our customers' pockets, neutralising the need to choose any other supermarket based on price alone.
- Our convenience proposition is tailored to meet local needs with a significant proportion of sales space dedicated to fresh food.
- Our online grocery business also showcases our expertise and experience in fresh food, including a doorstep freshness check and virtual craftsmen.



Fresh

- **From field to fork in hours**
Controlling food provenance, safety and quality. Getting food onto our shelves fresher and faster.
- **Prepared by us**
Making more fresh food than any other supermarket.
- **Consistently excellent**
Delivering our fresh-focused customer experience in stores and online.
- **Monitoring to our standards**
Through our Ethical Trading Code and Manufacturing Standard.

Value

- **Passing savings on to the customer**
Our vertical integration model allows us to take cost out of the supply chain to pass on to customers.
- **Honest, clear pricing**
Transparent promotions and clear shelf edge pricing are complemented by our Match & More guarantee.
- **Quality**
If a customer is not 100% satisfied, neither are we. We offer refunds and replacements on products prepared by us.
- **Reducing our waste**
Buying whole animals and crops direct from farmers and processing through our own operations eliminates needless waste.

Service

- **Friendly customer service**
Our warm customer service provides enhanced perception, engagement and loyalty.
- **Skilled colleagues**
Our in-store skilled colleagues tailor portion sizes to suit customers' personal preferences.
- **Availability**
In store, our operation allows us to react quickly and efficiently to customer needs, catering for local demand.

The market context

Challenging *conditions*

The market

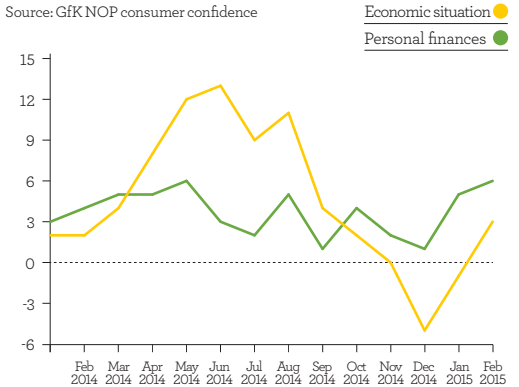
Customer confidence

Consumer confidence has started to recover in recent months, however, savvy shopping continues, with customers expecting, and seeking out, great value for money by shopping around. The reductions in oil prices and low interest rates are likely to sustain this growth in confidence. However, real disposable income has a way to go to regain pre-2008 levels, and customers tell us that they are unlikely to return to old shopping patterns in the near term. Shopping around for the best value will continue. We saw a notable drop in food inflation through the year, and we expect downward pressure on prices to be a feature for some time.

This shift in shopping behaviour, alongside societal trends such as an ageing population and more single person households, continues to result in customers making more frequent grocery shopping trips. Kantar Worldpanel has the average UK household making 4.9 grocery shops each week across all channels and formats. The days of a 'once a week big shop' are over, replaced with several trips and possibly one larger trip for the weekend. Consequently, the importance of fresh food continues to grow for customers.

Customer confidence

Source: GfK NOP consumer confidence

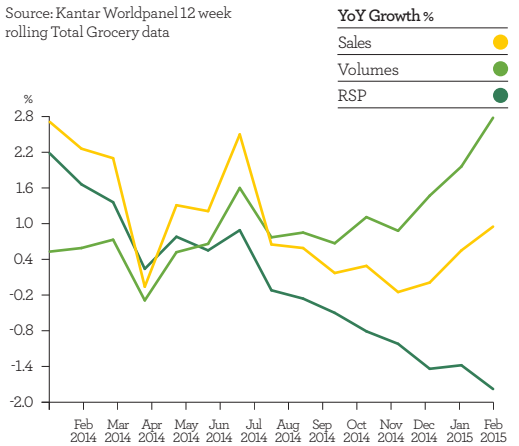


Market share and growth

The 2008 recession enabled rapid growth of the 'Discount Sector' causing a structural shift in consumer behaviour as they searched for best value from multiple retailers. We have reacted to this shift by investing heavily in price during the year, starting with the 'I'm Cheaper' campaign. During October we launched Match & More, our new price match and points card.

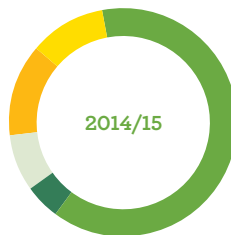
Sales, Volume and RSP Growth in the Market

Source: Kantar Worldpanel 12 week rolling Total Grocery data



Combined market share

- Morrison's
- The rest of the big 4
- Premium retailers
- Discounters
- Others



Source: Kantar Worldpanel 52 week ending Till Roll data

Shopper trends

What customers want

Unsurprisingly, customers continue to tell us that price remains the biggest driver of store choice. Importantly, they want more trust as too many retailers are putting prices up at the same time as shouting about prices they've put down.

Research also shows that customers want more than just cheap prices. Other factors such as range, quality, ease of shop and service all play a part in a customer's decision making process when choosing where to shop.

Our strategy, set out on the following pages, addresses these trends. Alongside our price investment activity, we launched Match & More during the year, price matching Tesco, Sainsbury's, Asda, Aldi and Lidl - ensuring that price is never a reason for customers to shop elsewhere and gives them the trust they demand, which has been very well received. We have seen an improvement in volume per basket with Match & More playing a part in this.



Our strategy

Strategy overview

Strategic objectives

Invest

We will invest **£1bn** over three years through:

- Lowering prices on a permanent basis
- Offering fewer but more impactful promotions
- Making Morrisons own brand a competitive advantage
- Continuing to improve quality and range
- Making our stores easier and more pleasant places to shop
- Rewarding customers through Match & More
- Delivering focused, consistent customer communication

What we did in 2014/15

Awards achieved for Morrisons products nearly

200

Launched Match & More



Invested in chill chain to improve produce quality

£20M

Launched 'I'm Cheaper' campaign cutting 1,200 products by an average



17%

Improved customer experience in-store – removed trolley locks, extended opening hours



Save

Unlock **£1bn** of savings over three years¹ allowing us to invest in our value proposition:

- £300m improving our end-to-end supply operations
- £200m indirect procurement and loss prevention
- £500m promotional investment and sourcing

What we did in 2014/15

Improved systems and focused on reducing shrinkage, waste and mark down costs and indirect procurement

£50M

Items on promotion reduced in second half of the year by

10.6%

Range reduction – SKU count reduced by

10%

Productivity savings delivered through our vertical integration, including transferring beef cutting and packing from stores to production sites

£70M

1ST phase of store restructure completed

Plans to introduce sales-based ordering are on track

Grow the core business

and accelerate our presence in new channels

What we did in 2014/15 – Core

60%

of the fresh food that we sold, we made ourselves

Over **13,000** skilled colleagues serving customers on Market Street

New channels

UK households with access to our online proposition nearly

50%

M local stores opened

57

Generate cash

- Generate at least **£2bn** of free cash flow over three years¹ by adhering to strong financial principles

What we did in 2014/15

Reduced capital expenditure to

£520M

Improvement in working capital

£206M

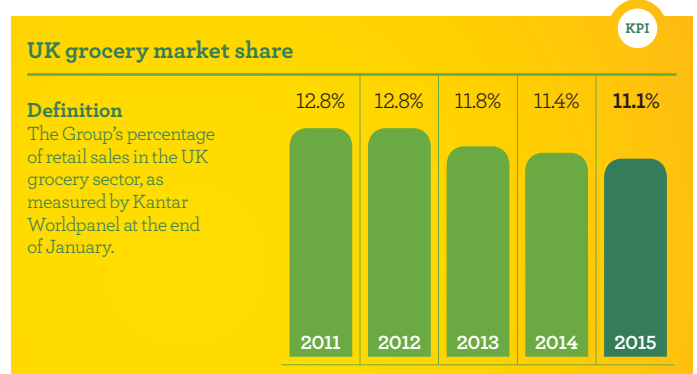
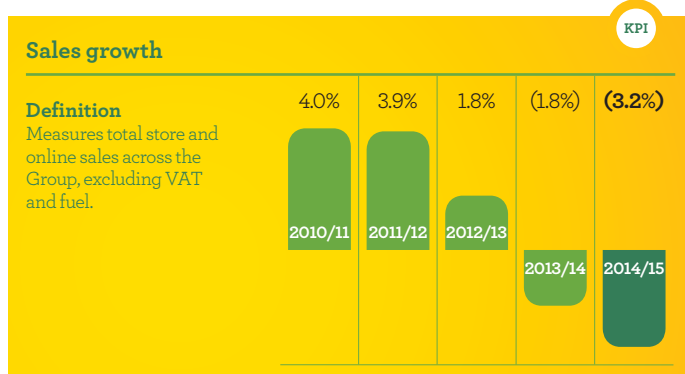
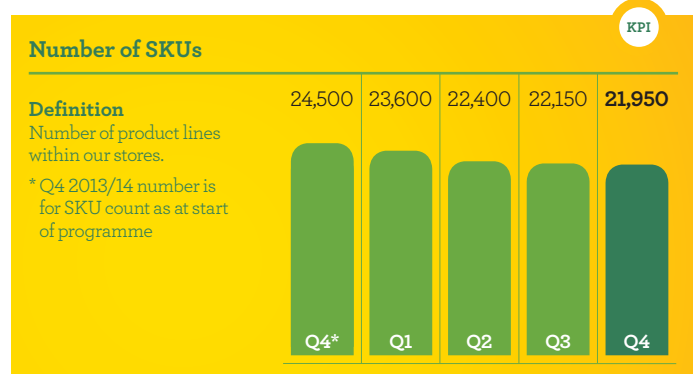
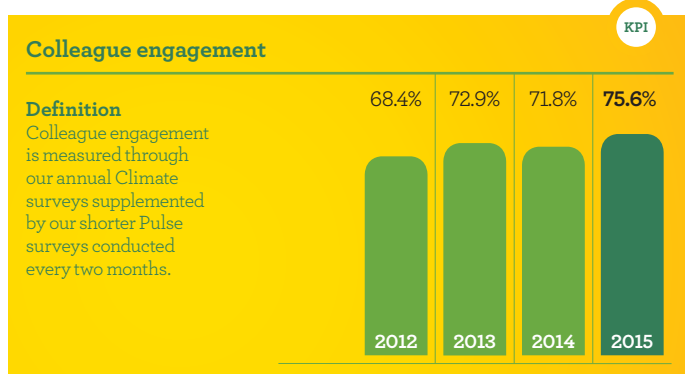
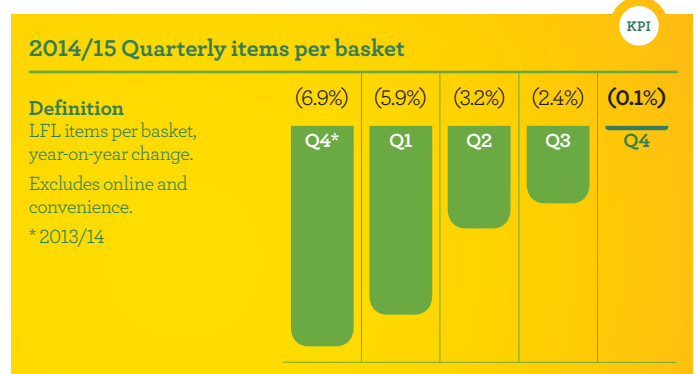
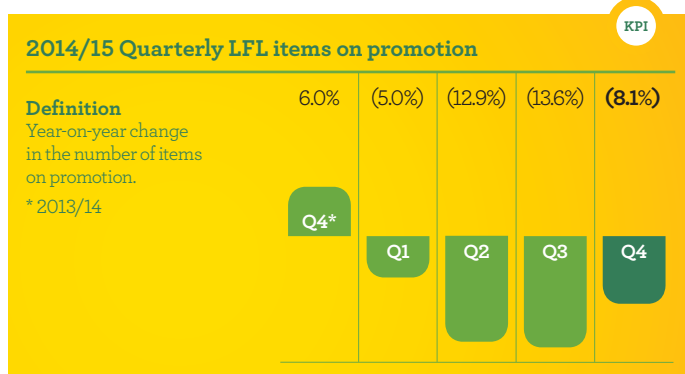
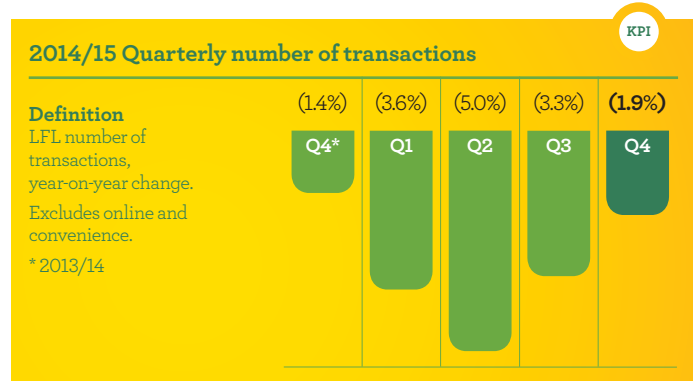
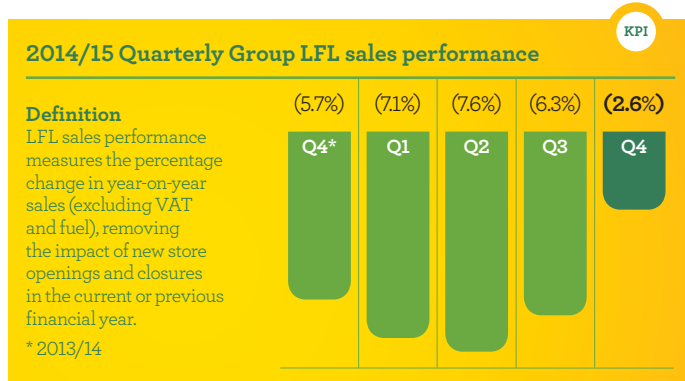
Property disposals generated proceeds of

£448M

¹The three year period comprises 2014/15, 2015/16 and 2016/17.

We have identified measures that are important to the success of the Group's financial performance and operational excellence, and to our stakeholders, customers, suppliers and colleagues. These KPIs are summarised below and throughout the Strategic report, identifiable by a KPI logo.

KPIs



Review of the year

A strong platform

“Investing in our customer proposition.”

Trevor Strain Chief Financial Officer



Introduction

A year ago we took actions to invest in the customer proposition and make £1bn of cost savings over three years. I am pleased with some of the progress so far. We achieved or beat the components of our guidance for 2014/15 – on profit, cash flow, working capital and cost savings. I was particularly pleased that we generated £785m of free cash flow¹ and were cash flow positive before disposals.

Like-for-like sales decline slowed during the year. This was driven by volume KPIs such as items per basket and number of transactions, which showed particular progress towards the end of the second half. We will look to continue this volume momentum into 2015/16.

However, as Andy says in the Chairman’s review, there is still much to do. We need to invest more in the customer in order to build trading momentum.

Consistent with Morrisons transparent approach, there are disclosures on commercial income and depreciation in these financial statements, which we believe provide added insight for shareholders.

Within the results, there is property impairment and onerous lease charges of £1,273m, reflecting a prudent assessment of market conditions.

Strategy

All aspects of our strategy start with the customer. We will work harder to restore the Morrisons value offer and improve all the everyday small details of the in-store customer shopping experience.

Initially success will be measured by winning back customers and encouraging them to spend more.

¹ Free cash flow is the movement in net debt adjusted for dividends.

More customers will mean more volume growth, so KPIs such as number of transactions and items per basket remain important. Ultimately, more customers and more volume will lead to better LFLs and profitability.

The proposition

Improving the Morrisons value offer starts with lower prices. We are committed to consistently lowering prices and keeping them low.

In 2014/15, we invested a net £315m into our proposition, the majority of which was in price. We started in Q1 with a rolling programme of price cuts in Produce and Meat. In May, we launched the ‘I’m Cheaper’ campaign, cutting 1,200 Morrisons own brand products and branded everyday products by an average of 17%, and we followed these with more cuts in June.

During October, we launched Match & More, our new price match and points card which provides a unique price guarantee against Aldi and Lidl, as well as Tesco, Sainsbury’s and Asda. In February 2015, we reduced the price of 130 high volume everyday lines by an average of 22%.

We are just one year into our plan, and are determined to keep lowering prices for customers. During 2015/16 and 2016/17, we are targeting almost £800m more cost savings, the majority of which we expect to invest back into the customer proposition.

As well as low, consistent and transparent pricing, we are focusing on fewer but more impactful promotions. This will help make our business simpler for customers, and cheaper for us to operate. Good progress was made during 2014/15. The number of weekly items on promotion fell by 10.6% year-on-year in the second half of the year.

Below:

‘I’m Cheaper’ campaign

Our rolling programme of major price cuts launched in May 2014



Highlights

Full year dividend

13.65p
+5%

Closing net debt

£2,340M
-17%

Underlying earnings per share

10.9p
-53%

Below:

Match & More

We launched our Morrisons card in October 2014



Below:

Match & More app

Our app allows customers to monitor their points, create shopping lists and become aware of offers



Overall, year-on-year promotional participation was down 200bps in the second half of the year, which was 340bps better than the +140bps in Q4 2013/14. We intend to keep simplifying and improving promotions for customers.

During 2015/16, our communication to customers will prioritise our low prices, great promotions and fresh food strengths. We will also begin to leverage the new Match & More data in many ways across our business, including more personalised offers for customers.

As well as everyday low prices, we will also focus on other key attributes of the Morrisons brand – Market Street and the provenance provided by our food production facilities.

Not all supermarkets are the same. Morrisons is the most distinct of the ‘Big 4’. We manufacture much of our fresh food and Morrisons own Brand – in Meat, Produce, Deli, Fish and Bakery – in factories that we own and operate ourselves in the UK. This is unique and gives Morrisons a flexibility, speed-to-market, and provenance not available to our competitors.

Market Street is also a distinct and vibrant part of the Morrisons offer that helps set us apart. Our people are different too – we have more qualified butchers, fishmongers, bakers, and other craftspeople than any of our competitors – they are the heart of the business and are what helps make Morrisons unique.

Morrisons own brand is a big opportunity, especially where we can leverage our manufacturing capabilities. Our Morrisons own brand sourcing team is beginning to make real progress in the areas of product development, reducing complexity and removing duplication.

During the period, we developed hundreds of products, with some very good results. The progress we are making on Morrisons own brand is being independently recognised. We won nearly 200 product awards during 2014/15, over three times the number for 2013/14.

At the same time, we continued to make our ranges simpler and more relevant for customers. During the year, we reduced Morrisons own brand SKUs in some of our categories by over 20%, with an average reduction across all categories of more than 10%.

During 2015/16, we will continue to refine our Morrisons own brand offer, with the focus on improving the value we offer customers and product innovation. We will continue to leverage our fresh and Market Street credentials, and will utilise Match & More by tailoring more points to our Morrisons brand offer.

Saving to invest

The investment in our value proposition is being funded by a £1bn three-year self-help programme. This is an ambitious plan, however many cost savings are initiatives that other retailers have benefitted from for some time, and will be accessed as we develop our IT infrastructure. We remain confident that, with these opportunities ahead, we will deliver our £1bn plan.

Own brand redesign, increased tea sales by nearly

+20%



Review of the year

A strong platform *continued*



Above:

Loss prevention

We have focused on ways to reduce loss from stores by improving product protection on high risk lines

End-to-end operations

£70m of savings were delivered during the period, and we confirm our three-year target of £300m.

During 2014/15, we announced plans to restructure our in-store teams to make them more efficient, with clearer lines of responsibility and fewer layers of management. The changes are currently in progress. This will not affect the number of colleagues in customer-facing roles.

As planned, we are increasingly leveraging our manufacturing capabilities by moving many non-customer-facing, non-value added, in-store tasks to our manufacturing businesses. Most of these tasks are invisible to our customers and have freed-up our skilled in-store colleagues to serve customers better.

During the period, we moved production of almost 120 beef and pork lines from in-store to our manufacturing facilities, which has led to longer shelf life with less waste and higher sales. For example, sales of our Signature Beef range are up 100% year-on-year since we started cutting and skin-packing the product in our meat processing plants. With more of our butchers' time freed up to do what they do best – serve customers – counter sales are up by more than 10%.

There are several similar initiatives planned for 2015/16, many of which are opportunities around our unique Market Street and manufacturing capabilities. For example, lamb will follow beef and pork in benefitting from moving some production to our manufacturing facilities, and our counters will become even more of a focus for our unique butchers' skills.

Our plans for the introduction of sales-based ordering (SBO) are well on track. The first category, Frozen, will go live soon, with a phased roll-out across the range over coming quarters. Both during implementation and once operational, we expect significant cost savings and stock reduction opportunities.

Several competencies that we are building ahead of SBO are already beginning to benefit the business and our customers. For example, we have recently introduced Availability Champions to over 400 stores, giving colleagues extra responsibility in key product areas to ensure best levels of customer service and product display. We are also working in-store to optimise labour scheduling and better phasing of promotions. Within the supply chain, we are working on initiatives such as improving warehouse operations, increasing shelf-ready packaging and improving the processes around replenishment management.

We will continue to introduce initiatives that improve efficiency and productivity throughout 2015/16, whilst at the same time enhancing the customer offer.

Indirect procurement and loss prevention

£50m of savings were delivered during the period, and we confirm our three-year target of £200m.

During the period we saved an annualised £9m in packaging costs across various in-store and manufacturing initiatives. Energy consumption initiatives and different buying strategies saved in excess of £15m.



Left:

Vertical integration

This gives us unique opportunities to drive efficiencies



Promotional investment and sourcing

£104m of savings were delivered during the period, and we confirm our three-year target of £500m.

As highlighted above, we made substantial progress in reducing the number of weekly items on promotion and promotional participation, two KPIs that we now measure and report externally every quarter.

Another KPI, number of SKUs, also moved very favourably during the year, with a reduction of more than 2,500 SKUs (over 10%). Range reduction and streamlined promotions remains a key future cost saving opportunity, as are the related areas of refining our marketing spend and utilising Match & More data.

New channels

We are pleased with our first year online. From a standing start and first delivery in January 2014, we exited 2014/15 with around £200m of annualised sales and near-50% coverage of all UK households, in line with our ambitious initial targets. On our first online anniversary, we delivered our one millionth order.

Alongside our partner Ocado, we started to operate out of Dordon, initially servicing Warwickshire and Yorkshire. During the year, we began distributing from spokes in Leeds, Manchester, North London, Sheffield, Merseyside and Bristol.

Although our growth is strong, we are most pleased with our consistently high levels of customer service. We continued to achieve industry-leading customer service metrics throughout our first year. Even during the busiest week of the year pre-Christmas, Morrison's on-time delivery was 97.5% and product substitutions were just 1.4%.

During 2015/16, we will open at least one additional spoke. Our focus will be on increasing our delivery density within our extensive and highly populated existing coverage area. We will also trial other methods of customer delivery.

For M local, we opened 57 stores and closed six underperforming stores during the period, bringing the total to 153.

Convenience is a channel that we expect will continue to grow in future. Over recent years, we have been working to grow M local at pace in order to quickly gain critical mass and learn. However, for stores now in their second year, we are not yet seeing the level of trading performance we had anticipated.

We will slow new openings significantly, and review the M local proposition and approach to site selection rather than pursue store number and turnover targets. We will update our future M local plans once the review is complete.

In July, we announced the sale of Kiddicare. The exit from the business is now almost complete. All but two of the ten leases have been assigned. As reported at the interims, profit on disposal was £4m.

Below:

Doorstep freshness check

Our online grocery business also showcases our expertise and experience in fresh food, including a doorstep freshness check and virtual craftsmen



Photo: Imagewise

Review of the year

A strong platform *continued*

Financial results

Summary income statement

	2014/15 £m	2013/14 £m
Turnover	16,816	17,680
Operating loss ¹	(694)	(94)
Net finance costs	(98)	(82)
Loss before tax	(792)	(176)
Underlying profit before tax ²	345	719
Underlying earnings per share²	10.9p	23.1p

¹ Included here is £2m (2013/14: £1m) share of profit from joint venture.

² The comparative has been restated to reflect the amended underlying earnings definition described in note 1.4 in the financial statements.

Turnover

Total turnover during the period was £16.8bn, down 4.9% year-on-year. Store and online turnover of £13.0bn, excluding fuel, was down by 3.2%, which comprised a like-for-like (LFL) decrease of 5.9% (including a contribution of 0.6% from online) and 2.7% from new stores. Fuel sales fell by 10.2% to £3.6bn, with deflation a key feature as we passed the lower oil prices on to customers.

Items excluded from underlying profit

We consider that underlying operating profit and underlying profit before tax are useful measures to understand underlying trends and performance of our business. Adjustments are made to reported profit figures to remove items that do not form part of the Group's principal activities.

Operating profit

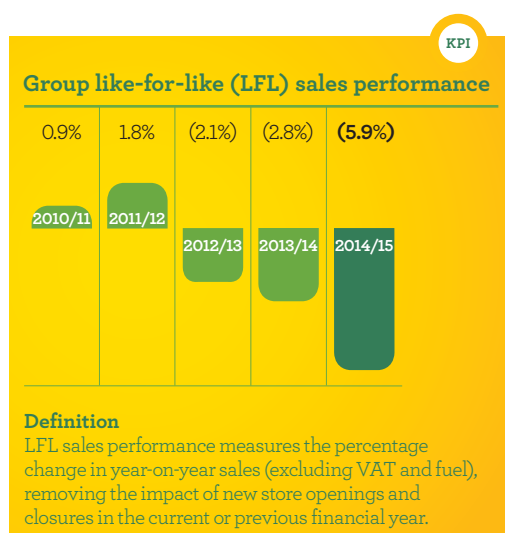
	2014/15 £m	2013/14 £m
Operating loss	(696)	(95)
Underlying adjustments:		
- Impairment and onerous lease provisions	1,273	903
- Profit/loss on disposal and exit of properties	(131)	(9)
- Profit arising on disposal of Kiddicare.com Limited	(4)	-
Underlying operating profit¹	442	799

¹ The comparative has been restated to reflect the amended underlying earnings definition described in note 1.4 to the financial statements.

Underlying operating profit, which excludes impairment and property disposal profits, was £442m, with underlying operating margin down around 1.9% pts year-on-year as anticipated. This is primarily due to our investment in the customer proposition. Operating loss, including impairment and property disposal profits, was £696m.

Net finance costs were £98m, up £16m on last year reflecting a changed debt profile (we have raised £900m of bonds over the last 24 months) and less capitalised interest as a result of the reduced development programme.

One-off costs were £68m (2013/14: nil), comprising Kiddicare trading losses, restructuring costs, and the launch costs of the Match & More card. New business development (NBD) costs for online and convenience were £71m (2013/14: £66m).



Underlying profit

	2014/15 £m	2013/14 £m
Reported loss before tax	(792)	(176)
Underlying adjustments:		
- Impairment and onerous lease provisions	1,273	903
- Profit/loss arising on disposal and exit of properties	(131)	(9)
- Profit on disposal of Kiddicare.com Limited	(4)	-
- Net pension interest (income)/cost	(1)	1
Underlying profit before tax¹	345	719
Underlying profit margin¹	2.1%	4.1%

¹ The comparative has been restated to reflect the amended underlying earnings definition described in note 1.4 to the financial statements.

Underlying profit before tax reduced to £345m, compared to £719m for 2013/14, (or £785m as reported under the previous definition, which excluded £66m of NBD costs).

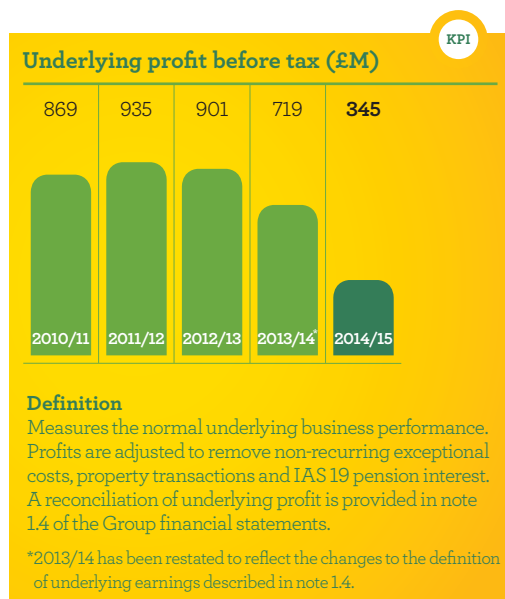
Underlying basic earnings per share (EPS) reduced by 53% to 10.9p (2013/14: 23.1p) reflecting the decrease in underlying profit.

Impairment and onerous lease provisions

Morrisons tests for property impairment each year by comparing every store's recoverable amount to its book value. The recoverable amount is the higher of value in use and market value less cost to sell. Where book value is greater than the recoverable value, the asset is impaired.

Having applied the above methodology the Group has recognised an impairment and onerous lease provision of £1,273m in the year. There are two key drivers of this impairment charge. Firstly, a change in some forward-looking assumptions, including performance, and an increase in the discount rate. Secondly, a prudent assessment of market value.

After impairment, the loss before tax was £792m (2013/14: loss of £176m).



Summary cash flow

	2014/15 £m	2013/14 £m
Cash generated from operations before onerous capital payments	1,044	1,031
Onerous capital payments	(74)	-
Cash generated from operations	970	1,031
Proceeds from sale of plant, property and equipment and sale of businesses	450	34
Capital expenditure	(520)	(1,086)
Dividends paid	(308)	(283)
Equity retirement	-	(53)
Purchase of own shares	(8)	-
Proceeds from issue of shares	-	28
Tax and interest	(92)	(309)
Other non-cash movements	(15)	2
Net cash flow	477	(636)
Opening net debt	(2,817)	(2,181)
Closing net debt	(2,340)	(2,817)

As we planned, there has been a significant improvement in the Group's net cash flow, which was better by over £1.1bn year-on-year. Free cash flow, i.e. adjusting for dividends, was £785m.

The Group generated operating cash flow before onerous capital payments of £1,044m, slightly up year-on-year despite both lower profit and the tough trading conditions that impacted all UK food retailers.

There has been a rigorous focus on working capital improvement which is ongoing. The business is now very focused day-to-day on stock, debt and terms. Operating working capital improved by £206m driven by various factors including four days less stock cover. Importantly this has been achieved without impacting our on-shelf availability. Our supply chain finance initiative is also up and running and progressing well.

Further working capital benefits will come in years two and three of the overall programme, as initiatives such as sales-based ordering start to land. We remain on track for a target of £600m working capital improvement over three years. There was an outflow for onerous capital payments in the year of £74m.

Capital expenditure fell by over 50%, to £520m, from £1,086m for 2013/14, as we cut back on new store expansion and there was no repeat of last year's online launch expenditure.

Overall, post-dividend and pre-property disposal proceeds, Morrisons was £42m cash flow positive.

Property disposals were £448m, with property profits of £131m, net of £19m costs associated with the closure of ten superstores and six convenience stores announced in the final quarter of 2014/15.

Review of the year

A strong platform *continued*

Net debt

As a result of the above Group net debt fell £477m to £2,340m, from £2,817m at the end of 2013/14. This represents a £1.1bn improvement in cash flow year-on-year, and free cash flow pre-dividend of £785m.

During 2014/15, we issued a 15-year (2029) £300m bond (4.75% coupon), and replaced our £1.2bn revolving credit facility with a five-year £1.35bn facility, which means we now have £350m of debt maturities over the next three years compared to around £2bn 12 months ago. At the year end debt level, there is headroom of over £1.1bn versus the Group's committed facilities.

Tax

Morrisons has always been committed to ensuring that we pay our fair share of tax, and that this tax is paid in the territory in which our activities are based. 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.

In 2014/15 the Group was in a net corporation tax refund position of £10m (2013/14: £220m payment), reflecting reduced underlying profits, impairment of assets and overpayment of corporation tax in earlier years.

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 2014/15, Morrisons made net payments of £1,025m to the UK government of which £458m was borne by Morrisons and the remaining £557m was collected on behalf of our colleagues, customers and suppliers. Morrisons participate in the 'Total Tax Contribution' PwC Survey for the 100 Group of Finance Directors. In the year to January 2014 (the most recent for which figures are available), our total taxes borne ranked 10th amongst the survey participants.

Summary balance sheet

	2014/15 £m	2013/14 £m
Fixed assets and investments	8,023	9,299
Working capital	(1,324)	(1,104)
Provisions and tax	(726)	(675)
Net pension liability	(39)	(11)
Net debt	(2,340)	(2,817)
Net assets	3,594	4,692

Pensions

The triennial pension valuation was completed in July 2014. At the time of the previous triennial valuation in 2010, the pension schemes were almost fully funded, and that position is virtually unchanged, with the funding deficit as at April 2013 falling to £40m and the schemes being over 97% funded.

In January 2015, we announced a proposal, to harmonise our various pension schemes. We have reached an agreement in principle with the Trustees of the two CARE Schemes to close them to future accrual, subject to the outcome of consultation with current scheme members.

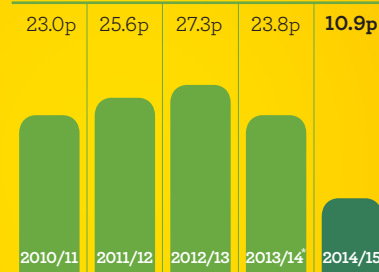
The Group's proposal is that scheme members' accrued benefits will be frozen (subject to inflationary revaluation), and that future benefits will no longer accrue in these schemes.

Following this agreement the Group has entered into a Consultation with scheme members on 23 February 2015. The Group expects that the consultation process will conclude during May 2015. Subject to the outcome of the consultation, any changes would become effective in early July 2015.

The financial effect of closing these schemes to future accrual would be to reduce the Group's exposure to future volatility and increases in pension liabilities and costs.

Underlying basic earnings per share

KPI



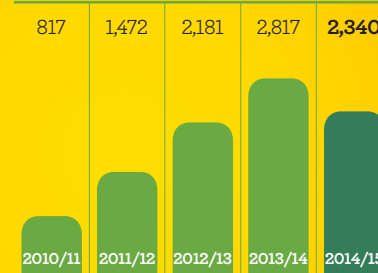
Definition

The EPS measure uses underlying profit, divided by the weighted average number of shares in issue at the year end date. A calculation is provided in note 1.5.2 of the Group financial statements

*2013/14 has been restated to reflect the changes to the definition of underlying earnings described in note 1.4

Net debt (£M)

KPI



Definition

The Group's overall debt position at the year end. A summary of net debt is provided in note 6.4 of the Group financial statements

Dividend

The final dividend has been increased to 9.62p. It will be paid on 10 June 2015 to shareholders on the register on 8 May 2015. This brings the full year dividend to 13.65p, an increase of 5% in line with the commitment made last year (2013/14: 13.00p).

Space

	At 2 February 2014	New stores ¹	Store closures	At 1 February 2015
Number of core stores	503	11	-	514
Number of convenience stores	102	57	(6)	153
Total number of stores	605	68	(6)	667
Total area in square feet (000)	14,233	510	(11)	14,732
Number of petrol filling stations	328	6	-	334

¹ Net of replacements.

We opened 11 new supermarkets (356,000 square feet) and 57 M locals (154,000 square feet) during the year. We also closed six underperforming M locals, and announced a proposal to close ten smaller supermarkets in 2015.

Key balance sheet metrics

	2014/15 £m	2013/14 £m
Interest cover	5 times	10 times
Net debt/EBITDA	2.6	2.4
Gearing	65%	60%
ROCE	5.6%	8.2%

Return on capital employed (ROCE) fell to 5.6% from 8.2% in 2013/14, primarily due to the fall in profit.

Enhanced disclosure

Commercial income

The industry context around commercial income has changed significantly in recent months. Morrisons notes that the Financial Reporting Council (FRC) has urged companies to provide clarity in this area, and the Board considers greater transparency appropriate.

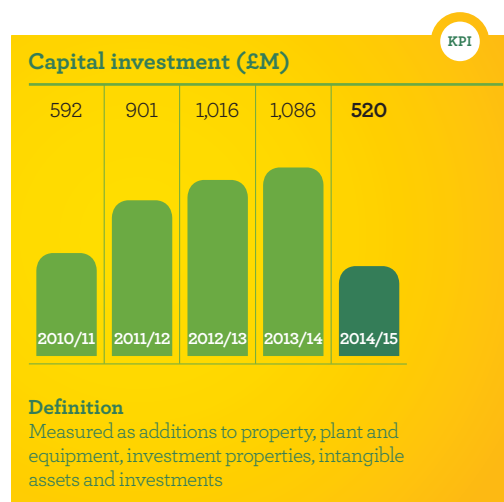
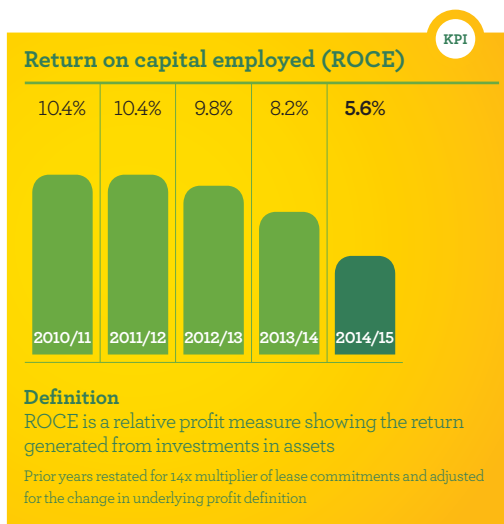
Commercial income is a deduction from cost of sales and is not consistently defined. Our definition comprises marketing contributions from suppliers and volume-based rebates. It does not include promotional funding, as these are mechanical deductions from costs, and are triggered as units are sold or purchased with no subjectivity or judgement applied.

For most marketing contributions and volume-based rebates, there is also little or no subjectivity or judgement. However, we have chosen to provide full income statement and balance sheet disclosures. For 2014/15, commercial income was £425m (2013/14: £396m).

By its nature, a proportion of commercial income will only become billable towards the end of the year. We expect the majority to be collected during Q1 of the next financial year.

Depreciation

In previous years, fully depreciated assets have been retained in the Group's fixed asset register. In order to provide greater understanding of the annual depreciation charge, these have been removed from both cost and accumulated depreciation. At balance sheet date, fully depreciated assets were £1,656m. This additional disclosure provides assurance to the users of the financial statements that our underlying depreciation charge is in line with our stated depreciation policy.



Review of the year

A strong platform *continued*

Financial strategy

Capital allocation framework

Morrisons adheres to strong financial principles through a capital allocation framework. Our overall capital allocation framework is unchanged. We are committed to an investment grade credit rating. In the current food retail market, a strong investment grade rating is not considered realistic near-term, despite our predominantly freehold supermarket estate and strong free cash flow.

Our first priority is to invest to support the store estate and infrastructure and reduce costs. Secondly 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 and, finally, any surplus capital will be returned to shareholders.

Shareholder returns

For 2015/16, the total annual dividend will be not less than 5p per share. The Board believes that this reflects an appropriate balance between our commitment to the capital allocation framework, the investment in building trading momentum and the importance of dividends to our shareholders.

Beyond 2015/16, the dividend policy will be determined and communicated as appropriate by the Board and new CEO.

Morrisons is committed to generating strong operational free cash flow. For the medium-term, the priority will be to further reduce the level of debt.

Cash flow and working capital

All components of our free cash flow generation plans are progressing well, and we remain on track to generate £2bn operating free cash flow by 2016/17 including a £600m improvement in working capital.

Capital expenditure

During 2015/16, we expect capital expenditure to fall further to around £400m, as previously guided. This will comprise fewer new convenience store openings than initially planned, with more capital allocated to maintaining and updating the core estate. As announced, in future we will only add new core supermarkets to the space pipeline in exceptional circumstances. This guidance excludes any additional capital we may commit to a new online facility. In addition, we expect £100m of onerous property payments during 2015/16.

Property disposals

Morrisons values the flexibility and control associated with a predominantly freehold property portfolio. While maintaining that approach, over the last year we have managed our property portfolio more actively than in the past in order to release some cash and improve shareholder returns.

Over the remaining two years of the plan, we will continue towards our three-year target of £1bn of property disposals, and are committed to the freehold component of our supermarket estate remaining above 80%, which is by far the highest ratio in the sector. The sale and leaseback element of the programme is mostly complete, and future focus will be on property development opportunities and non-core disposals.

ROCE

We remain committed to ROCE as a KPI, and remain focused on growing future returns and optimising our capital base.

Summary

Over the coming years we are committed to investing in the customer proposition and improving trading momentum. We will continue to reduce costs, maintain rigorous capital discipline and focus on all aspects of cash flow to enable a good platform to build that momentum.

Approval of the Strategic Report

Pages 2 to 33 of the Annual report form the Strategic report. The Strategic report was approved by the Board on 11 March 2015 and signed on its behalf by

Mark Amsden

Company Secretary
11 March 2015



Relationships

Our colleagues and partners



Our people

“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 strategy. We are working to ensure that our colleagues are really engaged in working for Morrisons, and that our leaders are the best they can be. We will make sure that all our colleagues are absolutely clear on what a great job looks like at Morrisons, so that every one of our team is completely focused on delivering for customers.”

Emily Lawson, Group Human Resources Director

How are our colleagues supporting our strategy?

Match & More

As part of launching our new Match & More card, we invested time to train Checkout Operators, Customer Services Assistants, petrol station teams and those stepping into temporary front of house ‘Ambassador’ roles. As a result, colleagues have been able to confidently and proactively explain our new Match & More proposition to our customers.

Opening hours

As part of our plans to make our stores easy to shop we have increased our opening hours in 246 stores. Our customers told us that they wanted to shop with

us up to two hours earlier and two hours later than our previous opening hours. Changes to working patterns were made on a purely voluntary basis with colleagues offering to change their shifts to support our new opening hours.

Store management teams

We are simplifying accountability and ensuring decisions are taken at the right level in stores by changing the store management structure, allowing us to better serve our customers and operate more efficiently. We have consulted with our colleagues on the structure itself and on the restructure process, and will have completed the restructure in all 514 of our supermarket stores by Spring 2015. A comprehensive training programme is in place to support the store leadership team in their new roles including topics such as leading change and engaging leadership.

Continuous improvement

In our manufacturing division we have invested in continuous improvement methods by training all managers in problem solving techniques, and over 200 colleagues are involved in the Business Improvement Techniques Apprenticeship scheme, which has delivered significant efficiency gains across our sites.

We have also introduced a structured and standardised approach to site meetings, which has improved the quality of daily performance discussions.

Highlights

Employee stability ¹	People progressing from the shop floor to more senior positions in 2014/15	Percentage of colleagues who participated in the engagement surveys	Colleague Engagement Index: How engaged are colleagues?
90.4%	1,650	79%	75%
2014: 88.05%	2014: 1,292	2014: 93%	2014: 72.9%

¹Total number of active colleagues with one or more years’ service divided by the total number of active colleagues one year earlier.

How have we supported our colleagues to help create value during the year?

Engagement

During 2014/15 we've focused on making a sustained change from 'doing engagement' to 'being engaging'. Three key initiatives have underpinned our engagement plans:

1. We're building the skills of our leaders. 775 leaders have already started our new leadership programme, which includes training on managing change, as well as engaging leadership.
2. We're giving colleagues a stronger voice. We've made it much easier for our colleagues to share their feedback via the engagement survey, a colleague Facebook page and an internal social media platform for colleagues.
3. We're focusing on engagement. From our annual climate survey we identified five action themes where we needed to take sustained, decisive action to improve. These are sponsored by senior leaders.

Colleague training

During the year we invested in a new training facility to support central functions such as trading and marketing.

Our training approaches build both specific technical skills required to do the job, and broader leadership skills. Our training this year included the following:

- Mastercraft – our annual competition, which tests the specialist knowledge and practical skills of colleagues, was bigger and better this year. The competition included colleagues from our eight craft trades – butchers, bakers, fishmongers, cheesemongers, wine advisers, florists, cake shop and produce.
- Craft qualifications – 187 colleagues completed a Level 2 Craft Apprenticeship in Butchery and Bakery which includes visits to our abattoir for our butchery apprentices. In total over 800 colleagues completed apprenticeships last year.
- e-Learning in stores and at home – we've set up brand new e-learning zones in every store. We've also given colleagues access to some training modules from their own devices so they can learn when and where they want to.
- Animal welfare – colleagues at our Colne, Spalding and Turriff abattoirs became the first in England to be awarded the new Welfare of Animals at the Time of Killing (WATOK) qualification.

Talent development

We continue to build our talent pipeline from within, through a variety of programmes accessible at all levels of the business.

- Graduates – this year we recruited 72 graduates and have 136 graduate trainees completing programmes across the organisation.

- Sponsored degrees – 17 colleagues started studying for their sponsored degree with Bradford University School of Management, our third cohort of the programme, and we continue to deliver our Foundation Degrees to colleagues within retail, logistics and supply chain through our university partners.
- Future business leaders – this year we have launched our refreshed Future Business Leaders Programme for colleagues making the transition to senior management roles. The programme is designed to build our internal senior succession pipeline, and includes a placement within a local charity.

Colleague retention

90.4% of our colleagues have been with us for more than a year, a rise of around 2% versus last year. Set against our overall headcount reduction of 5.3%, this demonstrates our ongoing commitment to retain experienced colleagues alongside new talent whilst continuing our drive for a more cost effective and flexible workforce.

Incentives

We offer a highly attractive benefits package, including enhanced maternity packages, store discount cards, a share in company profits and our annual long service award. Colleagues can also participate in the Company share save scheme.

We will further strengthen our benefits offering with the introduction of flexible benefits such as discounted childcare vouchers in early 2015/16, with additional benefits being made available to colleagues later in the year.

Wellness and health enhancement

We have introduced support to identify and help those colleagues most at risk of long term health issues such as mental health and musculoskeletal conditions, and have reviewed and revised our health surveillance programme to ensure colleagues are monitored via the latest health screening technology. In addition this year we initiated a new approach to helping colleagues build resilience, a much-requested area of support from colleagues.

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 2014/15, Morrisons employed 53,272 men and 66,506 women. In addition, 101 of our senior managers and five of our Board Directors were men, while 33 of our senior managers and two of our Board Directors were women.

This year we have continued work to ensure our workforce is representative of the communities we serve. We have agreed a three year diversity strategy which operates across all our talent activities, and will focus on addressing the identified gaps in our

Below:
Mastercraft competition
Celebrates colleagues' achievements



Relationships

Our colleagues and partners *continued*



Above:

Our farming programme

We run our own farming programme investing £2m into the research and development of sustainable British farming.

pipeline, will ensure a balanced slate for all senior promotion and hiring decisions, and adopt a standard, externally verified assessment process so that our talent is assessed on an unbiased basis.

Our suppliers

Our love of food means we search the globe to source the best quality produce for our customers. We have worked hard to shorten the supply chain to ensure our food reaches our shelves in the freshest possible condition. For example we are currently making a major investment in our fish processing facility at Grimsby which will enable us to further extend product shelf life by 24 hours.

However we also never forget we are British. 100% of our Morrisons branded fresh beef, lamb, pork, chicken, milk and eggs, and many of our fresh fruit and vegetables, are sourced in the UK. As a leading fresh food manufacturer and a major British retailer we work with local farmers to create shorter, more efficient supply chains. This ensures greater control over supply chain traceability, quantity and quality, and reduces risk. Buying British also reduces food miles, adds to the national economy, strengthens agricultural industries and supports our rural communities.

British farming and its long term viability is essential to our business. To help ensure it remains competitive we run our own farming programme, investing £2m into the research and development of sustainable British farming.

Whilst the produce we supply must be right for customers today, we must also do this in a way which protects the supply for future generations. We work closely with our suppliers to encourage and promote responsible practices throughout the supply chain helping to ensure sustainable supply.

We actively listen to our suppliers and we are 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. We take actions based on supplier feedback.

We continue to focus on simplifying our payment processes and have successfully launched a competitive supply chain financing option during the year. We are pleased with the take-up which has exceeded our expectations.

Our M Partner scheme, which was introduced in 2013, continues to develop. We have partnered with more than 20 of our largest suppliers. We are working with them to improve our customer proposition through shared insight, maximising the efficiency in our supply chains and promoting more regular dialogue at all levels of our respective organisations.

We also understand the importance of relationships, for smaller suppliers, where we have focused on having simpler, clearer processes. We are working on sharing corporate and events calendars, and the enhanced promotional opportunities through our ground breaking Match & More scheme, to enable more efficient and productive arrangements with suppliers.

We work with our trading partners to ensure mutual commercial growth and responsible and fair trading terms, and in accordance with the applicable regulations including the Grocery Supply Code of Practice.

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. Over the course of the year we provided information for both the GCA and CMA on a range of areas of interest across the sector including contract formation, deliveries into our depots, forecasting and supplier charges.

Alongside other retailers, we agreed with the GCA to create a new reciprocal policy on profit recovery charges to help address industry-wide concerns over historic claims for income made by retailers and suppliers. This was positively received by the GCA and promoted at the GCA's first annual conference in June 2014.

Specifically related to Morrisons, the GCA requested details for charges requested of suppliers who were offered multi-channel sales in stores, online and convenience. The GCA published a case study on the review which, in relation to the substantive issue of multi-channel participation, concluded that Morrisons was not in breach of the Code (Part 9).

We undertook an enhanced annual training programme for all supplier-facing colleagues. This involved a bespoke face to face presentation for all buyers and relevant trading colleagues and a follow up e-learning module. We also undertook a further detailed review of relevant processes utilising our Internal Audit team. Actions were identified for continued process improvement including the establishment of an additional compliance and monitoring function within the trading division.

Enquiries from suppliers on Code related matters were dealt with in accordance with the regulations. Any matter not resolved directly is escalated to the relevant Category Director and, if requested, to our

appointed Code Compliance Officer (CCO). Additional guidance and advice is provided by the Group's legal function.

During 2014/15 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 18 new complaints were made by suppliers and then notified to our CCO. In total, 14 of those were withdrawn or resolved directly with the relevant supplier during the course of the year.

Routine reports and updates are provided to our Corporate Compliance and Responsibility Committee and Management Board 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. Members of our PLC Board have also met with the GCA in recognition of the importance of achieving best practice in supplier relationships and maintaining level focus.

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

Our communities

Investing in a new and more significant presence in postcodes across the UK, means we also have to work with and invest in the communities we serve.

Beyond protecting our local licence to operate, community engagement and investment engages existing and future customers, generates customer loyalty, colleague engagement, and trust in our brand. In 2014/15, our award winning Let's Grow campaign that engages schools with growing fruit and vegetables distributed a record amount of vouchers to customers.

We also recognise the importance of community engagement and have developed a programme that supports local community charitable causes. In 2014/15, we raised over £2.2m for our national charity partner Sue Ryder, our in-store Community Champions also gave 200,000 hours to local community activity.

We are also working hard to ensure our recruitment process supports applicants from across the community and can up-skill people once they are part of the business.

Our shareholders

See page 46 of our Governance section of the Annual report for information on how we have engaged with our shareholders this year.

Reducing emissions

Group GHG Emissions for year ending 31 December

Emission source	2005 Baseline Year	2014 Prior Year	2015 Current Year	Change vs. Baseline
Combustion of fuel and operation of facilities				
Natural Gas	102,470	148,122	146,911	+43.4%
Haulage	139,847	97,294	109,990	(21.3%)
Business Miles	4,511	4,217	3,643	(19.2%)
Fugitive Emissions				
Refrigerant	455,929	190,793	105,173	(76.9%)
Energy purchased for own use				
Electricity	798,596	697,309	756,595	(5.3%)
Other				
Staff Travel	37,282	35,081	24,162	(35.2%)
Waste	36,730	21,606	22,197	(39.6%)
Total	1,575,365	1,194,422	1,168,671	(25.8%)
Intensity ratio:				
kg CO ₂ e per ft ² GIA	50.4	31.3	29.5	(41.5%)

Methodology

The information above is taken from our Group Carbon Footprint, prepared by SKM Enviros on our behalf since 2007. We have reported for the calendar year 1 January to 31 December for all years in order to remain consistent with these reports.

We have used 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.

The 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 and joint ventures

- Bos Bros - Dutch vegetable packer that deals with energy locally;
- Wm Morrison (HK) Ltd - Hong Kong office that deals with energy locally;
- The Morrisons Farm at Dumfries House Ltd - joint-venture that deals with energy locally; and
- Wm Morrison Bananas Ltd - a subsidiary that is operated by the minority shareholders Global Ripeners 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.

Below:

Let's Grow

Since the start of our Let's Grow programme we have given away over £20m of equipment



Corporate responsibility

Responsible *retailing*

Our priorities

What we've done in 2014/15

1 **Responsible buying**




100%
British own brand fresh meat sold in our stores

100%
UK wild caught and landed seafood is from Responsible Fishing Scheme vessels




Own brand suppliers that are Sedex members
100%

2 **Healthy lifestyles**



Change4Life partner

1BN
calories removed from our Italian ready meal range



26
pledges signed in the Government's Public Health Responsibility Deal

3 **Our People**

Colleague stability
90.4%



94%
colleague participation in the annual engagement survey



Over 780,000+
training days delivered

4 **Environmental management**

	2012	2013	2014	2015
Carbon footprint reduction KPI	15%	19%	24%	26%
Definition Includes energy, waste, refrigeration and transport for our stores, offices, manufacturing and packing facilities.				
Waste to landfill reduction KPI	5.6%	3.2%	2.0%	2.2%*
Definition Measured as waste from our stores that we are unable to recycle or have processed.				

5 **Supporting communities**

£2.2M
raised for charity partner Sue Ryder




200,000
hours given to local community activity through our in-store Community Champions

0.5 million followers

*2015 figure is at 2 November 2014. End of year figure will be published in 2014/15, Corporate Responsibility Review later in the year.



The full Corporate Responsibility review 2014/15 will be available for you to download at www.morrisons.co.uk/cr later in the year

Why it matters

- Sustainable supply chains
- Traceability and control
- Securing the best suppliers
- Risk management
- Quality
- Brand integrity

- Product quality and value
- Customer benefit
- Colleague choice and productivity
- Reflects social need
- Positive social value

- Customer service
- Attracting talent
- More engaged colleagues
- Retention and attendance
- Productivity

- Greater resilience
- Resource efficiency
- Increased productivity
- Asset management
- Cost management to drive affordability

- Integrity
- Community acceptance
- Future customers
- Colleague feel good factor
- Giving something back
- Trust

What we will do next

- Further investment in applied farm research.
- We will only source Roundtable on Sustainable Palm Oil (RSPO) certified mass balance or fully segregated palm oil for all own brand products.
- All wood and wood derived products will be FSC or equivalent.
- Focus on inherent higher risk supply base through monitoring and auditing.

- Continued delivery of the Government’s Public Health Responsibility Deal commitments.
- Continue with Market Street deals on fresh produce.
- Extend calorie labelling at the point of choice for products made and prepared in-store.
- Revive and further improve healthy product ranges in line with the re-launch of our chilled meal solutions.

- Build a skilled workforce that supports the broader UK economy.
- Monitor, measure and improve colleague conditions and workplace experience across the Group.
- Monitor and measure the diversity of our workforce.
- Develop and deliver an ‘unconscious bias’ programme to assist our managers in the recruitment of a diverse workforce.

- Support WRAP’s delivery of Courtauld Commitment III.
- Deliver 30% reduction by 2020 in our operational carbon emissions (2005 baseline).
- Reduce waste direct to landfill in stores and manufacturing.
- Make sure edible food that we can use never goes to waste.
- Deliver 20% reduction in operational water consumption by 2020 (2012 baseline).

- Enhance effective community engagement through stores’ Community Champions.
- Raise more funds for Sue Ryder, providing support and care for people with life-changing illnesses.
- Greater encouragement for stores and communities to become more involved with Let’s Grow schools gardening campaign.
- Through our pre-employment programme ‘Our Club’ we’re helping to get people who have been disadvantaged in society into work.





Our risks

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.

The realisation of our business strategy depends on our ability to make sound, risk-informed decisions. Managing risk and uncertainty is an integral part of doing business. Now more than ever, we manage increasing uncertainty as we continue to expand into new channels, and transform our business systems and processes to respond to rapid changes in our industry.

We maintain a business wide understanding of our key risks and how to manage them. This assists in delivering our promises to customers and shareholders.

Risk is managed via our choice of business strategy, underpinned by our culture and values.

The annual and on-going elements of our risk management framework are embedded within the business. These support the identification and effective management of risks across the business. We continue to conduct activity to increase colleague awareness of risk and risk appetite, and to further embed a risk management culture in the business.

Read more on the risk management process in the Audit Committee report on page 43.

Risk management framework



The risk management process

The risk management process is applied to all identified risks. It allows us to understand, evaluate and take appropriate action in relation to our risks. Operational management within the business bear most of the responsibility for risk management. Following the identification and measurement of risks, depending on our risk appetite, we either accept the risks or take action to reduce, transfer or mitigate them.

Significant effort is placed on risk management activities within each function. This includes ensuring the control frameworks are designed to address risks, are embedded properly within day-to-day procedures, and that monitoring and reporting takes place.

Key activity and developments during 2014/15 include:

- full refresh of the Group Risk Register by the Management Board;
- creation and review of Risk Registers for new business areas;
- more frequent review of cross-functional risks at Management Board level, for example, risks relating to health and safety and data protection; and
- functional Risk Register reviews.

Plans for 2015/16

We will continue to develop and build on our existing risk management framework, and align with recent changes to the UK Corporate Governance Code. Our priorities for 2015/16 include:

- formalising key risk indicators for Group risks and commencing regular reporting of these; and
- reviewing and updating the Internal Audit activity plan following the Group Risk Register refresh.

The refresh of the Group Risk Register in the year has resulted in some changes from those risks disclosed last year. Specifically external market, competitor proposition, supply chain and data are now reported as separate risks following industry and market events in the year. Previously these were included in business strategy, trading optimisation, customer proposition and regulation.

Space optimisation has been removed as a separate risk with capital discipline being included in the financial strategy risk.

The risks have been split into two categories based on how the Board review and manage the risks.

High Impact, Low Likelihood (HILL) risks: those which have a low inherent likelihood but which, if they did occur, could have a major impact. These are typically managed by policies and procedures which are reviewed and tested by the Board on an annual basis.

Strategic risks:

those which would impact the successful execution of the Group's strategy. These are reviewed by the Board on a more frequent basis as the risk level can alter based on the actions taken by us or in the market.

Each principal risk has been mapped to the relevant key strategic priorities. All strategic risks are owned by at least one member of the Management Board.

Process level risks are not seen as principal risks for the Group. These risks are managed by operational management.

The movement of each risk at a gross level and the mitigations in place to manage the risk are also disclosed.

Our risks

Principal risks and uncertainties

The Board has identified those risks which it sees as most significant

HILL risks

S I G ⌵

Food and product safety

Risk
If we fail to deliver excellent standards of hygiene and safety in our products, there is potential to harm our customers and damage our business reputation. Our business focuses on fresh food and we have a vertically integrated business model; therefore, food safety and the integrity of our supply chain are of paramount importance.

Mitigation

- Strict standards and monitoring processes established to manage food safety risks throughout the Group and supply chain;
- ISO 22000 accreditation of food manufacturing businesses;
- Regular supplier assessments undertaken to ensure adherence to standards; and
- Food Safety Steering Group, the Board and Management Board provide oversight of operational activities.

Strategic risks

S I ⌵

Business strategy

Risk
The Board understands that if the strategy and vision of the business are not properly formulated, communicated or implemented, then the long term aims of the Group may not be met and the business may suffer and benefits may not be delivered to stakeholders.

Mitigation

- We have a clear strategy based on four pillars of save, invest, grow and cash generation;
- Engagement with a wide group of stakeholders to ensure the strategy remains current;
- Communication of strategy via numerous channels;
- Clear link between strategic targets and business plans to drive implementation; and
- Close Board monitoring of business performance.

⌵

Major business interruption

Risk
Our distribution and systems infrastructures are fundamental to ensuring the normal continuity of trading, whether that is via our stores or online. If a major incident occurred to this infrastructure or another key facility, this could have a detrimental impact on our ability to operate effectively.

Mitigation

- Detailed recovery plans exist for sites and systems;
- Investment in remote IT disaster recovery site and regular testing of recovery plans;
- Adherence to a stringent process for evaluating new suppliers/ third parties;
- Contingency arrangements confirmed for key suppliers; and
- A Crisis Management Group is in place to deal with any unplanned or unforeseen events.

S I G C ⌵

Financial strategy

Risk
The main risks are the availability of funding and management of cash flow to meet business needs.

Mitigation

- The Group's treasury function is responsible for the forward planning and management of funding. They report to the Treasury Committee and operate within clear policies and procedures which are reviewed and audited; and
- Progress against the financial strategy is regularly reviewed and monitored by the Management Board.

S I G ⌴

Data security

Risk
The Group believes it is essential that the security of customer, colleague, supplier and company confidential data is maintained securely. A major breach of information security could have a significant impact on the reputation of the business.

Mitigation

- The Group has a number of information security policies and procedures in place;
- The Information Management Steering Group has the responsibility for looking at data management practices, policies, awareness and training; and
- Ongoing monitoring, reporting and mediation of vulnerabilities is in place.

Key

Save	S
Invest	I
Grow	G
Generate cash	C
No change	⌵
Increase to residual risk	⌴
Decrease to residual risk	⌵

I

Colleague engagement and development

Risk
We are a people business and our colleagues are key to being able to fulfil our promises. If we fail to retain, develop and motivate our colleagues, we will not provide the quality of service that our customers expect. Development of new channels and delivery of strategic objectives increases the risk of being able to attract specific talent. The change in leadership will need to be managed to ensure colleague engagement is maintained.

Mitigation

- Competitive employment policies, remuneration and benefits packages are established and regularly reviewed;
- Significant investment in training and development, including Morrisons Academy;
- Regular talent reviews and refresh of succession plans to meet the future needs of the business;
- Colleague engagement surveys undertaken to understand and respond to colleague concerns; and
- Plan to manage leadership change in place.

S I G

Competitor proposition and price

Risk
The UK grocery market continues to be extremely competitive. The impact of competitor proposition and pricing changes could affect the performance of the Group in terms of sales, costs and operations. There is also a risk that supplier failure or a change in supplier pricing could have operational or financial consequences for the Group.

Mitigation

- Competitor pricing positions and market trends are reviewed on a weekly basis. We also review and actively manage our own key price points, sales proposition, and promotional and marketing campaigns; and
- Credit checks and monitoring of suppliers are conducted. We also maintain open and regular dialogue with suppliers.

C

External market forces

Risk
Economic changes including changes in the value of the Group's pension schemes and commodity fluctuations could impact the Group's profitability and balance sheet strength.

Mitigation

- The Group's pension liabilities are monitored by the Treasury Committee with a clear investment strategy in place. In February 2015 we announced the start of consultation to close the Group's defined benefit schemes to future accrual which will help reduce this risk; and
- Commodity prices are reviewed and monitored each week. The Group has clear policies around hedging of commodity risks and seeks to hedge exposure where possible.

S I G

IT systems upgrade

Risk
We have replaced and upgraded systems in our business to provide industry-leading software capability. We continue to roll out new systems and decommission legacy IT systems. We are aware of the risks and potential for delays and increased costs associated with delivering successful IT systems change.

Mitigation

- We partner with some of the world's leading technology companies for key projects;
- Project management methodology is applied to all IT projects and programmes; and
- Regular reviews are undertaken by Risk and Internal Audit and other specialists to provide assurance over significant IT projects and programmes delivering into the business.

S I G

Supply chain management and integrity

Risk
Recent issues in the sector regarding the integrity and sourcing of food include the discovery of horsemeat substituted for beef in 2013. Our vertical integration model and focus on supply chain integrity means that these have not impacted Morrisons, as highlighted in the Elliott report (July 2014). However, it remains a risk that management is focused on and continues to monitor.

Mitigation

- Morrisons manufactures a large proportion of the fresh food it sells, contracting directly with farmers and growers;
- Thorough checks are in place at all our own production facilities as well as those who produce for us; and
- We have visibility over all our brand suppliers' ethical and responsible business practices through Sedex.

S I G

Regulation

Risk
The Group operates in an environment governed by strict regulations including competition, employment, health and safety, and regulations over the Group's products. In all cases, the Board takes its responsibilities very seriously and recognises that breach of regulation can lead to reputational and financial damages to the Group.

Mitigation

- An established governance framework including compliance monitoring and reporting is in place;
- There are clear accountabilities and processes in place for the monitoring of regulatory developments and the compliance with existing regulation;
- Processes are in place for delivering training to impacted colleagues in relation to regulation; and
- The internal legal department provides advice and guidance.





Corporate governance report

Chairman's governance *statement*



Introduction from Andrew Higginson

I am pleased to introduce on behalf of the Board, Morrisons Corporate governance report for the financial year 2014/15.

As noted in previous reports, the Board believes that how the business does something is just as important as what it does. Morrisons values are embedded in our corporate governance policies and principles and cascaded throughout the organisation.

Maintaining high standards of corporate governance is a priority of the Board. Our corporate governance compliance statement has been reviewed and updated during the year and will continue to be reviewed on a regular basis to ensure that we meet best practice standards in corporate governance. During the year, a number of our colleagues have undertaken a comprehensive training programme on effective Board reporting. This has resulted in improvements in the quality of papers presented to our Board and Committees, assisting effective decision making and enabling meetings to run more efficiently.

The Board has made a number of site visits to supermarkets and convenience stores during the year to observe and engage with the business at an operational level. The October Board meeting was held at Morrisons online customer fulfilment centre in Dordon and included a tour of the distribution centre, enabling the Board to observe the online operation first hand.

CEO succession

Dalton Philips stepped down as CEO on 16 February 2015. We have recently announced the appointment of David Potts as our new CEO. We will expect him to build on the positive foundations and to return the business to growth.

Board effectiveness

Following the external review of Board effectiveness in 2013/14, we have undertaken an internal evaluation of the effectiveness of the Board and its Committees this year. The evaluation required each member of the Board to complete a comprehensive questionnaire. The results are summarised on page 39. Although the evaluation did not highlight any particular areas of concern, there are a number of development actions which we plan to take during 2015/16 to further strengthen the effectiveness of the Board.

I am satisfied that the Board is performing effectively and contains an appropriate mixture of skills, experience and independence. I also consider that each of the Non-Executive Directors is able to commit an appropriate amount of time in fulfilling their role and responsibilities on the Board effectively.

Diversity

We recognise the importance of diversity across our colleague base, and the Board itself, in delivering an effective blend of knowledge, skills and experience. Although with two female members (28% of total composition), the Board complies with its policy requirement to maintain formal representation at not less than 20%, there is an aspiration to increase this to at least 30%. In addition, steps are being taken towards increasing diversity across our colleague base as a whole. Further detail on our diversity policy is provided on page 23.

Good corporate governance is an essential part of running our business effectively, in the interests of our shareholders and other stakeholders. We will continue to develop our governance policies and processes in line with good practice thereby enabling our team to best utilise their skills in effectively implementing business strategy.

Andrew Higginson

Chairman

Below:

Compliance statement

The full Compliance statement can be found at:

www.morrisons-corporate.com



Corporate governance statement

The Board considers that its corporate governance policies and procedures are appropriate and that the Group has been fully compliant with the 2012 UK Corporate Governance Code (the Code) throughout the financial year 2014/15 and to the date of this Annual report. The Code is available on the Financial Reporting Council's website (www.frc.org.uk).

The Board's Corporate governance compliance statement sets out how the Group complies with each of the provisions of the Code and is available in the investor relations section of the Group's website, www.morrisons-corporate.com.

The Board acknowledges the changes to the Code that were announced in September 2014 and will apply to the Company from the 2015/16 financial year. These changes will be an area of focus for the Board and the relevant committees over the next year and the Company will report on compliance against the revised Code in the 2015/16 Annual report.

Committee key

Nomination Committee	(N)
Remuneration Committee	(R)
Corporate Compliance and Responsibility Committee	(C)
Audit Committee	(A)

Board of Directors

Andrew Higginson
Chairman



(N)(R)(C)

Andrew joined the Group as Deputy Chairman and Chairman Elect in October 2014 and became Chairman in January 2015. Andrew is currently the Chairman of N Brown Group Plc, a Non-Executive Director of Woolworth Holdings Limited (South Africa), McCurrach UK Limited and the RFU (Rugby Football Union). Andrew was previously the Chairman of Poundland Group Plc, Senior Independent Director of BSkyB Plc and an Executive Director at Tesco Plc for 15 years.

Trevor Strain
Chief Financial Officer



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. Upon Dalton Philips' departure as CEO on 16 February 2015, Trevor, on an interim basis, took over Dalton's executive responsibilities and chairs the Management Board. Prior to joining Morrisons he worked for Tesco 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.

Philip Cox CBE
Senior Independent Director and
Chairman of the Audit Committee



(N)(R)(A)

Philip joined the Group as a Non-Executive Director in April 2009. He was appointed as the Senior Independent Director in May 2013. Philip is a Non-Executive Director and Chairman Elect of Drax Group Plc and Non-Executive Director of PPL Corporation. He was a Non-Executive Director at Wincanton Plc from 2001 to 2009, having chaired their Audit Committee from 2001 to 2008 and was Chair of their Remuneration Committee from 2008. He was also a Non-Executive Director of Meggitt Plc until January 2015. His previous Board positions were as Chief Financial Officer and then Chief Executive Officer of International Power Plc and Chief Financial Officer at Siebe Plc.

Richard Gillingwater CBE
Non-Executive Director



(N)(R)(C)(A)

Richard joined the Group as a Non-Executive Director in March 2013. Richard is currently the Chairman of Henderson Group Plc, Deputy Chairman and Chairman Elect of SSE Plc and the Senior Independent Director of Hiscox Ltd and Helical Bar Plc. He is stepping down from the Board of Hiscox Ltd in May 2015. He was previously the Dean of Cass Business School, CEO and then Chairman of the Shareholder Executive and Joint Head of Global Corporate Finance at BZW. He has been the Chairman of CDC Group and a Non-Executive Director of P&O, Debenhams, Tomkins, Qinetiq Group and Kidde. In light of Richard's forthcoming appointment as Chairman of SSE Plc, he does not intend to seek re-election as a Non-Executive Director of the Company and will therefore stand down from the Board at the AGM in June 2015.

Penny Hughes CBE
Chairman of the Corporate Compliance
and Responsibility Committee



(N)(R)(C)(A)

Penny joined the Group as a Non-Executive Director in January 2010. Penny is currently a Non-Executive Director of The Royal Bank of Scotland Plc and a Trustee of the British Museum. Penny's previous experience includes ten years with Coca-Cola GB and Ireland and various Non-Executive roles including Body Shop International Plc, GAP Inc, Reuters Plc, Skandinaviska Enskilda Banken, Trinity Mirror Plc, Vodafone Plc, Home Retail Group Plc and Cable and Wireless Worldwide Plc.

Johanna Waterous CBE
Chairman of the Remuneration
Committee



(N)(R)(C)(A)

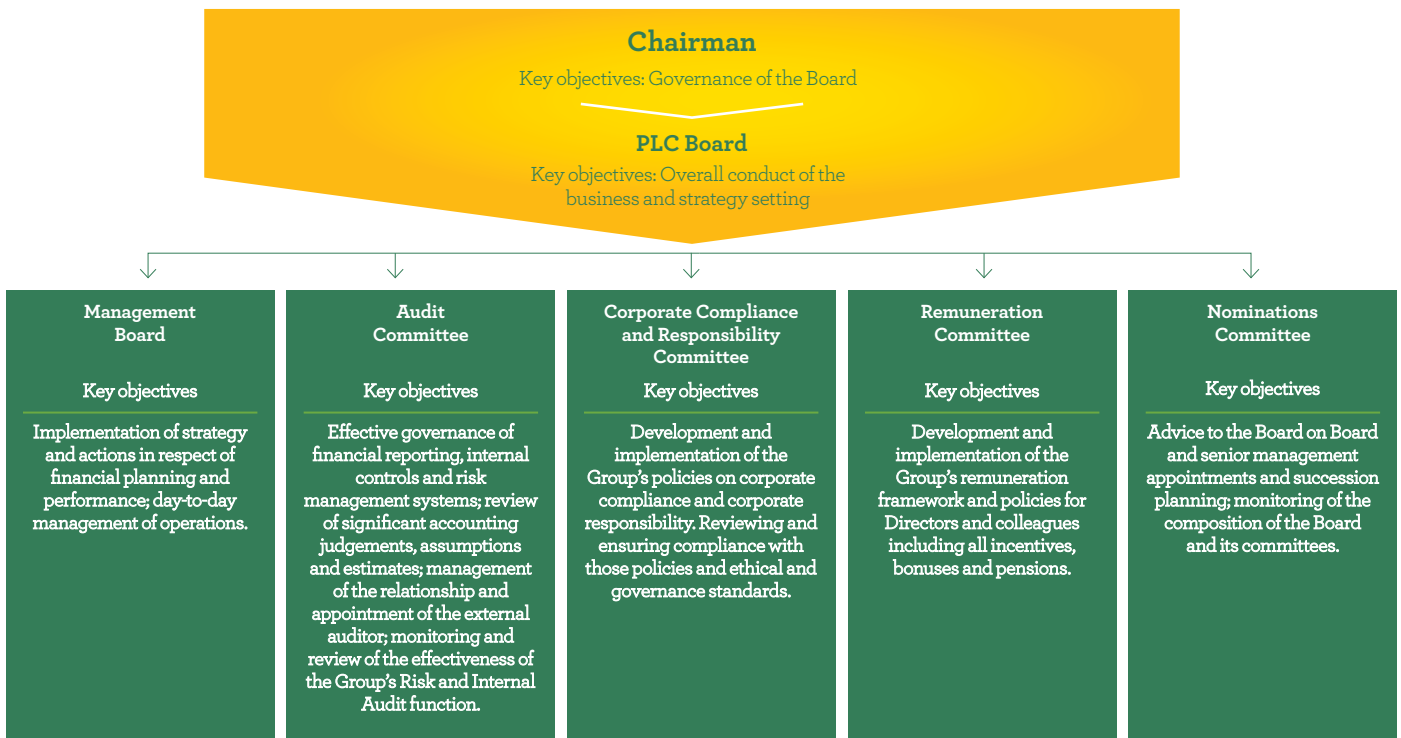
Johanna joined the Group as a Non-Executive Director in February 2010. She is currently the Senior Independent Director of RSA Group Plc and of Rexam Plc. Her previous experience includes 22 years with McKinsey & Co, London, as Head of the Retail Practice in Europe and latterly as Co-Leader of the firm's Global Marketing & Sales Practice. Johanna is a Trustee of the Royal Botanic Gardens, Kew Foundation and of Kew Enterprises Ltd. Previous board roles include Chairman of Tate Enterprises, from 1998 to 2006 and a Non-Executive Director of Shoppers Drugmart in Canada.

Corporate governance report

continued

Leadership

Structure of the Board and its Committees



PLC Board

Members¹	Andrew Higginson ² , Trevor Strain, Philip Cox, Richard Gillingwater, Penny Hughes, Johanna Waterous, Sir Ian Gibson ³ , Dalton Philips ³
Key objective	Overall conduct of the business and strategy setting.
Responsibilities	<ul style="list-style-type: none"> Development and approval of the strategy and key policies of the Group; Management of culture and values; Monitoring of progress towards achieving all Board objectives; Monitoring of financial performance, critical operational issues and risks by reviewing of performance against strategy, objectives, business plans and budgets; Formal approval of the Group's Risk Register; Approval of all communications to shareholders, including the Annual report and financial statements, half-yearly financial report and interim management statements; Approval of changes to the Group's capital structure, external financial reports, major expenditure; and Membership of the Board on recommendation of the Nomination Committee.

¹ All Non-Executive Directors are independent.

² Appointed 1 October 2014.

³ D Philips stepped down from the Board on 16 February 2015 and Sir Ian Gibson retired in January 2015.

Throughout the year, the majority of the Board consisted of independent Non-Executive Directors. Sir Ian Gibson retired from the Board and its committees on 22 January 2015. Dalton Philips stepped down as CEO on 16 February 2015.

Board responsibilities

The formal schedule of matters reserved for the Board remains unaltered from 2013/14 and is set out in the Corporate governance compliance statement which can be found in the investor relations section of the Group's website, www.morrisons-corporate.com.

The Board is committed to a clear division of responsibilities between the Chairman and the CEO. This has been reviewed and updated by the Board during the year and is also set out in the Corporate governance compliance statement.

During the year, Sir Ian Gibson stepped down as a member of the Public Interest Body of PwC before the decision to recommend PwC for appointment as Group auditors.

Andrew Higginson stepped down as Chairman of Poundland Group Plc following the announcement of his appointment as Deputy Chairman and Chairman Elect of the Company in July 2014.

Following the announcement that Dalton Philips would step down as CEO on 16 February 2015, it was also announced that Trevor Strain would chair the Management Board and assume Dalton's executive responsibilities with Andrew Higginson, spending more time in the business in the interim period until the new CEO was appointed.

David Potts will join the Board as CEO on 16 March 2015.

Board committees

The decisions delegated by the Board to its Committees and the activities of those Committees during the financial year 2014/15 are described within each Committee's report below. The Corporate governance compliance statement contains the terms of reference of the Committees which have recently been updated in line with the guidance notes issued by ICSA in 2013 and to take into account changes agreed by the Board during the year.

Senior Independent Director

Philip Cox has been the Board's Senior Independent Director since May 2013. Philip has been a Non-Executive Director of Morrisons since April 2009 and has acquired extensive knowledge of the Group's business and its activities. The Senior Independent Director provides shareholders with an alternative contact to the Chairman, the CEO and the CFO.

Board activities in 2014/15

The Board's focus in this financial year was:

- review of results and forecasts and approval of regulatory announcements;
- the conduct of the business in accordance with its values;
- review of the development of the online business and convenience stores;
- review of the recommendation from the Nomination Committee in respect of the appointment of Andrew Higginson;
- review of the performance of the CEO and the decision to search for a successor;
- review of the governance structure and activities of the subcommittees of the Board;
- review of the annual business plan and monthly updates from the Management Board regarding its delivery; and
- review of the 2015/16 budget and commercial plans regarding our core supermarkets, including productivity savings required to invest in the core offer.

Attendance at meetings

	Board	Nomination	Remuneration	Audit	CCR
Andrew Higginson ¹	3/3	2/2	1/1	–	2/2
Trevor Strain	11/11	–	–	–	–
Philip Cox	11/11	7/7	6/6	7/7	–
Richard Gillingwater	11/11	7/7	5/6	6/7	4/5
Penny Hughes	11/11	7/7	6/6	7/7	5/5
Johanna Waterous	11/11	7/7	6/6	7/7	5/5
Dalton Philips ²	11/11	7/7	–	–	5/5
Sir Ian Gibson ³	11/11	7/7	6/6	–	5/5

¹ Appointed to the Board on 1 October 2014. Appointed to the CCR Committee in November 2014, the Nomination Committee in December 2014 and to the Remuneration Committee in January 2015.

² Dalton Philips stepped down as CEO on 16 February 2015.

³ Sir Ian Gibson retired from all Boards and Committees on 22 January 2015.

Effectiveness

Non-Executive Directors

The Non-Executive Directors bring a varied range of skills and experience to the Group. Details of their experience outside the Group are set out in their respective biographies on page 37.

The Board is satisfied that all Non-Executive Directors, including the Non-Executive Chairman, remain independent according to the definition contained in the Code. The criteria used to determine independence are set out in the Corporate governance compliance statement, which can be found in the investor relations section of the Group's website, www.morrisons-corporate.com.

The minimum time commitment expected of the Non-Executive Directors is 12 days per year, together with attendance at the AGM, Board away days and site visits, plus adequate preparation time. The Board is satisfied that each of the Non-Executive Directors commits sufficient time to the business of the Group and contributes to the governance and operations of the Group. This has been confirmed by the Board effectiveness evaluation referred to below.

The Chairman arranges regular discussions between all the Non-Executive Directors (including himself) as a group. During the year, the Non-Executive Directors met a number of times without management present to discuss the performance of the business and management, and the wider economic, commercial and social environment in which the Group operates.

Board evaluation

The Board arranges for its own performance, and that of its committees and Directors, to be reviewed annually. This is usually facilitated by an external agency every three years with the most recent external review taking place last year.

In 2014/15, the Board's effectiveness, and that of its committees, was the subject of an internal review led by the Chairman and the Company Secretary.

The evaluation required each member of the Board to complete a comprehensive questionnaire covering the following key areas:

- overall Board and committee effectiveness;
- the work of the Board, including the approach to control, risk, strategy and transactions, and the regulatory environment;
- organisation and conduct of Board meetings;
- timing and content of Board papers;
- maximising its use of time;
- Board and senior management succession;
- training and awareness;
- effectiveness of advisers; and
- overall Director performance.

Responses were collated by the Company Secretary and discussed with the Chairman. The review concluded that the Board operates well and cohesively.

The agreement to move to fewer Board meetings but more two day meetings (as recommended last year) will come into full effect in 2015/16 and it was acknowledged that this should provide more opportunity for site visits (Company and competitor) and spending time with customers to understand their views.

Corporate governance report

continued

The length and tone of Board papers will also be the subject of focus during 2015/16 with a view to further improvement and ensuring that papers provide insightful and quality data in a concise manner.

The performance of the Chairman is evaluated annually by the Directors. Appraisals of the Non-Executive Directors' performance are conducted by the Chairman following discussion with Board members.

Executive Directors are included in the Group's performance appraisal process, which includes setting clear and measurable objectives and reviewing performance against those objectives on a bi-annual basis. The Chairman and Non-Executive Directors are responsible for monitoring and reviewing the performance of the CEO, who in turn is responsible for monitoring the performance of the CFO.

Membership

As described earlier in this report, the Board has been strengthened by the appointment of Andrew Higginson as Chairman and, as announced on 25 February 2015, the appointment of David Potts as CEO who further enhances the relevant experience and skills on the Board. The Nomination Committee considers that the Board and Management Board contain the skills and experience necessary in light of the Group's current activities and strategic direction.

Re-election of Directors

All the Directors submit themselves for re-election at the AGM to be held on 4 June 2015, with the exception of Richard Gillingwater who will step down at the AGM. After reviewing the outcome of performance evaluation, the Board confirms that the contributions made by the Directors offering themselves for re-election at the AGM in June 2015 continue to be effective and that the Company should support their re-election.

Directors' interests

The interests of the Executive and Non-Executive Directors of the Company and their immediate families in the shares of the Company, along with share options, are contained in the Directors' remuneration report set out on pages 47 to 58. At no time during the year did any of the Directors have a material interest in any significant contract with the Company or any of its subsidiaries.

Management Board

Members	Dalton Philips ¹ , Trevor Strain, Mark Amsden, Neal Austin, Nick Collard, Martyn Fletcher, Mark Harrison, Martyn Jones, Emily Lawson, Casper Meijer, Gordon Mowat ² , Nigel Robertson
Key objectives	Implementation of strategy and actions in respect of financial planning and performance; day-to-day management of operations.
Responsibilities	<ul style="list-style-type: none"> • Development and implementation of strategy; • Oversight of: <ul style="list-style-type: none"> – financial performance, reporting and control; – risk management; and – operational improvement programmes; • Review and supervision of operational activities; • Making recommendations to the Board in respect of: <ul style="list-style-type: none"> – budgets and long term plans; – dividend levels; – ad-hoc events; and • Succession planning for senior management.

¹ Dalton Philips stepped down as CEO on 16 February 2015.

² Appointed October 2014 as replacement for Terry Hartwell.

Management Board activities in 2014/15

The Management Board's focus in this financial year was:

- implementation of the price investment strategy;
- launch of the Match & More card;
- up-streaming of manufacturing capabilities;
- streamlining and modernisation of the management structure in stores;
- targeted implementation of the food online offer into different regions;
- the continuing roll out of M local convenience stores network including acquisition of appropriate sites;
- oversight of major systems development including its roll out into stores;
- new in-store standard KPIs;
- response to trading results via implementation and adaptation of the commercial strategy, including promotional strategy;
- periodic review of performance against strategic objectives;
- review of the Group's weekly and periodic trading results and market conditions;
- determination of principal risks for the Group;
- new leadership framework;
- review of customer proposition and relaunch of Morrisons own brand products;
- approval of capital budgets;
- enhanced colleague engagement process and review colleague engagement scores; and
- the conduct and management of the business in accordance with its values.

A Transformation Steering Committee was set up during the year to ensure that the right level of focus is placed on delivering transformation projects in the business. All operational members of the Management Board are members of the Transformation Steering Committee. The main purposes of the Committee are:

- to sign off all strategic business cases which underpin transformation;
- to agree timing of implementation; and
- to manage change coherently around the customer experience.

Audit Committee report

Members	Philip Cox (Chair), Richard Gillingwater, Penny Hughes, Johanna Waterous
Key objectives	Effective governance of financial reporting, internal controls and risk management systems; review of significant accounting judgements, assumptions and estimates; management of the relationship and appointment of the external auditor; monitoring and review of the effectiveness of the Group's Risk and Internal Audit function.
Responsibilities	The Board has delegated to the Audit Committee the responsibility for reviewing on its behalf and making recommendations to the Board as to: <ul style="list-style-type: none"> • the integrity of financial reports, including reviewing significant financial reporting issues and considering how these issues have been addressed; • whether the Annual report is fair, balanced and understandable; • the effectiveness of the Group's internal control and risk management system; • the effectiveness of the Risk and Internal Audit function; and • the independence and appointment of the external auditor and approval of their fees.

Audit Committee Chairman

The Board is satisfied that Philip Cox has recent and relevant financial experience appropriate to his position as Chairman of the Audit Committee. Philip is a Fellow of the Institute of Chartered Accountants in England and Wales and has previously held a number of senior finance positions including Chief Financial Officer of International Power Plc and Siebe Plc.

Audit Committee activities in 2014/15

During the year the Committee has:

- considered the appropriateness of the Group's Annual report and financial statements and Half-yearly report;
- reviewed the effectiveness of the internal controls and the work of the Risk and Internal Audit function, including approval of the Internal Audit plan and discussion on key risks (described in more detail on pages 30 to 33);
- considered systems design, implementation and related project management in respect of changes to the Group's financial reporting systems and processes;

- conducted a full tender of external audit service and recommended the appointment of PwC (described in more detail on page 44); and
- discussed the new Governance Code and reporting requirements.

In respect of financial reports, the Committee's focus was:

- the accounting judgements made by management that could have a significant effect on the Group's financial results;
- oversight of IT changes affecting financial systems and controls;
- the clarity of disclosure of financial information; and
- whether the Annual report, taken as a whole, is fair, balanced and understandable – the Directors' statement on this can be found on page 61 of this Annual report.

Financial reporting matters

The Audit Committee discussed the following financial reporting matters:

Commercial income

Commercial income remains an area of focus for the Audit Committee.

Commercial income is inconsistently defined. It is a deduction from the cost of purchase and it is recognised in accordance with signed supplier agreements. Subjectivity and judgement is therefore minimised.

This is an area which is currently not directly covered by accounting standards and there is no prescriptive disclosure best practice. The Financial Reporting Council (FRC) recently urged the Boards of retailers and suppliers to provide greater clarity in this area.

It is important to the Board that the Group takes the initiative and brings clarity and transparency to commercial income and so is providing increased disclosure on controls, on the quantum earned in the income statement and the balance sheet position. Despite most of this income being subject to no or little subjectivity or judgement we have chosen to provide full disclosure – see note 1.6 in the financial statements.

Our definition of commercial income includes marketing and advertising funding and volume based rebates. Some commentators include promotional funding in commercial income. We consider such funding as a mechanical deduction from the purchase cost, triggered immediately by Morrisons realising a sale, or a purchase, with no judgement or subjectivity applied. We do not therefore include promotional funding in our definition of commercial income.

In addition to disclosing the quantum of commercial income in the income statement, we have also disclosed the quantum of commercial income included in debtors and accrued commercial income at the balance sheet date – see notes 5.3 and 5.4 in the financial statements. By its nature a proportion of commercial income will only become billable to suppliers at or near the reporting period end. However we expect the majority of commercial income outstanding at 1 February 2015 to be collected by the end of the first quarter of the new financial year.

In considering the appropriateness of commercial income recognised in the year and the financial position at the year end, the Committee has reviewed in detail reports from management outlining the accounting judgements and the control environment.

Corporate governance report

continued

In reviewing the assumptions made by management, the Audit Committee challenged and understood the key assumptions and judgements including:

- commercial income accrued but not invoiced at half year and year end; and
- recoverability of outstanding invoices.

The Audit Committee considered the effectiveness of the operation of key controls as set out below, through review of management's work and that of Internal Audit. The Committee considered the frequency of the operation of controls, the size of samples and challenged management on how controls could be further improved.

The controls in operation provide assurance over:

- completeness of supplier agreement documentation;
- accuracy of income recognition in line with agreed policies and the supplier agreements; and
- recoverability of commercial income.

Controls in operation for promotional funding and commercial income

1. Periodic review of control KPIs by Senior Management which is focused on confirming promotional funding and commercial income has been recognised appropriately in line with policy. The review includes an assessment of the following:
 - accrued income that has not been invoiced following the end of a promotional period;
 - ageing profile of invoices raised that are outstanding from suppliers; and
 - credit notes raised after the period end.
2. Segregation of duties between trading teams who negotiate with suppliers and the finance function that approve the recognition of income.
3. All accrued amounts above set thresholds are checked to supplier documentation.
4. Sample compliance checks are performed for invoices over set thresholds plus an additional random sample. These checks include:
 - ensuring compliance with supplier terms and agreements; and
 - reviewing the timing of invoicing following completion of a promotional period.
5. Internal Audit performs a review of a sample of supplier agreements, checking the appropriateness of recognition. Their focus is on key areas of judgement including multi-year contracts and accrued income which has not yet been invoiced. The scope of work includes checking that income is recognised in line with the supplier agreement.

Promotional funding specific controls

Type of deduction	Description	Specific process and controls
Promotional funding	Customer Investment by way of promotions, partially funded by suppliers for specific products, or multi-purchases, such as buy one get one free.	Agreed supplier terms are recorded on systems which generate accruals and recognise the funding mechanically based on these terms and sales volume data fed from the till system. There is no judgement or estimation involved. The system also automatically generates invoices to suppliers each week, or at the end of a promotional cycle.

Commercial income specific controls by type of income

Type of deduction	Description	Specific process and controls
Marketing and advertising funding	Examples include income in respect of in-store marketing and point of sale, as well as funding for advertising.	All supplier agreements are logged once a contract is signed. The details recorded include the agreed activity, timeframe, performance criteria and amounts. Income is then only recognised and invoiced conditional on satisfying specified criteria in the supplier agreements.
Volume-based rebates	Income driven by achieving volume targets set by the supplier for specific products over specific periods.	Agreed supplier terms are recorded in systems which generate accruals and recognise commercial income automatically based on these terms. Details entered into the system are validated by an independent team. Income is recognised through the year based on forecasts for expected sales or purchase volumes, informed by current performance, trends, and the terms of the supplier agreement. Income is invoiced throughout the year in accordance with the specific supplier terms. Supplier confirmations are obtained half-yearly, including at year end, to confirm volume performance and therefore that the appropriate level of rebate is being accrued.

Impairment of property, plant and equipment, intangible assets and onerous property commitments

The Group has a policy of assessing impairment on an annual basis, or where changes in circumstances result in a risk of impairment.

The impairment review includes non-financial assets, principally the Group's property portfolio, IT assets not in use and goodwill.

There are a number of assumptions used in the impairment reviews including discount rates, growth rates and the market value of the properties.

The Group considers that structural changes in the market have intensified in the year. This coupled with others in the sector cutting space forecasts and capital spending has led to a further decline in the market value of supermarkets. This has resulted in an additional impairment charge of £1,273m being recognised this year against trading stores and onerous leases.

Further details of the assumptions used are set out on page 89.

Management has presented a number of papers to the Audit Committee setting out the judgements and assumptions underpinning the impairment reviews. The Committee has understood management's view on all the assumptions including the market valuations of the stores. It has also reviewed the methodology and approach to obtaining forecast store cash flows, which remain consistent with the prior year.

In addition, for leasehold arrangements where the expected future benefits from a store are less than the future lease commitment, the Committee has reviewed the judgements required in recognising an onerous lease provision.

The Audit Committee discussed the sensitivity of key assumptions along with their impact on the impairment and onerous lease provision charge in the year. The Committee challenged the assumptions and is satisfied they are appropriate.

IT systems

The Group is in the process of upgrading and developing its core systems, the cost of which is a material element of capital expenditure for the current year. These upgrades have enabled a number of the Group's plans to be executed during the year including the launch of the Match & More card and other promotional tools.

As well as the risk of impairment considered above the Committee has considered the nature of costs being capitalised to ensure they are capital in nature. It has also regularly reviewed progress against system implementation plans which has included engaging external consultants to give the Committee independent assurance. The Committee is satisfied that costs have been capitalised in line with the Group's policy.

Stock

Stock remains a material balance in the Group's financial statements. It is held in multiple locations and a system upgrade is in the process of being implemented to consolidate the legacy stock systems. Judgement is required in determining provisions for shrinkage and other stock provisioning.

The policies and procedures for stock accounting, reporting and provisioning have been reviewed by the Audit Committee as part of the annual policy review which includes external benchmarking and sensitivity analysis where appropriate. Changes to stock count procedures, including the appointment of independent third party counters, have been implemented in the year. The Committee receives updates on stock count results throughout the year.

Internal control and risk management

The Board has overall accountability for ensuring that risk is effectively managed across the Group. Risks are reviewed by the Management Board for all functions annually and results are brought to the Board. On behalf of the Board the Audit Committee has responsibility for reviewing the effectiveness of internal control including financial, operational and compliance controls. In order to do this, as a matter of course in any one year, the Committee:

- receives and agrees appropriate actions in response to regular reports from the Risk and Internal Audit function on:
 - the status of internal control and risk management systems across the Group;
 - the department's findings, annual plan and the resources available to it to perform its work; and
 - any concerns expressed by colleagues about possible malpractice or wrongdoing;
- reviews financial whistle-blowing reports from colleagues;
- reviews the external auditor's management letters on internal financial control;
- seeks reports from senior management on the effectiveness of the management of key risk areas; and
- monitors the adequacy and timeliness of management's response to identified audit issues.

The main features of the Group's internal control and risk management systems relating to the accuracy and reliability of financial reporting, including the process for preparing consolidated accounts, are:

- recruitment of suitably qualified and experienced finance colleagues;
- segregation of duties, clear lines of accountability and delegation of authority;
- policies and procedures that cover financial planning and reporting, preparation of financial information, and capital expenditure;
- a robust period end review process including review and commentary from process owners;
- a tiered review process for external financial reports involving internal stakeholders from relevant areas of the business;
- information and data security policies and procedures; and
- self certification by each section of the business.

The Audit Committee has undertaken a review of effectiveness of internal control areas during the financial year. No significant failings of internal control were identified during these reviews, limited weaknesses were identified, none of which are significant. Clear action plans are in place to address the weaknesses and are captured as part of functional risk registers with defined management responsibility.

Corporate governance report

continued

The Audit Committee has completed its review of the effectiveness of the Group's systems of internal control during the financial year and up to the date of the report. In accordance with the requirements of the revised Turnbull guidance on Internal Control published by the FRC, it confirms that 'no significant failings of internal control were identified in the review for 2014/15'.

External audit tender

As noted in last year's report, following the FRC recommendation to put the external audit out to tender at least every ten years, the Audit Committee conducted a tender process for the external audit appointment during 2014/15.

The tender process was initiated in January 2014 and concluded in April 2014. The Audit Committee recommended the appointment of PwC as external auditor. The Board accepted this recommendation and PwC were formally appointed at the 2014 AGM.

The audit tender team was created and led by the Chair of the Audit Committee and comprised the Group CFO, Director of Risk and Internal Audit, the Group Financial Controller and Procurement. Six firms were invited to tender, two of which were 'mid-tier' audit firms. Four audit firms reached the final stage of the tender process.

In arriving at the short-list for the final stage the process involved: meetings with and presentations to senior finance, IT and procurement colleagues, and formal responses to the Request For Proposal (RFP). The feedback from the meetings as well as the RFP responses were reviewed in detail by the audit tender team and summarised for the Audit Committee.

The audit tender team plus one of the NEDs held meetings with each of the short-listed firms during which the firms presented their proposed audit approach. This was followed by a 'question and answer' session, including questions on matters of accounting. Following each meeting the Group discussed the presentation both in content and team, the view presented, answers to questions and the strengths and weaknesses of each team. At the end of all of the meetings the audit tender team had an extensive debate about all of the firms that had been shortlisted.

The summary of these assessments was presented to the Audit Committee, who after further discussion felt that PwC had shown a greater understanding of Morrisons and through their proposed audit approach would be able to drive greater challenge of processes and controls, which would benefit the Group.

The Committee would like to thank all of the firms that participated and specifically to KPMG for their contribution to the Group over the years.

Effectiveness and independence of the external auditor

Due to the change in auditor during the year, the Committee has considered the effectiveness of both KPMG and PwC for the periods in which they were auditor. In making this assessment the Audit Committee has considered the information presented by the auditors, management responses to the auditor's findings, including any adjustments and the level of non-audit fees.

The Committee holds meetings with the auditor without management present. The purpose of these meetings is to understand the auditor's views on the control and governance environment and management's effectiveness within it. To fulfil its responsibilities in respect of the independence and effectiveness of the external auditor, the Committee reviewed:

- the terms, areas of responsibility, duties and scope of work of the external auditor as set out in the engagement letter;
- the audit work plan for the Group;
- the detailed findings of the audit, including a discussion of any major issues that arose during the audit;
- the letter from the external auditor confirming its independence and objectivity; and
- the audit fee and the extent of non-audit services provided during 2014/15.

In the period from the start of the year to the AGM, KPMG provided non-audit work, primarily to provide the Board with independent assurance in respect of IT systems replacement. Prior to their appointment as auditor PwC provided a number of non-audit services, including advisory services to the Remuneration Committee. PwC resigned from this post on appointment as statutory auditors but have continued to provide non-audit services. In the year the ratio of audit to non-audit services was 1:0.5, see note 1.6 in the Annual report.

The Committee believes that this non-audit activity carried out by the statutory auditors is subject to safeguards to avoid a threat to the auditor's independence or objectivity. These safeguards comprise separate teams for audit versus non-audit work.

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

Going concern

The Directors' assessment of the Group and the Company's ability to continue as a going concern is based on cash flow forecasts for the Group and the committed borrowing and debt facilities of the Group. These forecasts include consideration of future trading performance, working capital requirements, retail market conditions and the wider economy.

The Group remains able to borrow cash at competitive rates, as evidenced by the issue of a £300m bond in July 2014 and the refinancing of the £1.35bn revolving credit facility in September 2014. The Group has negotiated, and has available to it, committed, competitive facilities that will meet the Group's needs in the short and medium term.

The principal risks that the Group is challenged with have been set out on pages 32 to 33, along with how the Directors mitigate these risks in the current economic climate. After reviewing the Group's financial forecasts, the Directors are confident that the Company and the Group have adequate financial resources available to continue in operational existence for the foreseeable future. Accordingly, the going concern basis is adopted in the preparation of these financial statements.

Corporate Compliance and Responsibility (CCR) Committee

Members	Penny Hughes (Chair), Andrew Higginson ¹ , Dalton Philips ² , Mark Amsden, Richard Gillingwater, Martyn Jones, Johanna Waterous
Key objectives	Development and implementation of the Group's policies on corporate compliance and corporate responsibility. Reviewing and ensuring compliance with these policies and ethical and governance standards.
Responsibilities	Oversight that the business is doing the right thing in areas of corporate responsibility including: <ul style="list-style-type: none"> • ethical trading; • food safety; • health and safety; • environmental and competition compliance; • GSCOP; and • governance and reputation. <p>Generally ensuring that the Company is acting as a good corporate citizen.</p>

¹ Appointed November 2014.

² D Philips stepped down from the Board and its committees on 16 February 2015.

CCR activities in 2013/14

The Committee's focus in this financial year was a review of:

- cyber and IT security risk;
- health and safety incidents and actions taken and progress of health and safety initiatives;
- energy strategy and carbon reduction measures;
- ethical trading;
- food safety and improvements;
- food integrity and testing;
- GSCOP compliance including training and results of internal reviews; and
- non-financial whistle-blowing reports.

Remuneration Committee report

The report from the Remuneration Committee is contained in the Directors' remuneration report on pages 47 to 58.

Nomination Committee report

Members	Andrew Higginson (Chair) ¹ , Dalton Philips ² , Philip Cox, Penny Hughes, Richard Gillingwater, Johanna Waterous
Key objectives	Advice to the Board on Board and senior management appointments and succession planning; monitoring of the composition of the Board and its committees.
Responsibilities	<ul style="list-style-type: none"> • Evaluating the current and required mixture of skills and experience on the Board; and • Sourcing and selecting candidates.

¹ Appointed December 2014.

² D Philips stepped down from the Board and its Committees on 16 February 2015.

Nomination Committee's activities in 2013/14

Selection process

The Nomination Committee is responsible for succession planning and the recommendation of Director appointments to the Board. The Committee considers the size and composition of the Board on an ongoing basis. The Committee will consider the skills of outgoing and remaining Board members to assess any gaps and develop a candidate profile. The Board uses external search consultancies to source suitable candidates. The Committee recommends appointments on merit against the criteria applied in developing the candidate profile and taking into account the mix of skills, experience and diversity on the Board.

Appointment of Chairman and Chairman Elect

Following the announcement by Sir Ian Gibson of his intention to retire in 2015, the Nomination Committee appointed a sub-committee comprising Philip Cox, Richard Gillingwater, Penny Hughes, Johanna Waterous and Dalton Philips, with responsibility for sourcing and selecting his successor. The sub-committee used an external search agency, MWM Consulting, in identifying a short list of candidates with the requisite skills and experience for the role. The sub-committee interviewed each of the candidates shortlisted and recommended the appointment of Andrew Higginson to the Nomination Committee and the Board. His appointment was announced on 29 July 2014. Andrew stepped down as Chairman of Poundland Group Plc in order to manage his other time commitments outside Morrisons and thereby ensure he is able to devote an appropriate amount of time in fulfilling his current role and future role as Chairman of the Company. Andrew succeeded Sir Ian Gibson as Chairman in January 2015.

MWM Consulting is also used by the Company in the search and selection process for other senior hires. This agency has no connection to the Group other than its provision of recruitment services.

Corporate governance report

continued

Induction

All Directors are provided with a comprehensive, formal and tailored induction to the business.

Prior to his appointment to the Board in October 2014, Andrew Higginson spent a month in the business to commence the induction programme which continued following his formal appointment. The programme was designed to provide Andrew with a comprehensive introduction to the business and included the following:

- review of Board/Committee minutes and supporting papers for recent meetings;
- meeting with the Company Secretary to provide a briefing on Board/Committee processes and procedures and governance structure;
- store and other site visits; and
- meetings with senior management.

CEO succession

Following the decision to search for a new CEO, the Committee discussed and approved a job role and appointed Ridgeway Partners to assist in identifying a long list of candidates with the requisite skills and experience for the role.

After an extensive and international search, four candidates were shortlisted and interviewed by the Board resulting in the appointment of David Potts who will join the Board as CEO on 16 March 2015.

Diversity

Diversity has been a particular area of focus during 2014/15. The Board recognises the benefits of a diverse colleague base across the Group and is supportive of initiatives within the business to improve diversity at all levels.

The Company sought to increase female representation in the senior management group (SMG) to at least 30% by the end of 2014. Although positive progress has been made, this target has not yet been achieved and the Board recognises that more work is needed in this area. Recruitment and promotion policies have been reviewed with a view to attracting candidates with a wide range of backgrounds and experience and ensuring that the best individual for the role is appointed. Specific targets have not been set as it is considered that they may drive the wrong behaviours. However, guidelines are in place to ensure that the long list for any particular vacancy at management level includes a balanced profile of candidates.

Progress on the diversity agenda is measured through regular talent reviews. Although there is particular focus on the SMG, these reviews also consider the ethnicity, gender, age and length of service mix lower down the organisation.

At the end of the 2014/15 financial year the Board included two women members, 28% of its total composition. The Board's policy is that female representation should be maintained at not less than 20% and aspires that this should be higher than 30%. This policy will continue to be considered as part of the Nomination Committee's regular review of the Board's composition and skills.

Diversity will continue to be a key topic on the Nomination Committee agenda in 2015/16.

Other areas of focus

The Committee also spent time reviewing succession planning for both the Board and Management Board as well as of the talent pool for levels below Management Board.

Relations with shareholders

The Board is committed to communicating our strategy to analysts, investors and shareholders on a regular basis through a planned programme.

The Investor Relations programme includes:

- formal presentations of full and half year results;
- interim management statements;
- regular meetings between institutional investors, the CEO, the CFO and the Investor Relations team in the UK and the US following the full and half year results;
- regular meetings between the Chairman and major shareholders to discuss any aspect of the Group or its governance arrangements;
- attending key investor conferences;
- communication between the Chairman of the Remuneration Committee and major shareholders on remuneration policy and significant changes in remuneration arrangements;
- responding to enquiries from shareholders and analysts through the Investor Relations team; and
- dedicated shareholder and investor sections on the website.

In addition, the Investor Relations team provides a regular update to the Board and feedback from meetings held between executive management and institutional shareholders. The Group's brokers seek independent feedback from analysts and investors following the full and half year results meetings which is reported to the Board.

Matters dealt with elsewhere in the Strategic report

The way that the Group generates value and the Board's strategy for delivering the Group's objectives are described in the Business model on pages 6 to 7, and the Strategy section on pages 10 to 15.

Annual General Meeting

All Executive Directors and Non-Executive Directors attend the AGM unless unable to do so due to circumstances outside of their control.

Notice of the 2015 AGM of the Company is to be sent to shareholders with an accompanying letter from the Chairman. The AGM will be held at the Company's headquarters at Gain Lane in Bradford on 4 June 2015. Format of the meeting:

- a summary presentation of results is provided before the Chairman deals with the formal business;
- all shareholders present can question the Chairman, Chairmen of the Committees and the Board during the meeting and informally afterwards;
- the Board encourages participation of individual investors at the AGM; and
- following the meeting, details of the voting on the resolutions will be made available on the website www.morrisons-corporate.com/Investor-centre/generalmeetings/

The Directors recommend shareholders vote in favour of each resolution, believing them to be in the best interests of the Group. Shareholders will be notified of the availability of the Annual report and financial statements on the website unless they have elected to receive a printed version.

Directors' remuneration report

How we are *rewarded*



Annual statement by the 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 2014/15.

Last year, we completed a strategic review of our remuneration framework and engaged extensively with major institutional shareholders and investor representative bodies on the key changes. The framework was set out in the remuneration policy which was approved by shareholders at the 2014 AGM. No changes are proposed at this year's AGM.

We listen to feedback on the report and continue to strive to improve the transparency and clarity on executive pay. For example, this year we have sought to provide a greater level of disclosure on our bonus outcomes so that shareholders can better understand how the Committee links pay to performance.

In this introductory statement, I have set out the principles and key features of our executive remuneration framework, a summary of the out-turns in respect of 2014/15 performance, and how we intend to approach remuneration in 2015/16, including the remuneration arrangements for recent Board changes. We will be seeking shareholder approval for this report at the AGM on 4 June 2015.

Remuneration principles and alignment to strategy

The UK food retail sector is currently going through an unprecedented period of uncertainty and change. As described in detail on pages 10 to 15 of this Annual report, the Board has developed a robust strategy for our business to address these challenges, the execution of which is in the best interests of all of our stakeholders.

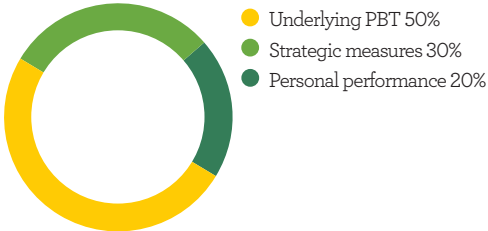

Our remuneration framework is based on the following key principles:

- 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.

Directors' remuneration report

How we are rewarded *continued*

Key features of our framework

Salary	<ul style="list-style-type: none"> Market competitive fixed remuneration reflecting skills and expertise.
Benefits and pension	<ul style="list-style-type: none"> Market competitive benefits package. Executive Directors may receive a maximum cash pension allowance of 25% of salary.
Annual bonus	<ul style="list-style-type: none"> Maximum opportunity 200% of salary. Performance-related remuneration based on targets aligned to our annual financial and operational strategic objectives. For 2015/16: <div style="text-align: center;">  <ul style="list-style-type: none"> ● Underlying PBT 50% ● Strategic measures 30% ● Personal performance 20% </div> 50% of any bonus deferred for three years. Malus and clawback apply.
LTIP	<ul style="list-style-type: none"> An opportunity to earn Morrisons shares based on performance against key strategic metrics over a three year performance period. Normal award level 240% of salary. Awards made in 2014 were subject to the following performance measures: <div style="text-align: center;">  <ul style="list-style-type: none"> ● Free cash flow 50% ● Underlying EPS 30% ● Total sales 20% </div> Malus and clawback apply.
Shareholding guidelines	<ul style="list-style-type: none"> 200% of salary.

Incentive out-turns for 2014/15

The annual bonus targets set by the Committee at the start of the year were built around the objectives which the business set and communicated within the context of the current environment for the UK food retail sector. The out-turns for the Executive Directors for 2014/15 reflect that the business has delivered on a substantial portion of these objectives for the year. The underlying PBT performance was in line with the target level set and the strategy communicated to the market at the beginning of the year. Against the strategic scorecard, the business achieved against its operating cash flow, online service and cost savings targets. Overall this resulted in annual bonus awards of 60% and 62% of maximum for Dalton Philips and Trevor Strain.

Growth in EPS over the performance period for the 2012/15 LTIP fell below the threshold target and as a result LTIP awards will not vest for a third consecutive year.

The remuneration received by the Executive Directors in respect of 2014/15 is summarised in the table below. Further detail can be found on pages 50 to 56.

	Salary	Benefits/ Pension	Bonus	LTIP	Total
Dalton Philips	£850k	£239k	£1,010k	£0k	£2,099k
Trevor Strain	£490k	£118k	£602k	£0k	£1,210k

Board changes

Stepping down of former CEO

Dalton Philips stepped down as CEO on 16 February 2015. He received a contractual payment in respect of salary, benefits and pension for the unworked portion of his 12 month notice period, paid in instalments and subject to mitigation. Taking into account his contribution to the business through a period of significant industry change, as well as the importance of ensuring a smooth transition, the Committee determined that Dalton was a good leaver for the purposes of his incentive awards. He was awarded a bonus in respect of 2014/15 performance and will receive the deferred shares in respect of performance in the 2011/12 financial year. He will also remain eligible for unvested 2013 and 2014 LTIP awards, subject to performance and reduced pro-rata for time. His 2012 LTIP award has lapsed. Full details are set out on page 53.

Appointment of new CEO

David Potts will be appointed as CEO on 16 March 2015. His base salary will be £850,000 which is the same as his predecessor. His annual bonus maximum and LTIP will be within the policy approved by shareholders. His first LTIP award will be 300% of salary which is intended to provide an immediate performance driver and alignment with shareholders. Thereafter LTIP awards will revert to the normal level of 240%. To support his immediate start with the business following appointment, he will also receive relocation expenses. There will be no buyout awards.

Deputy Chairman and Chairman Elect

Andrew Higginson commenced his induction with the Company on 1 September 2014 and joined the Board as Deputy Chairman and Chairman Elect on 1 October 2014. He became Chairman following Sir Ian Gibson's retirement on 22 January 2015 on an annual base fee of £400,000.

Decisions for 2015/16

Base salary

In reviewing the salary for Trevor Strain, the Committee took into account the considerable progress made in his role as CFO in the two years since his appointment, his substantial contribution to the business in this time of transition, and current positioning against market data. The Committee determined that it was appropriate to increase his salary with effect from 2 February 2015 to £525,000, representing an increase of 7%.

Annual bonus

The Committee adjusted the weightings of the annual bonus measures to reflect the strategic objectives for the year. The weighting for the strategic scorecard (which this year will focus on just two strategic priorities – like-for-like sales and cost reduction) has been increased to 30%. Consequently, the weighting for underlying PBT has decreased from 60% to 50%. The weighting given to financial measures is therefore 80% of the total bonus.

LTIP

We plan to make LTIP awards in April 2015 following the announcement of results, in line with the normal grant cycle for the Company. The Committee considers that the new CEO should have an incentive interest in Morrisons shares from the earliest opportunity ensuring that his interests are aligned to shareholders.

The performance targets for the 2015 LTIP award should be aligned with Morrisons strategy and be meaningful and robust. In this transitional period, the Committee believes that it is important to allow David Potts time to assess the business and provide his input into the formation of the long term business plan under his leadership. We therefore intend to wait until the outcome of this process before setting targets for the 2015 award, and we will revert to shareholders at this time. We expect this to be by the time of the interim results announcement in September.

Holding period

The Committee reviewed the potential use of a post vesting holding period for the LTIP and concluded that the combination of a three year performance period and substantial shareholding guidelines created sufficient long term alignment with shareholders. The Committee will continue to monitor practice in this area.

Clawback

In line with the revised UK Corporate Governance Code, from 2015/16, we will be introducing clawback provisions into our annual bonus and LTIP plans, to supplement the malus arrangements already in place. Full details of the malus/clawback provisions are set out on page 51.

Structure of this report

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

- **Policy summary.**
This section (pages 50 to 51) presents an extract from the Policy Table (as approved by shareholders in 2014) for information purposes. It also includes details of our new clawback provisions.
- **Implementation for 2015/16.**
This section (page 52) sets out how we intend to operate the policy for 2015/16.
- **Outcomes for 2014/15.**
This section (pages 53 to 58) describes the implementation of our policies in 2014/15, including the ‘single figure of remuneration’, supporting narrative for our bonus and long term outcomes, and additional supporting disclosures.

Johanna Waterous

Chairman of the Remuneration Committee

The Group is required to prepare a Directors’ remuneration report for the 52 weeks ended 1 February 2015. 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.

Directors' remuneration report

Directors' remuneration policy – extract

Our Directors' remuneration policy was approved at the 2014 AGM held on 5 June 2014 and applies from that date.

An extract of the remuneration policy table from last years Directors' remuneration policy report, is re-produced below for information only. The full Directors' remuneration policy report is contained on pages 61 to 66 of the 2013/14 Annual report which is available in the investor relations section of the Group's website, www.morrisons-corporate.com.

Remuneration policy table

Executive Directors

Element and how it supports strategy	Operation	Opportunity	Performance measures and period
<p>Base salary</p> <p>The Committee's policy is to set base salaries competitively to attract and retain the best talent, which is critical to the Group's success and delivery of the strategy.</p> <p>Base salary is part of a total remuneration package which rewards stretching performance aligned to the Group's strategy.</p>	<p>Base salaries are set by the Committee on appointment and then normally reviewed annually.</p> <p>In setting and reviewing salary levels, the Committee considers the responsibilities of the role, progression in the role, individual performance (including any change in responsibilities), skills, experience and pay levels and structure throughout the Group.</p> <p>The Committee also has regard to rates for similar roles in comparator companies, both in FTSE 100 retailers and UK-based companies of a similar size and complexity, but seeks to avoid the automatic ratcheting effects of following benchmark levels of salary.</p>	<p>Salary increases will ordinarily be in line with salary increases across the Group. The Committee may award increases above this level where this is warranted due to a change in the scope or responsibilities of the role, to reflect progression in the role (e.g., staged increases for a recent appointment) or to remain competitive in the market. Current base salary levels are disclosed on page 52.</p>	Not applicable.
<p>Benefits</p> <p>The Company provides a market competitive benefits package for Executive Directors to support in the ability to recruit and retain the best talent.</p>	<p>Executive Directors are entitled to a car allowance (or other car benefit), transport costs, private health provision, life assurance, an allowance towards the cost of independent financial advice, normal staff discount entitlement and, in certain cases, a telephone allowance. Executive Directors are also entitled to participate in the all employee share save schemes (and any other all employee share plan which the Company may operate) on the same terms as all other UK-based employees. The Committee reviews benefit provision from time-to-time and retains flexibility to add or remove benefits if necessary to ensure that benefit provision remains market competitive or to meet the operational needs of the business (for example through the payment of relocation expenses).</p>	<p>The maximum car allowance is currently £24,000. The cost to the Company of providing other benefits depends on the nature of the benefit and can vary from year to year. Benefit provision will be maintained at a level which is competitive.</p>	Not applicable.
<p>Pension benefits</p> <p>The Company provides a market competitive retirement provision for Executive Directors which is aligned with retirement benefits available throughout the Group.</p>	<p>Executive Directors are entitled to membership of the Group's cash balance pension arrangement known as the Morrisons Retirement Saver Plan. Individuals contribute 5% of capped base salary and all new eligible employees are automatically enrolled into this arrangement. A 10% cash salary supplement in lieu of Company pension contributions applies on base salary above the capped amount.</p> <p>A cash alternative to pension provision is provided where the Group's standard pension provision is not appropriate, for example, where an Executive Director has reached the Lifetime Allowance. Executive Directors may elect to receive this cash salary supplement in lieu of pension of broadly the same value as would accrue on an annual basis in the pension plan.</p>	<p>The Morrisons Retirement Saver Plan guarantees a value of the cash balance in the plan of 24% of pensionable pay (assuming retirement at age 65 years) adjusted for inflation capped at 2% p.a.</p> <p>A maximum 10% cash salary supplement applies above capped base salary.</p> <p>Where an Executive Director receives a cash salary supplement only, the maximum supplement payable is 25% of salary.</p>	Not applicable.

Remuneration policy table *continued*

Executive Directors

Element and how it supports strategy	Operation	Opportunity	Performance measures and period
<p>Annual bonus</p> <p>Annual bonus awards are designed to incentivise and reward achievement of the Group's short term financial and strategic objectives and personal performance objectives.</p> <p>Compulsory deferral is designed to encourage retention and further align the interests of the Executive Directors with shareholders.</p>	<p>Bonus awards are made annually subject to a mix of financial and non-financial performance measures. Achievement of each performance element is assessed independently and the level of payout is determined by the Committee after the end of the relevant financial year.</p> <p>50% of any bonus payable is paid in cash with the other 50% deferred in shares under the deferred share bonus plan, normally for a period of three years. The Committee has discretion to allow a higher level of deferral.</p> <p>Dividend equivalents accrue over the vesting period and are paid at the time of vesting on the number of shares that vest.</p>	<p>The maximum bonus potential for Executive Directors is 200% of base salary.</p> <p>The number of shares subject to the deferred award is determined by reference to the bonus and the share price on the date of award.</p>	<p>Annual bonus awards are subject to the following performance measures:</p> <ul style="list-style-type: none"> • 60% is based on underlying profit before tax performance; • 20% is linked to achievement of a number of strategic corporate scorecard measures; and • 20% is linked to achievement of personal objectives. <p>The measures and weightings are set by the Committee on an annual basis and each element is assessed independently at the end of each year. Achievement of threshold performance will result in a payout of 20% of the underlying profit element (i.e., 12% of the maximum bonus potential).</p> <p>Achievement of one of the strategic corporate scorecard measures or one of the personal objectives is regarded as threshold performance for that element.</p> <p>Deferred share awards are not subject to any further performance conditions. Awards will normally vest three years after the date of award but may be forfeit if the individual leaves employment before the vesting date.</p>
<p>LTIP</p> <p>Awards under the LTIP are designed to incentivise and reward achievement of the Group's long term strategic objectives and creation of value for shareholders through execution of the strategy.</p>	<p>Awards are made annually subject to performance measures set by the Committee, which are aligned with business strategy and the Group's stated KPIs.</p> <p>Achievement of each element is assessed independently.</p> <p>Awards will normally vest three years after the award is made. The Committee retains discretion to introduce a holding period which would apply after the award has vested.</p> <p>Dividend equivalents accrue over the performance period and are paid at the time of vesting on the number of shares that vest.</p>	<p>The maximum annual individual award level under the plan is 300% of salary.</p> <p>The current annual award level for Executive Directors is 240% of salary.</p>	<p>LTIP awards are subject to the following performance measures:</p> <ul style="list-style-type: none"> • 50% is based on cumulative free cash flow; • 30% is based on underlying earnings per share (EPS); and • 20% is based on total sales. <p>Achievement of threshold performance will ordinarily result in vesting of 25% of each element with 100% vesting for maximum performance. However, the Committee has discretion to reduce the level of vesting at threshold.</p> <p>A return on capital employed (ROCE) underpin applies to the vesting of the total LTIP award.</p> <p>LTIP awards granted prior to 2014 are subject to the following performance measures:</p> <ul style="list-style-type: none"> • 75% is based on growth in underlying EPS relative to RPI; and • 25% is based on like-for-like non-fuel sales relative to the Institute of Grocery Distribution (IGD) index. <p>Achievement of threshold performance will result in vesting of 25% of each element with 100% vesting for maximum performance.</p> <p>No award can vest under the like-for-like sales element unless the threshold EPS target has been met.</p> <p>For all awards, the Committee has the discretion to adjust the vesting calculations as set out in the notes to the policy table below.</p>

Clawback and malus

Following changes to the UK Corporate Governance Code announced in September 2014, the Committee agreed to incorporate clawback into the Company's incentive plans in addition to the existing malus provisions in the Company's DSBP and LTIP. The cash element of the annual bonus and vested LTIP awards may be clawed back in the following circumstances:

- material misstatement of results;
- gross misconduct;
- reputational damage; and/or
- performance assessment error.

Clawback provisions will apply for three years following payment of a cash bonus (malus already applies to the deferred share element for a three year period) and two years following vesting of an LTIP award (i.e. five years from grant). The first awards which will be subject to the clawback provisions are annual bonus plan awards made in respect of 2015/16 (paid in early 2016) and any LTIP awards granted in the 2015/16 financial year.

Malus provisions (which also apply in respect of earlier awards) apply in certain circumstances which include financial misstatement or similar acts that bring the business in disrepute.

Directors' remuneration report

Implementation of remuneration policy in 2015/16

Base salary

Annual base salaries for the Executive Directors are set out below:

	2015/16	2014/15
D Philips ¹	£850,000	£850,000
D Potts ²	£850,000	-
T Strain	£525,000	£489,600

¹ D Philips stepped down as CEO on 16 February 2015.

² D Potts will be appointed as CEO on 16 March 2015.

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 for 2015, the Committee took into account the considerable progress made in the CFO role in the two years since his appointment, his substantial contribution to the business in this time of transition, and current positioning against market data. The Committee determined that it was appropriate to increase his salary with effect from 2 February 2015 to £525,000, representing an increase of 7%. The Committee believes that further increases may be required to appropriately reflect his progress and contribution but prefers for such increases to be staged over time.

Benefits and pension

The Executive Directors will receive benefits and a pension salary supplement in line with the current Policy. David Potts and Trevor Strain receive a pension salary supplement of 25% and 24% of base salary, respectively.

David Potts will receive relocation benefits to support his immediate start with the business following appointment.

Annual bonus

The structure of the bonus, including maximum potential (200% of salary) and the requirement to defer 50% of any bonus in shares under the DSBP, is in line with Directors' remuneration policy (extract set out on page 51).

The performance measures and weightings for the Executive Directors are as follows:

	Weightings (% of maximum bonus opportunity)
Underlying profit before tax	50%
Strategic scorecard	30%
Personal objectives	20%

Underlying profit before tax targets are set by reference to internal budgets.

Scorecard measures for 2015/16 will focus on strategic objectives in the areas of like-for-like sales growth (20%) and cost reduction (10%).

Personal objectives will underpin the strategic objectives.

Detail on the performance targets has not been disclosed as this information is regarded by the Directors as commercially sensitive and of value to competitors beyond the end of the performance period.

Dalton Philips will not be eligible for any bonus in respect of 2015/16.

LTIP

The LTIP awards for David Potts and Trevor Strain for 2015 will be 300% and 240% of salary respectively. David Potts' 2015 award is intended to provide an immediate performance driver and alignment with shareholders. Thereafter LTIP awards will revert to the normal level of 240%.

It is intended to make LTIP awards in April 2015 following the announcement of 2014/15 results, in line with the normal grant cycle for the Company. The Committee considers that the new CEO should have an incentive interest in Morrisons shares from the earliest opportunity ensuring that his interests are aligned to shareholders.

The performance targets for the 2015 LTIP award should be aligned with Morrisons strategy and be meaningful and robust. In this transitional period the Committee believes that it is important to allow David Potts time to assess the business and provide his input into the formation of the long term business plan under his leadership. We therefore intend to wait until the outcome of this process before setting targets for the 2015 award, and we will revert to shareholders at this time. We expect this to be by the time of the interim results announcement in September.

Chairman and Non-Executive Director fees

Base fees and fees for Committee chairmanship and membership are unchanged for 2015/16 at £60,000, £20,000 and £4,000 (per Committee) respectively. The fee for the Senior Independent Director is also unchanged at £20,000. Andrew Higginson joined the Board as Deputy Chairman and Chairman Elect in October 2014 with a base fee of £200,000. On succeeding Sir Ian Gibson as Chairman, his base fee became £400,000.

Directors' remuneration report

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 2014/15 and the comparative figure for 2013/14.

	2014/15						2013/14					
	Salary/fees £000	Benefits ¹ £000	Annual bonus £000	LTIP £000	Pension benefits ² £000	Total £000	Salary/fees £000	Benefits ¹ £000	Annual bonus £000	LTIP/ restricted share award £000	Pension benefits £000	Total £000
Executive Directors												
D Philips	850	28	1,010 ⁵	–	213	2,101	850	26	– ³	–	213	1,089
T Strain ⁴	490	28	602 ⁵	–	118	1,238	415	23	182 ⁵	–	92	712
Non-Executive Directors												
I Gibson	463 ⁶	–	–	–	–	463	375	2	–	–	–	377
A Higginson ⁷	94	–	–	–	–	94	–	–	–	–	–	–
P Cox	108	–	–	–	–	108	99	–	–	–	–	99
R Gillingwater	76	–	–	–	–	76	66 ⁸	–	–	–	–	66
P Hughes	92	–	–	–	–	92	85	–	–	–	–	85
J Waterous	92	–	–	–	–	92	88	–	–	–	–	88

¹ Taxable benefits for the Executive Directors include a car allowance (or other car benefit), transport costs, private health provision, life assurance and, in certain cases, a telephone allowance. The Executive Directors are eligible for an allowance towards the cost of independent financial advice. The Chairman and Deputy Chairman have use of a car and driver for Company business and receive private health provision. All Directors receive the Company's normal staff discount entitlement which is not taxable. The value of Sharesave awards granted in 2014/15 is also included in this figure.

² D Philips received a salary supplement equal to 25% of base salary during the year. T Strain received a salary supplement of 24% of base salary during the year.

³ D Philips declined to be considered for an annual bonus in 2013/14.

⁴ T Strain was appointed to the Board on 10 April 2013. The comparative figures disclosed for 2013/14 for salary, taxable benefits, annual bonus and pension benefits are for the period following appointment to the Board.

⁵ 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.

⁶ Sir Ian Gibson stepped down at the Board meeting on 22 January 2015. The figure disclosed includes a payment in lieu of notice of 3 months (£93,750) payable under his letter of appointment dated 30 September 2010. During this period, Sir Ian Gibson agreed to be available to carry out activities on behalf of the Group.

⁷ A Higginson was appointed to the Board on 1 October 2014. The figure disclosed includes fees in respect of his induction period (including legal costs) which commenced on 1 September 2014.

⁸ R Gillingwater was appointed to the Board on 1 March 2013. The figure disclosed for 2013/14 for salary is for the period following appointment to the Board.

CEO arrangements on loss of office

Dalton Philips stepped down as CEO on 16 February 2015.

Dalton's notice period commenced on 13 January 2015 and he was paid his normal base salary and contractual benefits up to the date of cessation on 16 February 2015. In accordance with his contractual entitlements, Dalton will receive phased payments in lieu of base salary, pension supplement and benefits for the remainder of his 12 month notice period. These payments are being made in instalments and are subject to mitigation.

The Remuneration Committee carefully considered the circumstances of Dalton's departure, taking into account his contribution to the business through a period of significant industry change, as well as the importance of ensuring a smooth transition. Against that background, the Committee agreed to exercise its discretion to treat Dalton as a good leaver for the purposes of his incentive awards in accordance with the remuneration policy approved by shareholders at the 2014 AGM. As a good leaver, the Committee agreed that:

- Dalton would remain eligible for an annual bonus in respect of 2014/15. Performance against the applicable performance conditions is set out on page 51.
- Dalton will not be eligible for a bonus in respect of 2015/16.
- Dalton's 237,592 deferred shares (including dividend equivalents) will vest in full in March 2015 in accordance with the rules of the DSPB. These relate to his annual bonus in respect of 2011/12.
- The unvested LTIP awards granted to Dalton in 2013 and 2014 will vest on the normal vesting date (three years from the date of grant) subject to achievement of the applicable performance conditions and a time pro-rata reduction. The maximum number of shares under award after reduction for time pro-rating are 2013: 550,999 and 2014: 269,696. As noted elsewhere in this report, the performance conditions for the 2012 award were not met and this award therefore lapsed.

Directors' remuneration report

Annual report on remuneration *continued*

Annual bonus

The chart below summarises the performance measures and weightings for the annual bonus for the Executive Directors in respect of 2014/15. A summary of performance in each area and bars which illustrate the performance against the performance ranges are also provided for each measure.

	Weighting	Performance in the range				% of max achieved	
		Below	Threshold	Target	Maximum	CEO	CFO
Underlying PBT	60%	[Bar from Below to Target]					60%
Strategic scorecard	20%						
- Convenience	2.5%	[Bar from Below to Below]					0%
- Online	2.5%	[Bar from Below to Target]					50%
- Operating cash-flow	5%	[Bar from Below to Maximum]					100%
- Cost savings	5%	[Bar from Below to Threshold]					40%
- Like-for-like sales	5%	[Bar from Below to Threshold]					24%
Personal	20%	[Bar from Below to Target]					70%
						80%	
Total (% of max)						60%	62%

Additional commentary on this performance is provided below:

- **Underlying PBT.** The target range was built around the objectives which the business set and communicated at the start of the year. Performance was at the target level.
- **Strategic scorecard.** For 2014/15, the strategic scorecard focused on delivery against key elements of the strategy for the year, with targets set in the context of the strategic plan and the current retail environment, and included both financial and operational elements. Further discussion of performance in these areas is set out on pages 10 to 20 of the Annual report. Key highlights include: operating cash flow which delivered strong performance above the maximum target set, good progress on cost savings initiatives and on target operational achievement in the roll out of online capability. Performance in convenience was below expectations resulting in no payout for this element.
- **Personal.** The personal measures are specific to the individual and were designed to support the delivery of our key financial and strategic objectives.

The Directors consider the specific details of the performance targets to contain commercially sensitive information linked to the Company's strategic priorities and internal budgets, which would be potentially valuable to competitors beyond the end of the financial year. The disclosure of such information could therefore damage the Company's competitive position and shareholder value and is therefore not considered appropriate.

50% of any bonus payable is deferred in shares under the DSBP which vest three years after the date of award. Dividend equivalents will accrue and be paid on the shares that vest. These deferred shares are normally forfeited if the individual leaves the Company before they vest. Dalton Philips' bonus for 2014/15 was paid in cash under the terms of his settlement agreement.

LTIP awards

Awards granted under the LTIP in April 2012 are scheduled to vest in April 2015. The performance period relating to these awards ends on 1 February 2015. Details of the performance conditions and the extent to which they have been satisfied are set out below:

	Weighting	Threshold performance required	Maximum performance required ¹	Actual outcome	Actual LTIP vesting (% of maximum)
Performance condition					
Underlying earnings per share (EPS) growth	75%	EPS growth of RPI +4% p.a.	EPS growth of RPI +10% p.a. ¹	EPS growth below threshold of RPI +4% p.a.	0%
Like-for-like non-fuel sales relative to the Institute of Grocery Distribution (IGD) index ²	25%	Matching IGD index over the three year period	Outperformance of IGD index by at least 2% over the three year period ³	Below IGD index over three year period	0%
LTIP vesting (% of maximum)					0%

¹ Vesting is on a straight-line basis between points (RPI + 4%, 5%, 9% and 12%).

² No award can vest under the like-for-like sales element unless the threshold EPS target has been met.

³ Vesting is on a straight-line basis between threshold and maximum.

Share awards granted in 2014/15

The table below sets out the share awards made to the Executive Directors during 2014/15 under the Company's LTIP. No further awards were made during the year.

	Grant date	Award type	Basis on which award made	Face value of award (£) ¹	Percentage of award vesting at threshold performance	Performance period end date	Performance conditions
D Philips	20 June 2014	Conditional award	225% of salary	1,912,500	25%	31 January 2016	See table below
T Strain	20 June 2014	Conditional award	225% of salary	1,101,600	25%	31 January 2016	See table below

¹ The face value in the table above has been calculated by multiplying the maximum number of shares that could vest by the average share price used to determine the number of shares awarded. The average share price used was £1.909 and this was calculated over a period of five business days prior to the date of grant.

The table below sets out the performance conditions attached to the awards made during the year. These awards were granted in June 2014 following shareholder approval of remuneration policy at the 2014 AGM.

Measure	Weighting (% of maximum award)	Targets
Cumulative free cash flow	50%	25% of the free cash flow element vests for achieving cumulative free cash flow of £1bn over the three year performance period 100% vests for achieving cumulative free cash flow of £2bn over the three year performance period ¹
Underlying earnings per share (EPS)	30%	25% of the underlying EPS element vests for achieving underlying EPS of 17p for the financial year 2016/17 100% vests for achieving underlying EPS of 23p for the financial year 2016/17 ¹
Total sales (excluding fuel and VAT)	20%	25% of the total sales element vests for achieving total sales of £14bn for the financial year 2016/17 50% vests for achieving total sales of £14.4bn for the financial year 2016/17 100% vests for achieving total sales of £15bn for the financial year 2016/17 ²

¹ Vesting is on a straight-line basis between threshold and maximum.

² Vesting is on a straight-line basis between points.

The Committee will take account of the Group's ROCE over the performance period. If the Committee is not satisfied with ROCE performance over the period it will retain discretion to adjust outcomes downward.

For the free cash flow measure, the Committee has set maximum and minimum 'guardrails' for maintenance expenditure and cumulative net proceeds from property sales over the performance period. When considering vesting against the free cash flow measure, the Committee will review and adjust as appropriate in the event of operation outside the agreed parameters. The Committee will disclose these parameters and any decision taken to adjust outcomes retrospectively in the relevant Annual report on remuneration. It should be noted that decisions in relation to material property sales and expenditure on maintenance and infrastructure are taken by the Board as a whole.

For the revenue targets, as set out in the Directors' Remuneration Policy, the Committee will retain the discretion to adjust the targets in the event of material disposals or store closures during the performance period which were not taken into account in setting the target range.

The Committee has discretion to adjust these calculations for material exceptional events or actions (which may include strategic changes to capital expenditure approved by the Board and material acquisitions or disposals) which were not in the contemplation of the Committee at the time the targets were set and which might otherwise materially distort the outcome, in order to ensure that vesting of the LTIP is an accurate and fair reflection of performance. If the Committee exercises its discretion to amend the calculation, a full disclosure of the reason for the amendment and an explanation of the impact will be given in the relevant Annual report on remuneration.

Payments to past Directors and loss of office payments

Sir Ian Gibson received a payment of £93,750 in lieu of notice of three months payable under his letter of appointment dated 30 September 2010. During this period, Sir Ian Gibson agreed to be available to carry out activities on behalf of the Group. No other payments (including loss of office payments) have been made during 2014/15 to any individual who was previously a Director of the Company.

Directors' remuneration report

Annual report on remuneration *continued*

Statement of Directors' shareholding

The Company has share ownership guidelines for Executive Directors of 200% of salary. Under the guidelines, Executive Directors are expected to retain 50% of vested share awards (net of tax), including shares from the deferred element of the annual bonus, until the guideline is reached. Shares held under the DSBP (calculated on a post-tax basis) which are subject only to a continuing service requirement will be included in assessing the level of shareholding. The shareholding guideline should be reached within five years of appointment to the Board.

The Company has share ownership guidelines for Non-Executive Directors of 50% of base fees. This guideline should be reached within three years of appointment to the Board or three years after the date of adoption of the policy for incumbent Directors.

Dalton Philips has fully complied with the shareholding requirement in respect of the share awards that have vested since he was appointed in March 2010. No share awards have vested for Trevor Strain since his appointment to the Board.

Trevor Strain does not yet meet the 200% shareholding guideline but is within the five year period allowed to build up his shareholding. Dalton Philips stepped down as CEO on 16 February 2015.

Directors' shareholdings – Executive Directors

	Shareholding requirement (% salary)	Shareholding as at 1 February 2015 ¹ (% salary) ²	Shares owned outright	Deferred shares not subject to performance	Share save options not subject to performance	LTIP shares subject to performance ³	Total interests in shares
Executive Directors							
D Philips	200%	98%	337,919	237,592	5,487	1,836,251 ⁴	2,417,249
T Strain	200%	26%	39,341	50,180	5,487	988,276	1,083,284

¹ Includes shares held under the DSBP on an after tax basis.

² For the purpose of calculating the shareholding as a percentage of salary, the share price of £1.799 as at 30 January 2015 (the last trading day of the financial year ended 1 February 2015) has been used (other than for shares purchased in the market which are valued at the acquisition price).

³ 834,523 shares and 411,281 shares represent LTIP awards granted to D Philips and T Strain respectively in April 2013 which are due to vest in April 2016. 75% of the awards are linked to underlying earnings per share (EPS) growth targets (25% of this element vests at growth of RPI +1% p.a. and 100% vests at growth of RPI +10% p.a.). 25% of the awards are linked to like-for-like non-fuel sales relative to the Institute of Grocery Distribution (IGD) index (25% of this element vests for matching the index; 80% vests for outperforming the index by at least 0.8% and 100% vests for outperforming the index by at least 2% over the three year period). Vesting is on a straight-line basis between each of the points. No award can vest under the like-for-like sales element unless the threshold EPS target has been met. 1,001,728 shares and 576,995 shares represent LTIP awards granted to D Philips and T Strain respectively in June 2014 which are due to vest in June 2017. Performance targets for those awards are disclosed in the section headed 'Share awards granted in 2014/15'.

⁴ Following his departure on 16 February 2015, the remaining LTIP shares subject to performance for Dalton Philips are 820,695 as at 11 March 2015.

Directors' shareholdings – Non-Executive Directors

All Non-Executive Directors are still within the three year period allowed to build up their shareholding. Shareholdings as at 1 February 2015 are set out in the table below.

	1 February 2015 Total (owned outright)
P Cox	25,000
A Higginson	266,209
I Gibson ¹	127,750
R Gillingwater	19,695
P Hughes	9,848
J Waterous	20,216

¹ Sir Ian Gibson retired on 22 January 2015. The shareholding shown is as at that date.

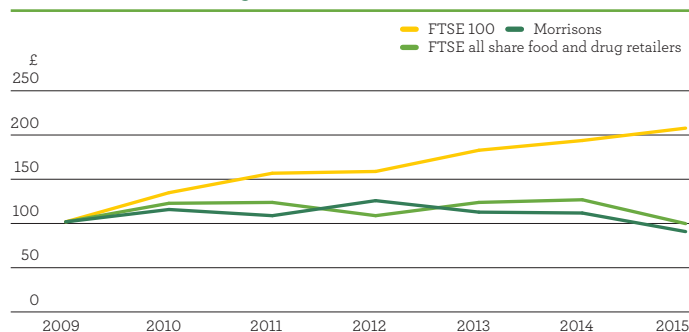
There have been no changes in the Directors' interests since the year end.

Unaudited information

Performance graph and table

The graph below shows the Company's total shareholder return (TSR) compared with the TSR of the FTSE 100 and FTSE food and drug retailers indices over the six year period to 1 February 2015. These indices have been selected as being appropriate in giving a broad equity view and the Company is a constituent of both indices.

Value of a £100 holding



The table below sets out the total remuneration figure for the CEO over the same six year period, valued using the methodology applied to the single total figure of remuneration.

	Chief Executive	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Total remuneration (£000s)	Dalton Philips	-	3,328 ¹	2,502	1,089	1,089	2,101
	Marc Bolland	1,159	304	-	-	-	-
Annual bonus payment (% of maximum opportunity)	Dalton Philips	-	70%	90%	0%	0%	60%
	Marc Bolland	0% ²	-	-	-	-	-
LTIP vesting level achieved (% of maximum opportunity)	Dalton Philips	-	-	-	0%	0%	0%
	Marc Bolland	-	-	-	-	-	-

¹ Total remuneration includes value of unrestricted share award over 319,401 shares and restricted share award over 120,965 shares granted on recruitment.

² Marc Bolland was not treated as a good leaver and therefore did not receive a bonus in 2009/10.

Change in remuneration of CEO compared to Group employees

The table below sets out the change in total remuneration paid to the CEO from 2013/14 to 2014/15 and the average percentage change from 2013/14 to 2014/15 for employees of the Group as a whole.

	% increase in element between 2013/14 and 2014/15		
	Salary and fees	Taxable benefits	Annual bonus
D Philips	0%	0%	n/a¹
All Group employees ²	2%	2%	130%³

¹ D Philips declined to be considered for an annual bonus in 2013/14.

² Reflects the change in average pay for all Group employees employed in both the financial year 2013/14 and the financial year 2014/15.

³ Represents the increase in the average bonus payout for eligible employees.

Relative importance of spend on pay

The table below sets out the total spend on remuneration in the 2014/15 and 2013/14 financial years compared with distributions to shareholders.

(£m)	2014/15	2013/14	Difference
Total spend on remuneration for all Group employees	£1,970m	£1,972m	(£2m)
Profit distributed by way of dividends and share buyback	£308m	£336m	(£28m)

The Committee and its advisers

During the year, the following individuals were members of the Remuneration Committee:

Name of Director	Membership	
	From	To
J Waterous (Chairman)	1 Feb 2010	To date
P Cox	1 Apr 2009	To date
I Gibson	1 Sept 2007	To date
R Gillingwater	1 Mar 2013	To date
A Higginson	22 Jan 2015	To date
P Hughes	1 Jan 2010	To date

The CEO, the Group Human Resources Director and other HR representatives also attend meetings (other than where their own remuneration is being discussed) by invitation. The Company Secretary acts as secretary to the Committee.

Directors' remuneration report

Annual report on remuneration *continued*

PricewaterhouseCoopers LLP (PwC) stepped down as advisers to the Committee following the decision to appoint them as auditor to the Group. Total fees for advice provided to the Committee during 2014/15 prior to them stepping down were £28,400.

Following a competitive tender process, the Committee appointed Deloitte LLP (Deloitte) in July 2014 to provide independent external advice on market practice and Executive and Non-Executive remuneration. Fees are agreed by the Committee according to services provided. Total fees paid during 2014/15 to Deloitte for advice and assistance in relation to remuneration matters were £79,250.

Deloitte are also engaged from time-to-time to provide a range of unrelated human resource consulting services and advice on tax and accounting. The Chairman of the Committee monitors such engagements on an ongoing basis to ensure that there is no impact on Deloitte's independence as adviser to the Committee. Deloitte and PwC are members of the Remuneration Consultants Group and signatories to its Voluntary Code of Conduct. The Committee is satisfied that the advice received during the year from both PwC and Deloitte is objective and independent.

Allen & Overy LLP provided legal advice to the Committee on the leaving arrangements for the Chairman and CEO. Fees paid for this advice during 2014/15 totalled £14,080.

Allen & Overy LLP also provide other legal advice and services to the Group.

Statement of voting at 2014 AGM

The table below shows the voting outcome at the June 2014 AGM for approval of the 2013/14 Remuneration report and Remuneration policy respectively.

	Votes for	For as a % of votes cast	Votes against	Against as a % of votes cast	Abstentions
Remuneration report	1,381,444,825	89.10	169,058,218	10.90	40,652,834
Remuneration policy	1,142,938,356	73.46	412,940,651	26.54	35,276,870

The Committee recognises that Morrisons has a diverse mix of shareholders who can have different views on a range of issues, including executive remuneration. In advance of the approval of the remuneration policy at the 2014 AGM, the Committee consulted widely with institutional shareholders and investor representative bodies and received broad support from those consulted. While the level of support for the Remuneration Policy indicates some shareholder concerns, the Committee also notes that the majority of Morrisons top 20 shareholders voted in favour of the Policy. Where shareholders vote against our remuneration resolutions, the Committee is committed to listening to them and engaging with them to understand their concerns as part of an ongoing dialogue.

Johanna Waterous

Chairman of the Remuneration Committee
11 March 2015

Directors' report

Statutory disclosures

The following disclosures have been included elsewhere within the Annual report and are incorporated into the Directors' report by reference.

Disclosure	Page
Financial instruments	103 to 104
Financial risk management	103
Future developments	2 to 33
Dividend	82
Greenhouse gas emissions	25
Corporate governance report	36 to 46
Directors of the Company	37
Employee involvement	22 to 23
Going concern	44

Political donations

No political donations were made, which is Group policy.

Forward-looking statements

The Strategic report and Directors' report are prepared for the members of the Company and should not be relied upon by any other party or for any other purpose. Where the Strategic report and Directors' report include forward-looking statements, these are made by the Directors in good faith based on the information available to them at the time of their approval of the Annual report.

Consequently, such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying such forward-looking statements and information.

The liabilities of the Directors in connection with the Strategic report, the Directors' remuneration report and the Directors' report shall be subject to the limitations and restrictions provided by the Companies Act 2006.

Borrowing powers

The Articles of Association of the Company restrict the borrowings of the Company and its subsidiary undertakings to a maximum amount equal to twice the share capital and consolidated reserves.

Relating to beneficial owners of shares with 'information rights'

Beneficial owners of shares who have been nominated by the registered holder of those shares to receive information rights under section 146 of the Companies Act 2006 are required to direct all communications to the registered holder of their shares rather than to the Company's registrar, Capita Registrars, or to the Group directly.

Directors' and Officers' liability insurance

The Company maintains insurance cover for the protection of Directors and senior management from personal liabilities and costs which may arise in the course of fulfilling their duties. The Company also agreed during the year to provide an indemnity to the Non-Executive Directors for such liabilities and costs to the fullest extent permitted by law.

Substantial shareholdings

The company has been notified by the following shareholders (excluding Directors) that they have interests in 3% or more of the total voting rights in the Company. The shares relate to the number informed by the shareholders on the notification rather than the current share register:

	As at 1 February 2015		As at 11 March 2015	
	Number of shares	% of share capital	Number of shares	% of share capital
Black Rock Inc	122,022,032	5.23	122,022,032	5.23
Schroeders plc	119,757,406	5.13	119,757,406	5.13
Majedie Asset Management Limited	118,752,647	5.09	118,752,647	5.09
Silchester International Investors LLP	117,553,329	5.04	117,553,329	5.04
Brandes Investment Partners, LP	117,121,738	5.02	117,121,738	5.02
Amerprise Financial Inc	116,763,649	5.00	116,763,649	5.00
First Eagle Investment Management, LLC	114,296,273	4.90	114,296,273	4.90
Invesco Limited	111,082,524	4.76	111,082,524	4.76
Andrea Shelley	92,869,309	3.98	92,869,309	3.98
Eleanor Kernighan	92,182,396	3.95	92,182,396	3.95
Zurich Financial Services	81,286,130	3.48	81,286,130	3.48

The percentage appearing above is the percentage that number represents of the issued share capital of the Company as at 1 February 2015 and 11 March 2015 respectively.

Additional shareholder information

Additional information for shareholders is required by the implementation of the EU Takeover Directive into UK law.

Pursuant to section 992 of the Companies Act 2006, the Company is required to disclose certain additional information. Such disclosures, which are not covered elsewhere in this report, include the following paragraphs. The disclosures set out below are in some cases a summary of the relevant provisions of the Company's Articles of Association and the relevant full provisions can be found in the Articles which are available for inspection at the Company's registered office.

Appointment and powers of Directors

Directors are appointed by ordinary resolution at a general meeting of ordinary shareholders. The Directors have the power to appoint a Director during the year, but any person so appointed must be put up for appointment at the next AGM.

Subject to its Articles of Association and relevant statutory law, and to such direction as may be given by the Company in general meeting by special resolution, the business of the Company shall be managed by the Directors, who may exercise all powers of the Company which are not required to be exercised by the Company in general meeting.

Directors' report

Statutory disclosures *continued*

Articles of Association

The Company's Articles of Association may only be amended by a special resolution at a general meeting of shareholders.

Share capital

The authorised and called-up share capital of the Company, together with details of shares allotted and cancelled during the year, are shown in note 6.5 of the Group financial statements.

At the AGM of the Company held in June 2012, a special resolution was passed to renew the authority given at the AGM held in June 2011 for the purchase by the Company of up to 248,797,066 ordinary shares representing approximately 10% of the issued ordinary share capital at that time. During the prior period, the Company purchased 20,338,000 of its own shares pursuant to that authority, which expired at the close of the 2013 AGM.

During the period, 41,962 (2014: 8,811,865) ordinary shares were issued to employees exercising share options, along with a further nil (2014: 2,770,220) out of the Group's treasury shares and 3,031,234 out of the Group's trust shares.

Share capital and rights attaching to the Company's shares

Under the Company's Articles of Association, any share in the Company may be issued with such rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise as the Company may from time-to-time by ordinary resolution determine (or, in the absence of any such determination, as the Directors may determine).

At a general meeting of the Company, every member has one vote on a show of hands and, on a poll, one vote for each share held. The notice of general meeting specifies deadlines for exercising voting rights either by proxy or present in person in relation to resolutions to be passed at a general meeting.

No member is, unless the Board decides otherwise, entitled to attend or vote either personally or by proxy at a general meeting, or to exercise any other right conferred by being a shareholder if they or any person with an interest in shares has been sent a notice under section 793 of the Companies Act 2006 (which confers upon public companies the power to require information with respect to interests in their voting shares) and they or any interested person failed to supply the Company with the information requested within 14 days after delivery of that notice. The Board may also decide that no dividend is payable in respect of those default shares and that no transfer of any default shares shall be registered. These restrictions end seven days after receipt by the Company of a notice of an approved transfer of the shares or all the information required by the relevant section 793 notice, whichever is the earlier.

The Directors may refuse to register any transfer of any share which is not a fully paid share, although such discretion may not be exercised in a way which the Financial Conduct Authority regards as preventing dealings in the shares of the relevant class or classes from taking place on an open or proper basis. The Directors may likewise refuse to register any transfer of a share in favour of more than four persons jointly. The Company is not aware of any other restrictions on the transfer of shares in the Company other than certain restrictions that may from time-to-time be imposed by laws and regulations (for example, insider trading laws).

The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities or voting rights.

Distributions

As noted in the Annual report and financial statements for the year ended 2 February 2014, the Directors were advised that certain distributions (including share repurchases) carried out in the years ended 3 February 2013 and 2 February 2014 were made otherwise than in accordance with the Companies Act 2006. At a general meeting of the Company's shareholders, held on 6 March 2015, a resolution was passed which ratified the payment of the relevant dividends, authorised the re-execution of the relevant share repurchases and removed any right for the Company to pursue shareholders or Directors for the repayment of the relevant funds. The overall effect of this resolution being passed is to return all parties to the position that they would have been in had the relevant distributions been made in accordance with the Companies Act 2006.

Other disclosures

The Company is not party to any significant arrangements which take effect, alter or terminate upon a change of control of the Company following a takeover bid.

The Company does not have any employee share schemes where the shares to which the scheme relates have rights with regard to the control of the Company which are not exercisable by employees.

Equal opportunities for all

Integral to a high performing culture is the concept of equal opportunity for all colleagues, which we offer regardless of race, colour, nationality, ethnic origin, gender (including gender reassignment), marital or civil partnership status, disability, religion or belief, sexual orientation, age or trade union membership.

This includes applications for employment made by people with disabilities, which are given full and fair consideration. Respect underpins our behaviour towards all disabled candidates, as well as colleagues who have a disability or become disabled in any way during the course of their employment.

A full assessment of the individual's needs is undertaken and we will make reasonable adjustments to the work environment or practices in order to help people with disabilities.

All candidates and colleagues are treated equally in respect of recruitment, promotion, training, pay and other employment policies and conditions. The decisions we make are based on relevant merits and abilities.

Health and safety policy

It is the Group's intention, so far as is reasonably practicable, to ensure the health, safety and welfare of all its employees, customers and visitors to its premises. In order to achieve this, a comprehensive health and safety manual is in place for each division of the Company and subsidiary companies within the Group. Each health and safety manual contains the policy and procedures for complying with the Health and Safety at Work Act 1974, including the provision, based on risk assessment, of safe working practices for all work activities across the Group. The Group's health and safety policy is approved by the Management Board. The Group has adopted the national targets set by the Health and Safety Commission for the reduction of workplace accidents and work-related ill health, and is on course to meet or exceed these targets. Health and safety performance is monitored to ensure continuous improvement in all areas.

By order of the Board

Mark Amsden
Company Secretary
11 March 2015

Directors' report

Statement of Directors' responsibilities in respect of the Annual report and financial statements

The Directors are responsible for preparing the Annual report, the Directors' remuneration report and the Group and Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Company financial statements for each financial period. Under that law they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and applicable law and have elected to prepare the Company financial statements in accordance with UK Generally Accepted Accounting Practice (UK Accounting Standards and applicable law).

Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of their profit or loss for that period. In preparing each of the Group and Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the Company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Company financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that its financial statements and Directors' remuneration report comply with the Companies Act 2006, and as regards the Group financial statements, Article 4 of the IAS Regulations. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Disclosure of information to auditors

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Group's auditor is unaware; and each Director has taken all steps that he or she ought to have taken as a Director to make himself or herself aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

Assessment of whether the Annual report is fair, balanced and understandable

As required by the Code, the Directors confirm that they consider that the Annual report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

When arriving at this position the Board was assisted by a number of processes including the following:

- the Annual report is drafted by appropriate senior management with overall coordination by the Chief Financial Officer to ensure consistency across sections;
- an extensive verification process is undertaken to ensure factual accuracy; and
- comprehensive reviews of drafts of the report are undertaken by members of the Management Board and other senior management; and the final draft is reviewed by the Audit Committee prior to consideration by the Board.

Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and its subsidiaries included in the consolidation as a whole; and
- the Strategic report includes a fair review of the development of the business and the position of the Company and its subsidiaries included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board

Mark Amsden
Company Secretary
11 March 2015

Independent auditors' report to the members of Wm Morrison Supermarkets PLC

Report on the Group financial statements

Our opinion

In our opinion:

- Wm Morrison Supermarkets PLC's Group financial statements and Company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Company's affairs as at 1 February 2015 and of the Group's loss and cash flows for the 52 week period then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

What we have audited

Wm Morrison Supermarket PLC's financial statements comprise:

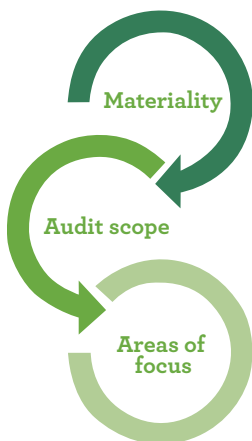
- the consolidated and Company balance sheet as at 1 February 2015;
- the consolidated statement of comprehensive income for the 52 week period then ended;
- the consolidated cash flow statement for the 52 week period then ended;
- the consolidated statement of changes in equity for the 52 week period then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report and Financial Statements ("Annual Report"), rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our audit approach

Overview



Materiality

- Overall Group materiality: £17.25m which represents 5% of underlying profit before tax. Underlying profit before tax is defined in note 1.4 to the financial statements on page 78.

Audit scope

- We conducted the majority of our audit work in the UK, with a small amount of work undertaken by a component auditor in the Isle of Man. A separate PwC component audit team undertook work on the UK Manufacturing subsidiaries.
- Taken together, the territories and functions where we performed our audit work accounted for 99% of Group revenues.

Areas of focus

- Commercial income and promotional funding
- Impairment of property, plant and equipment
- Onerous lease provisions and onerous property commitments
- Capitalisation and impairment of intangible assets
- Stock valuation

The scope of our audit and areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (“ISAs (UK & Ireland)”).

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as “areas of focus” in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Area of focus	How our audit addressed the area of focus
<p>Commercial income and promotional funding</p> <p>Refer to note 1.1 (Accounting policies), page 75 (Critical accounting estimates and judgements) and notes 1.6, 5.2, 5.3 and 5.4.</p> <p>The Group has two categories of commercial income: marketing and advertising funding and volume based rebates on purchases.</p> <p>Commercial income is recognised as a deduction from cost of sales and is earned over the period of the contractual agreements with individual suppliers, as disclosed in the Group’s accounting policy on page 76. The total income recognised in a year is therefore based on the expected entitlement earned up to the balance sheet date under each supplier agreement.</p> <p>The Group separately recognises promotional funding on promotions that are partially funded by suppliers.</p> <p>Promotional funding is an automated deduction from cost of sales, triggered when a sale is recognised. The funding is recognised when the transaction occurs in accordance with the terms of supplier agreements. The amount receivable is wholly based on sales volumes achieved, multiplied by rates agreed with each supplier up-front.</p> <p>We focused on commercial income because of the significance of the amounts to the Group’s gross profit, the significant number of transactions and agreements in place with suppliers covering a range of periods and the industry-wide focus on this area of accounting.</p> <p>We focused on promotional funding for the same reasons, although we acknowledge that the level of judgement and subjectivity in the calculations is negligible because of the level of automation.</p> <p>The amount to be recognised in the income statement for commercial income requires management to apply judgement based on the contractual terms in place with each of its suppliers together with estimates of amounts the Group is entitled to where transactions span the financial period-end.</p> <p>The relative level of judgement in each of the categories of commercial income and promotional funding is considered below:</p>	<p>Our audit work in respect of commercial income and promotional funding comprised a combination of controls testing, substantive testing of a sample of income and funding recognised during the period, testing of amounts recognised in the balance sheet and an assessment of the Group’s disclosures in this area. Each element of our work is considered in more detail below.</p> <p>Controls testing</p> <p>Our controls work encompassed understanding, evaluating and testing management’s key controls in respect of the recognition of both commercial income and promotional funding. These key controls included the monitoring of invoices raised and the accuracy of confirmations from suppliers. We found no significant deficiencies in these key controls, and our testing of management’s key system controls contributed to our evidence in determining whether commercial income and promotional funding had been recorded appropriately and in the correct period.</p> <p>Income statement testing</p> <p>We requested confirmations directly from suppliers, in respect of a sample of commercial income and promotional funding. This sample included 141 different suppliers covering 342 individual transactions. The confirmations received allowed us to evaluate whether commercial income or promotional funding had been appropriately recognised in the period, as well as assessing the validity of accruals made at the period-end. We found three exceptions, all of which were manual input errors and not areas of judgement. Two of these exceptions resulted in an under recognition of promotional funding of £34,000 and one resulted in an over recognition of promotional funding of £20,000, giving a net position of £14,000 under recognition.</p> <p>We also analysed commercial income and promotional funding recognised each month and compared it to the previous period to identify whether there were any unusual trends in the amounts or timing of commercial income and promotional funding recognised in each period. We also considered management’s own Key Performance Indicators in this analysis. No unusual trends were identified.</p> <p>Balance sheet testing</p> <p>We wrote to a further sample of suppliers, and obtained independent evidence of the value and timing of commercial income and promotional funding to evaluate that it had been recognised in the correct period. We also agreed the accrued income to evidence of post-year end cash receipt, or offset from trade creditors, where relevant.</p> <p>We performed cut-off procedures and credit note testing to provide further evidence to support the timing of the recognition of both commercial income and promotional funding. Cut-off work involved testing a sample of commercial income and promotional funding recognised both pre and post the period-end and evaluating by reference to documentation from suppliers that the timing of recognition was appropriate.</p>

Independent auditors' report to the members of Wm Morrison Supermarkets PLC *continued*

Area of focus

Commercial income - marketing and advertising funding

This income is varied with regards to the nature and timing of the activity to which it relates, and is recognised in accordance with written agreements with suppliers.

This income involves a significant number of agreements and its recognition requires limited judgement or estimation by management in determining the amount that the Group is entitled to. Our focus was therefore on assessing whether a written agreement for the marketing and advertising funding existed, whether the relevant marketing or advertising had taken place and whether the income recognised was recorded in the appropriate period.

Commercial income - volume based rebates

Volume based rebates are driven by the Group achieving purchase volume targets set by individual suppliers for specific products over a pre-determined period. There is therefore judgement involved in estimating the volume of purchases, particularly where rebate agreements span a financial period-end. In order to narrow this judgement, management endeavours to structure agreements to coincide with the Group's financial period-end, thereby reducing or eliminating the degree of estimation.

In instances where the rebate agreement does not fully coincide with the period-end the key judgement that we focused on was the estimate of commercial income to be accrued at the period-end.

Promotional funding

Promotional funding covers in-store promotions which are partially funded by suppliers. Funding is automatically recognised as goods are sold. The degree of judgement is limited because the amount receivable is wholly based on sales volumes achieved, multiplied by rates agreed with each supplier up-front. Our focus was therefore on whether a written agreement for the promotional funding existed, whether the relevant promotion had taken place, and whether the funding recognised was recorded in the appropriate period.

Impairment of Property, Plant and Equipment

Refer to note 3.1 (Accounting policies), page 75 (Critical accounting estimates and judgements) and note 3.3 (Tangible assets).

At 1 February 2015 management assessed the Group's property, plant and equipment for an indication of impairment. The UK grocery retail market continues to evolve rapidly, with customers' purchasing habits adapting to include convenience store and online offerings, and this has adversely impacted the market values of traditional supermarket freehold stores. As such, the Group has faced an environment where market values for retail space have declined.

How our audit addressed the area of focus

Our credit note testing focused on credit notes raised after the period-end in order to identify any instances of commercial income or promotional funding being subsequently reversed. We did not identify any exceptions from this work.

We tested the recoverability of invoiced commercial income and promotional funding (unsettled balances included within trade debtors in note 5.3 to the financial statements and where the Group does not have the right of offset against trade creditors). We assessed the ageing of both outstanding commercial income and promotional funding debtors together with understanding the details of any disputes, and obtained explanations from management to assess whether any provisions were appropriate. No exceptions were noted.

Disclosures

We read the disclosures within the Annual Report in respect of commercial income and promotional funding and, based on our work, determined that they are consistent with accounting standards and the recent guidance on the reporting of complex supplier arrangements issued by the Financial Reporting Council.

We obtained, understood and evaluated management's impairment models.

Our audit procedures included a detailed evaluation of the Group's budgeting procedures (upon which forecasts are based) and an assessment of the principles of management's discounted cash flow models. We tested the mathematical accuracy of the calculations derived from each forecast model and assessed key inputs in the calculations such as revenue growth and discount rate, by reference to management's forecasts, data external to the Group and our own expertise. We focused on these key assumptions because small subjective changes can have a material impact on the value in use assessment and any resultant impairment charge. We found, based on our audit work, that the key assumptions used by management were supportable and appropriate in light of the current environment.

Area of focus	How our audit addressed the area of focus
<p>Management considers each store to be a cash generating unit (“CGU”) and has calculated the recoverable amount of each CGU as the higher of value in use and fair value less costs of disposal. The value in use is based on discounted future cash flow forecasts over which the Directors make judgements on certain key inputs including, for example, discount rates and long term growth rates. The fair value less costs of disposal is estimated by the Directors based on their knowledge of individual stores and the markets they serve, likely demand from grocers or other retailers in the event those stores were for sale and is further informed by a valuation performed by a third party valuer. The key judgements made by management in this fair value calculation relate to the estimated rental values and the yields of the stores.</p> <p>We focused on this area because of these judgemental factors, the significant carrying value of freehold property and the size of management’s impairment charge of £1,113m in the year.</p>	<p>Management has determined their own view of estimated rental values and yields for each store which are the key assumptions used in their calculation of market values. Management derived these assumptions having considered available information such as industry data on market conditions, offers recently received for properties and information from an independent third party valuer. We evaluated management’s supporting information, including the third party valuation, and assessed this for reasonableness using our own property expertise, with a particular focus on the assumptions and methodology used and obtained third party evidence and market data to corroborate the assumptions. We determined that the valuations performed by management are reasonable.</p> <p>We note that models used by management are sensitive to changes in key assumptions such as rental values and yields, revenue growth and discount rate which, if not achieved, could reasonably be expected to give rise to further impairment charges in the future.</p> <p>We also evaluated the competency, qualifications, experience and objectivity of management’s property valuation experts.</p> <p>In addition, we evaluated the adequacy of the disclosures made in note 3.3 of the financial statements, including those regarding the key assumptions and sensitivities to changes in such assumptions. We compared the disclosures against the requirements of IAS 36 ‘Impairment of assets’ and found them to be consistent.</p>
<p>Onerous lease provisions and onerous property commitments</p> <p>Refer to note 5.1 (Accounting policies), page 75 (Critical accounting estimates and judgements) and note 5.5.</p> <p>Accounting standards require management to assess the Group’s leasehold stores to identify where the expected future benefits from a store are less than the future lease commitments, indicating that an onerous lease provision is required. Under IAS 37 ‘Provisions, contingent liabilities and contingent assets’ such a provision is made for the unavoidable costs of the contract, defined in the standard as the “least net cost of exit.”</p> <p>We focused on this area because of the judgements required to be made by management in identifying those stores requiring an onerous lease provision and the assumptions used in the models, such as the discount rate and those used in developing the associated cash flow forecasts.</p>	<p>Having considered the possibility of impairment in the value of freehold properties (see above), we also challenged management’s calculations in respect of leasehold stores where the estimated future benefits are not expected to exceed the future lease commitments, resulting in an onerous lease.</p> <p>We obtained management’s models and considered the accuracy and completeness of key data by agreeing inputs such as store locations and lease expiry dates for a sample of stores to the original signed lease agreements, noting no issues.</p> <p>We evaluated the Group’s budgeting procedures (upon which forecasts are based) and assessed the principles of the Group’s discounted cash flow model. We tested the mathematical accuracy of the calculation derived from each forecast model and assessed key inputs in the calculations such as revenue growth and discount rate, by reference to management’s forecasts, data external to the Group and our own expertise. The discount rate used is consistent with the Group’s cost of debt and the requirements of IAS 37, which specifies that the rate should be ‘liability specific’.</p> <p>We also considered the disclosures made in note 5.5 to the financial statements and determined that they are consistent with the requirements of accounting standards.</p>

Independent auditors' report to the members of Wm Morrison Supermarkets PLC *continued*

Area of focus

Capitalisation and impairment of intangible assets

Refer to note 3.2 (Accounting policies) and page 75 (Critical accounting estimates and judgements).

The Group balance sheet includes capitalised intangible assets of £520 million, of which £496 million relates to software development costs incurred in connection with the Group's IT systems transformation project, details of which are shown on page 87 of the Annual Report. The Group has developed a significant amount of its own software and systems which is used in the business.

We focused on this area because of the significance of the costs capitalised and the fact that there is judgement involved in assessing whether the criteria, set out in accounting standards, required for capitalisation of such costs have been met, including the likelihood of the project delivering sufficient future economic benefits. Where the costs incurred are internally generated (for example employee costs) there is further judgement required in the calculation, such as the amount of time spent on the projects.

In light of the development of new software and systems, we also focused on whether the carrying value of existing capitalised software or systems was impaired.

How our audit addressed the area of focus

We obtained a breakdown of each individual internal development project capitalised in the period and reconciled this to the amounts recorded in the general ledger, identifying no significant reconciling differences.

We tested a sample of costs capitalised in the period to assess whether these had been appropriately treated in line with the Group's accounting policy and accounting standards, most notably IAS 38 'Intangible assets'. We also met with management responsible for particular costs to obtain explanations and an understanding of the projects the costs related to. This enabled us to independently assess whether project costs met the criteria for capitalisation as set out in accounting standards. We found the explanations obtained from management to be consistent with our understanding of developments in the business and supported management's assessment that the costs met the relevant capitalisation criteria.

Where external third party contractors were used, we agreed the hours and charge out rates to the invoices issued by the contractor, and assessed whether the costs were directly related to a capital project.

To determine whether internal employee costs were directly attributable to projects, we obtained listings of hours worked on individual projects for the employment costs capitalised. We selected a sample of the individual hours recorded and obtained an understanding of the work performed by the employee. We also checked that the hours charged equated to the value of costs capitalised by comparing the proportion of costs capitalised to the employee's salary, without exception.

We challenged management as to whether the development of new software or systems superseded or impaired any of the existing assets on the balance sheet. We also applied our own understanding of both new and existing projects and considered whether, in our view, any existing software is no longer in use or whether its life had been shortened by development activity. We found no such items. In performing this testing, we also re-visited the assumptions made by management in the prior period and compared them to actual outcomes in the current period, with no significant variances being identified by our work.

We performed analytical procedures on the amortisation charge to assess compliance with the Group's accounting policy, and determined that the charge incurred in the period was in-line with this policy.

Overall we found that the costs capitalised were supportable and consistent with the requirements of accounting standards for capitalising such costs. No material impairment of the intangible assets was identified from our work.

We also considered whether the disclosures made in note 3.2 to the financial statements met the requirements set out in accounting standards and noted no issues.

Area of focus	How our audit addressed the area of focus
<p>Stock valuation</p> <p>Refer to note 5.1 (Accounting policies), page 75 (Critical accounting estimates and judgements) and note 5.2.</p> <p>The valuation of stock was focused on because of the nature of the judgements made by management when assessing the level of provisions required. As disclosed in note 5.1 to the financial statements, provisions are held against stock for estimated losses related to shrinkage and obsolescence as well as a deduction for unearned commercial income (as the stock related to that commercial income and promotional income has yet to be sold).</p> <p>As stock is counted by the Group on a cyclical basis, rather than in full at the period-end date, the shrinkage provision at 1 February 2015 contains a degree of estimation.</p>	<p>We attended stock counts throughout the period at a sample of the Group's supermarkets, convenience stores, distribution centres and manufacturing locations. In addition to performing sample test counts, we assessed the effectiveness of the count controls in operation at each site. We also evaluated the results of other cycle counts performed by management and third parties throughout the period to assess the level of count variances.</p> <p>We tested the shrinkage assumptions determined by the count procedures by comparing them to historical data. The historical data included the results of the last three counts at each location, and our analytical procedures did not identify any significant unusual fluctuations in the data.</p> <p>The obsolescence provision is calculated by applying a judgemental percentage to the period-end stock levels, with this judgement being informed by historical data on the levels of obsolescence as well as management's view of the current stock profile and age. We assessed this provision by assessing the accuracy of the historical data and the explanations provided by management on the current profile, noting no issues.</p> <p>We tested the unearned commercial income deduction by performing a recalculation using the profile of period-end stock and the trends of commercial income historically received, with no issues noted.</p>

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group's accounting process is structured around a group finance function at its head office in Bradford. Within the head office, supporting finance functions exist for each of the key business operating areas (Group, Supermarkets (including Manufacturing) and Property), and these report to the Group finance team as appropriate. The Group also maintains local finance teams at each of its key Manufacturing sites. Other than group reporting from a component audit team from a PwC member firm in the Isle of Man auditing specific account balances only, and from a component team from the UK firm auditing the complete financial information of a UK Manufacturing subsidiary, both of which operated under our instructions, all work was conducted in the UK by the same audit team. Our work also included, in this our first year as the Group's auditors, a review of the predecessor auditor working papers.

Where the work was performed by the component auditor, we determined the level of involvement we needed to have in their audit work to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole. As part of our year-end audit procedures, we held detailed discussions with the Isle of Man and UK Manufacturing component audit teams, including holding a detailed planning meeting with them and attending the audit clearance meeting with management by conference call (Isle of Man) or in person (UK Manufacturing).

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall group materiality	£17.25m
How we determined it	5% of underlying profit before tax (defined in note 1.4 to the financial statements on page 78).
Rationale for benchmark applied	We applied this benchmark because, in our view, this is the most relevant metric against which the performance of the Group is most commonly measured.

We agreed with the Audit Committee that we would report to them all individual misstatements identified during our audit above £875,000, as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Independent auditors' report to the members of Wm Morrison Supermarkets PLC *continued*

Going concern

Under the Listing Rules we are required to review the Directors' statement, set out on page 44, in relation to going concern. We have nothing to report having performed our review.

As noted in the Directors' statement, the Directors have concluded that it is appropriate to prepare the financial statements using the going concern basis of accounting. The going concern basis presumes that the Group and the Company have adequate resources to remain in operation, and that the Directors intend them to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate.

However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's and Company's ability to continue as a going concern.

Other required reporting

Consistency of other information

Companies Act 2006 opinions

In our opinion:

- the information given in the Strategic Report (on pages 2 to 33) and the Directors' Report (on pages 59 to 61) for the financial period for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate Governance Statement set out on pages 36 to 46 with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements.

ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

- | | |
|--|--|
| <ul style="list-style-type: none"> information in the Annual Report is: <ul style="list-style-type: none"> – materially inconsistent with the information in the audited financial statements; or – apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group and the Company acquired in the course of performing our audit; or – otherwise misleading. | <p>We have no exceptions to report arising from this responsibility.</p> |
| <ul style="list-style-type: none"> the statement given by the Directors on page 61, in accordance with provision C.1.1 of the UK Corporate Governance Code ("the Code"), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's and Company's performance, business model and strategy is materially inconsistent with our knowledge of the Group and Company acquired in the course of performing our audit. | <p>We have no exceptions to report arising from this responsibility.</p> |
| <ul style="list-style-type: none"> the section of the Annual Report on page 41, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee. | <p>We have no exceptions to report arising from this responsibility.</p> |

Adequacy of information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- We have no exceptions to report arising from this responsibility.

Directors' remuneration

Directors' remuneration report – Companies Act 2006 opinion

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Other Companies Act 2006 reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Corporate governance statement

Under the Companies Act 2006 we are required to report to you if, in our opinion, a corporate governance statement has not been prepared by the Company. We have no exceptions to report arising from this responsibility.

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the Company's compliance with ten provisions of the UK Corporate Governance Code. We have nothing to report having performed our review.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 61, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's and Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Steve Denison (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
11 March 2015

- (a) The maintenance and integrity of the Wm Morrison Supermarkets PLC website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
- (b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



Consolidated statement of comprehensive income

52 weeks ended 1 February 2015

	Note	2015 £m	2014 £m
Revenue	1.2	16,816	17,680
Cost of sales		(16,055)	(16,606)
Gross profit		761	1,074
Other operating income		78	81
Profit/loss on disposal and exit of properties and sale of businesses	1.4, 4.6	135	9
Administrative expenses		(1,670)	(1,259)
Operating loss	1.6	(696)	(95)
Finance costs	6.2	(105)	(87)
Finance income	6.2	7	5
Share of profit of joint venture (net of tax)	4.3	2	1
Loss before taxation		(792)	(176)
Analysed as:			
Underlying profit before tax		345	719
Impairment and onerous lease provisions	1.4	(1,273)	(903)
Profit/loss on disposal and exit of properties	1.4	131	9
Profit arising on disposal of Kiddicare.com Limited	1.4, 4.6	4	-
Net pension interest income/(cost)	8.2	1	(1)
		(792)	(176)
Taxation	2.2	31	(62)
Loss for the period attributable to the owners of the Company		(761)	(238)
Other comprehensive (expense)/income			
Items that will not be reclassified to profit or loss:			
Remeasurement of defined benefit pension schemes	8.2	(31)	11
Tax on defined benefit pension schemes	2.3	6	(8)
		(25)	3
Items that may be reclassified subsequently to profit or loss:			
Cash flow hedging movement		(9)	-
Tax on cash flow hedging movement	2.3	2	(1)
		(7)	(1)
Other comprehensive (expense)/income for the period, net of tax		(32)	2
Total comprehensive expense for the period attributable to the owners of the Company		(793)	(236)
Earnings per share (pence)			
- basic	1.5	(32.63)	(10.23)
- diluted	1.5	(32.63)	(10.23)

Consolidated balance sheet

1 February 2015

	Note	2015 £m	2014 £m
Assets			
Non-current assets			
Goodwill and intangible assets	3.2	520	458
Property, plant and equipment	3.3	7,252	8,625
Investment property	3.5	68	119
Net pension asset	8.2	4	-
Investment in joint venture	4.3	68	66
Investments	4.4	31	31
		7,943	9,299
Current assets			
Stock	5.2	658	852
Debtors	5.3	239	316
Derivative financial assets	7.3	6	1
Cash and cash equivalents	6.4	241	261
		1,144	1,430
Non-current assets classified as held-for-sale	3.4	84	-
		1,228	1,430
Liabilities			
Current liabilities			
Creditors	5.4	(2,221)	(2,272)
Short term borrowings	6.3	(11)	(553)
Derivative financial liabilities	7.3	(18)	(10)
Current tax liabilities		(23)	(38)
		(2,273)	(2,873)
Non-current liabilities			
Borrowings	6.3	(2,508)	(2,480)
Derivative financial liabilities	7.3	(50)	(36)
Deferred tax liabilities	2.3	(415)	(430)
Net pension liabilities	8.2	(43)	(11)
Provisions	5.5	(288)	(207)
		(3,304)	(3,164)
Net assets			
		3,594	4,692
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	616	1,714
Total equity attributable to the owners of the Company		3,594	4,692

The notes on pages 75 to 112 form part of these financial statements.

The financial statements on pages 71 to 112 were approved by the Board of Directors on 11 March 2015 and were signed on its behalf by:

Trevor Strain
Chief Financial Officer

Consolidated cash flow statement

52 weeks ended 1 February 2015

	Note	2015 £m	2014 £m
Cash flows from operating activities			
Cash generated from operations	5.6	970	1,031
Interest paid		(106)	(91)
Taxation received/(paid)		10	(220)
Net cash inflow from operating activities		874	720
Cash flows from investing activities			
Interest received		4	2
Investment in joint venture		–	(66)
Proceeds from the sale of property, plant and equipment and businesses		450	34
Purchase of property, plant and equipment and investment property		(385)	(835)
Purchase of intangible assets		(135)	(185)
Net cash outflow from investing activities		(66)	(1,050)
Cash flows from financing activities			
Purchase of own shares for cancellation	6.5	–	(53)
Purchase of own shares for trust	6.5	(8)	–
Proceeds from exercise of share options, including issues from treasury shares	6.5	–	28
New borrowings		296	790
Net repayment of revolving credit facility		(256)	(100)
Repayment of other borrowings		(550)	(57)
Dividends paid to equity shareholders	1.8	(308)	(283)
Net cash (outflow)/inflow from financing activities		(826)	325
Net decrease in cash and cash equivalents			
Cash and cash equivalents at start of period		258	263
Cash and cash equivalents at end of period	6.4	240	258

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

	Note	2015 £m	2014 £m
Net decrease in cash and cash equivalents		(18)	(5)
Cash outflow from decrease in debt		806	157
Cash inflow from increase in borrowings		(296)	(790)
Other non-cash movements		(15)	2
Opening net debt		(2,817)	(2,181)
Closing net debt	6.4	(2,340)	(2,817)

Consolidated statement of changes in equity

52 weeks ended 1 February 2015

	Note	Attributable to the owners of the Company						Total equity £m
		Share capital £m	Share premium £m	Capital redemption reserve £m	Merger reserve £m	Hedging reserve £m	Retained earnings £m	
Current 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

	Note	Attributable to the owners of the Company						Total equity £m
		Share capital £m	Share premium £m	Capital redemption reserve £m	Merger reserve £m	Hedging reserve £m	Retained earnings £m	
Prior period								
At 4 February 2013		235	107	37	2,578	(14)	2,287	5,230
Loss for the period		-	-	-	-	-	(238)	(238)
Other comprehensive income/(expense):								
Pension remeasurement	8.2	-	-	-	-	-	11	11
Tax in relation to components of other comprehensive income	2.3	-	-	-	-	(1)	(8)	(9)
Total comprehensive expense for the period		-	-	-	-	(1)	(235)	(236)
Shares purchased for cancellation	6.5	(2)	-	2	-	-	(53)	(53)
Employee share option schemes:								
Issue of shares and utilisation of treasury shares	6.5	1	20	-	-	-	7	28
Share-based payments	1.7	-	-	-	-	-	6	6
Dividends	1.8	-	-	-	-	-	(283)	(283)
Total transactions with owners		(1)	20	2	-	-	(323)	(302)
At 2 February 2014		234	127	39	2,578	(15)	1,729	4,692

General information

Company information

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

Basis of preparation

The financial statements have been prepared for the 52 weeks ended 1 February 2015 (2014: 52 weeks ended 2 February 2014) in accordance with International Financial Reporting Standards (IFRS) and International Financial Reporting Standards Interpretation Committee (IFRS IC) interpretations as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. IFRS and IFRS IC interpretations are issued by the International Accounting Standards Board (the IASB) and must be adopted into European Union law, referred to as endorsement, before they become mandatory under the IAS Regulation.

The financial statements have been prepared on a going concern basis. The Directors' assessment of going concern has been considered within the Corporate governance report on page 44.

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

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

Accounting reference date

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

The following amendments to standards are mandatory for the first time for the financial period ended 1 February 2015:

IFRS 10 Consolidated financial statements

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 required management to exercise judgement to determine which entities are controlled and therefore are required to be consolidated. The Group has applied IFRS 10 retrospectively in accordance with the transition provisions of IFRS 10. There is no material impact on the Group as a result of applying this standard.

IFRS 11 Joint arrangements

Under IFRS 11, investments in joint arrangements are classified either as joint operations or joint ventures, depending on the contractual rights and obligations each investor has rather than the legal structure of the joint arrangement. Before 2 February 2014, the Group's interest in its jointly controlled entity, MHE JVCo Limited, was accounted for using the equity method. Under IFRS 11, the jointly controlled entity has been assessed to be a joint venture and so the equity method continues to be appropriate.

New IFRS and amendments to IAS and interpretations

There are a number of standards and interpretations issued by the IASB that are effective for financial statements after this reporting period, including IFRS 9 Financial instruments and IFRS 15 Revenue from contracts with customers, both of which are effective for annual periods beginning on or after 1 January 2017.

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

Basis of consolidation

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

As described in note 4.6, the Group disposed of its investment in Kiddicare.com Limited on 11 July 2014. This subsidiary has been deconsolidated from that date.

Foreign currencies

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

Critical accounting judgements and estimates

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

- Commercial income (note 1.1, 1.6, 5.2, 5.3, 5.4);
- Impairment of property, plant and equipment, and intangible assets and onerous property commitments (note 1.4, 3.1, 3.2, 3.3);
- IT systems (note 3.2);
- Stock (note 5.1, 5.2); and
- Taxation (note 2.1, 2.2, 2.3).

These are also described within the Corporate governance report on page 41 to 43.

Notes to the Group financial statements

52 weeks ended 1 February 2015

1 Performance in the period

1.1 Accounting policies

Revenue recognition

Sale of goods in-store and online, and fuel

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

Other sales

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

Match & More and other initiatives

The fair value of Match & More and other initiatives is determined to be the value to the customer of the points issued, adjusted for factors such as the expected redemption rate. Given Match & More was launched in the year the Group will continue to assess the appropriateness of the rates against actual redemptions going forward.

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

Cost of sales

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

Promotional funding

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

Commercial income

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

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

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

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

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

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

1 Performance in the period *continued*

1.1 Accounting policies *continued*

Other operating income

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

Profit/loss on disposal and exit of properties

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

1.2 Revenue analysis

	Like-for-like sales	Other	2015 Total £m	2014 Total £m
Sale of goods in stores and online	12,639	360	12,999	13,434
Fuel	3,521	55	3,576	3,984
Total store-based and online sales	16,160	415	16,575	17,418
Other sales	-	241	241	262
Total revenue	16,160	656	16,816	17,680

1.3 Segmental reporting

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

The Group is required to determine and present its operating segments based on the way in which financial information is organised and reported to the chief operating decision-maker (CODM). The CODM has been identified as the Management Board as it is this Board that makes the key operating decisions of the Group, is responsible for allocating resources and assessing performance.

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

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

Reconciliations of reportable segment revenues, profit or loss, assets and liabilities and other material items

Performance is measured by the CODM based on underlying profit before tax as reported in the management accounts. Management believes that this underlying profit measure is the most relevant in evaluating the results of the Group to its peers. This information and the reconciliation to the statutory position can be found in note 1.4. In addition, the management accounts present a Group balance sheet containing assets and liabilities. This balance sheet is as shown within the Consolidated balance sheet.

Notes to the Group financial statements *continued*

52 weeks ended 1 February 2015

1 Performance in the period *continued*

1.4 Underlying profit

The definition of underlying profit has been amended to include new business development costs as they are considered to be ongoing activities and part of the Group's underlying business. The underlying profit reconciliation for the comparative period presented below has been restated to reflect this change. This has resulted in a decrease in post-tax underlying profit from amounts previously reported last year of £49m (pre-tax: £66m).

The amendment of the definition has resulted in the following changes to underlying profit in the comparative period:

	2014	
	Pre-tax £m	Post-tax £m
Restated underlying profit	719	537
New business development costs	66	49
Underlying profit as previously reported	785	586

The Directors consider that the underlying profit and underlying adjusted earnings per share measures referred to in the results provide useful information for shareholders on underlying trends and performance. The adjustments are made to reported loss to (a) remove impairment, onerous lease provisions, or other similar items that do not relate to the Group's principal activities on an ongoing basis; (b) remove profit/loss arising on disposal and exit of properties and sale of businesses; (c) apply a normalised tax rate of 26.1% (2014: 25.3%); and (d) remove the impact of pension interest volatility.

	2015 £m	Restated 2014 £m
Loss after tax	(761)	(238)
Add back: tax (credit)/charge for the period ¹	(31)	62
Loss before tax	(792)	(176)
Adjustments for:		
Impairment and onerous lease provisions ¹	1,273	903
Profit/loss arising on disposal and exit of properties ^{1,2}	(131)	(9)
Profit on disposal of Kiddicare.com Limited (note 4.6) ¹	(4)	-
Net pension interest (income)/cost (note 8.2) ¹	(1)	1
Underlying profit before tax	345	719
Normalised tax charge at 26.1% (2014: 25.3%) ¹	(90)	(182)
Underlying profit after tax	255	537
Underlying earnings per share (pence)		
- basic (note 1.5.2)	10.93	23.08
- diluted (note 1.5.2)	10.89	22.99

¹ Adjustments marked¹ increase post-tax underlying earnings by £1,016m (2014: increase £775m), as shown in the reconciliation of earnings disclosed in note 1.5.2.

² Included within profit/loss arising on disposal and exit of properties is a charge of £19m relating to the closure of ten stores and six convenience stores.

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

- impairment and onerous lease provisions adjustment has been included within administrative expenses;
- profit/loss arising on disposal and exit of properties and profit on disposal of Kiddicare.com Limited are classified within profit/loss arising on disposal and exit of properties and sale of businesses; and
- net pension interest (income)/expense is classified within finance income/costs in the Consolidated statement of comprehensive income.

1 Performance in the period *continued*

1.4 Underlying profit *continued*

2014/15 impairment

Impairment and onerous lease provisions in 2014/15 consist of £1,273m in relation to trading stores, of which £1,116m is impairment, £118m is onerous lease provisions, £30m relates to onerous commitments and £9m relates to lease premiums.

2013/14 impairment

Impairment and onerous lease provisions in 2013/14 consisted of £379m in relation to trading stores, £319m in relation to the property pipeline (which consists of undeveloped land), £163m in respect of Kiddicare and £42m of other costs.

The trading stores' costs of £379m consisted of £330m impairment and £49m onerous leases. Pipeline costs of £319m included impairment of £90m and a further £229m in respect of onerous leases and capital contracts. Charges in respect of Kiddicare consisted of £24m of goodwill, £12m brand, £70m impairment and £57m onerous lease provisions. Other impairments of £42m principally included £27m write off of the costs incurred in the development of our own food online offer which was no longer required as a result of our arrangement with Ocado.

1.5 Earnings per share

Basic earnings per share (EPS) is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period. For diluted EPS, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all potentially dilutive ordinary shares.

The Company has two (2014: two) classes of instrument that are potentially dilutive: those share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the period and contingently issuable shares under the Group's long term incentive plans (LTIP).

1.5.1 Basic and diluted EPS (unadjusted)

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

	2015			2014		
	Earnings £m	Weighted average number of shares millions	EPS pence	Earnings £m	Weighted average number of shares millions	EPS pence
Unadjusted EPS						
Basic EPS						
Loss attributable to ordinary shareholders	(761)	2,332.5	(32.63)	(238)	2,327.0	(10.23)
Effect of dilutive instruments						
Share options and LTIPs ¹	-	-	-	-	-	-
Diluted EPS	(761)	2,332.5	(32.63)	(238)	2,327.0	(10.23)

¹ The effect of dilutive instruments would improve basic EPS as total earnings is a loss of £761m (2014: loss of £238m). Diluted EPS cannot exceed basic EPS, therefore the diluted EPS disclosed above has been adjusted so that it equals basic EPS.

Notes to the Group financial statements *continued*

52 weeks ended 1 February 2015

1 Performance in the period *continued*

1.5 Earnings per share *continued*

1.5.2 Underlying EPS

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

	2015			2014		
	Earnings £m	Weighted average number of shares millions	EPS pence	Earnings £m	Weighted average number of shares millions	EPS pence
Underlying EPS (restated)¹						
Basic EPS						
Loss attributable to ordinary shareholders	(761)	2,332.5	(32.63)	(238)	2,327.0	(10.23)
Adjustments to determine underlying profit (note 1.4) (restated) ¹	1,016	–	43.56	775	–	33.31
	255	2,332.5	10.93	537	2,327.0	23.08
Effect of dilutive instruments						
Share options and LTIPs	–	9.0	(0.04)	–	9.0	(0.09)
Diluted EPS (restated)¹	255	2,341.5	10.89	537	2,336.0	22.99

¹ Underlying EPS measures have been restated to reflect the change in definition of underlying earnings as described in note 1.4.

1.6 Operating loss

	2015 £m	2014 £m
The following items have been included in arriving at operating loss:		
Employee costs (note 1.7)	1,970	1,972
Depreciation and impairment:		
– Property, plant and equipment (note 3.3)	315	336
– Investment property (note 3.5)	2	5
– Impairment of property, plant and equipment (note 3.3)	1,113	457
Amortisation and impairment (note 3.2)		
– Intangible assets	70	53
– Impairment of goodwill and intangible assets	3	89
Operating lease rentals:		
– Land and buildings	87	71
– Other	16	12
– Sublease receipts	(6)	(7)
Value of stock expensed	12,875	13,437

1 Performance in the period *continued*

1.6 Operating loss *continued*

Value of stock expensed

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

	2015		2014	
	£m	% of VSE	£m	% of VSE
Commercial income:				
Marketing and advertising funding	291	2.2	280	2.0
Volume-based rebates	134	1.0	116	0.9
Total commercial income	425	3.2	396	2.9

¹ See additional disclosure in notes 5.2, 5.3 and 5.4.

Auditor remuneration

During the period PricewaterhouseCoopers LLP (2014: KPMG Audit Plc), the Group's auditor, provided the following services:

	2015 £m	2014 £m
Audit services		
Fees payable to the Group's auditor for the audit of the Group and the Company financial statements	0.4	0.4
Other services		
Fees payable to the Group's auditor and its associates for other services:		
- the audit of the Group's subsidiaries pursuant to legislation	0.2	0.2
- services relating to taxation	-	0.1
- other services	0.3	0.1
	0.9	0.8

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

1.7 Employees and Directors

	2015 £m	2014 £m
Employee benefit expense for the Group during the period		
Wages and salaries	1,755	1,787
Social security costs	118	121
Share-based payments	11	6
Other pension costs	86	58
	1,970	1,972

Notes to the Group financial statements *continued*

52 weeks ended 1 February 2015

1 Performance in the period *continued*

1.7 Employees and Directors *continued*

	2015 No.	2014 No.
Average monthly number of people, including Directors		
Stores	104,047	111,199
Manufacturing	7,497	7,320
Distribution	5,731	5,996
Centre	2,503	2,888
	119,778	127,403

Directors' remuneration

A detailed analysis of Directors' remuneration, including salaries, bonuses and long term incentives, and the highest paid Director, is provided in the Single total figure of remuneration table, in the audited section of the Directors' remuneration report, which forms part of these financial statements (page 53). There are no Executive Directors (2014: none) who have retirement benefits accruing under any of the Group's defined benefit pension schemes.

Senior management remuneration

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

	2015 £m	2014 £m
Senior managers		
Wages and salaries	37	27
Social security costs	5	4
Share-based payments	2	3
Other pension costs	2	1
	46	35

1.8 Dividends

Amounts recognised as distributed to equity holders in the period:

	2015 £m	2014 £m
Interim dividend for the period ended 1 February 2015 of 4.03p (2014: 3.84p)	94	90
Final dividend for the period ended 2 February 2014 of 9.16p (2013: 8.31p)	214	193
	308	283

The Directors propose a final dividend in respect of the financial period ending 1 February 2015 of 9.62p per share which will absorb an estimated £225m of shareholders' funds. Subject to approval at the AGM, it will be paid on 10 June 2015 to shareholders who are on the register on 8 May 2015.

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

2 Taxation

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

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

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

- The Netherlands: The Group has manufacturing operations in the Netherlands as part of its produce supply chain. Local corporation taxes of £1.9m were paid during 2015 (2014: £2.2m);
- Hong Kong: Offices in Hong Kong were established in 2011 and source many of the Group's non-food products. Local corporation taxes of £0.4m were paid during 2015 (2014: £0.3m); and
- Isle of Man, Jersey and Guernsey: The Group's insurance company is based in the Isle of Man for regulatory reasons, and property assets with a net book value of £44m are held in Jersey and Guernsey as a result of historic acquisitions. All profits in each of these jurisdictions are subject to UK tax.

2.1 Accounting policies

Current tax

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

Deferred tax

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

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

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

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

2.2 Taxation

2.2.1 Analysis of (credit)/charge in the period

	2015 £m	2014 £m
Current tax		
- UK corporation tax	71	153
- overseas tax	4	5
- adjustments in respect of prior periods	(99)	(46)
	(24)	112
Deferred tax		
- origination and reversal of timing differences	1	(12)
- adjustments in respect of prior periods	(8)	30
- impact of change in tax rate	-	(68)
	(7)	(50)
Tax (credit)/charge for the period	(31)	62

Notes to the Group financial statements *continued*

52 weeks ended 1 February 2015

2 Taxation *continued*

2.2 Taxation *continued*

2.2.2 Tax on items charged in other comprehensive expense and equity

	2015 £m	2014 £m
Remeasurements arising in the pension scheme (of which rate change is £nil (2014: £6m))	(6)	8
Cash flow hedges	(2)	1
Total tax on items included in other comprehensive income and equity	(8)	9
Analysis of items charged to other comprehensive income and equity:		
Deferred tax (note 2.3)	(8)	9

2.2.3 Tax reconciliation

The reconciliation below shows how the tax credit of £31m has arisen on loss before tax of £792m.

The tax for the period is higher (2014: higher) than the standard rate of corporation tax in the UK of 21.3% (2014: 23.2%). The differences are explained below:

	2015 £m	2014 £m
Loss before taxation	(792)	(176)
Loss before taxation at 21.3% (2014: 23.2%)	(169)	(41)
Effects of:		
Expenses not deductible for tax purposes	3	4
Disallowed depreciation on UK properties	28	35
Deferred tax on Safeway acquisition assets	(22)	(5)
Profit on property transactions	(4)	1
Impairment and onerous lease provisions not deductible for tax	240	154
Effect of change in tax rate	–	(68)
Other	–	(3)
Adjustments in respect of prior periods	(107)	(15)
Tax (credit)/charge for the period	(31)	62

Factors affecting current and future tax charges

The Group's tax charge has reduced from the prior year. The reduction in the current tax charge reflects the lower underlying profit, whilst elements of the asset impairments announced by the Group are also deductible for tax purposes. The Group also benefited from adjustments in respect of prior periods for which the liability has now been settled with HMRC. The Group's deferred tax liabilities have also reduced year on year, primarily as a result of impairments reducing the carrying value of property assets for which the Group provides for deferred tax.

Legislation to reduce the rate of corporation tax to 20% was included in the Finance Act 2013. The 20% rate will apply from April 2015. Deferred tax is already provided at 20%. There has not been any indication of any further changes in the rate of corporation tax from 20%.

2.3 Deferred tax

	2015 £m	2014 £m
Deferred tax liability	(462)	(472)
Deferred tax asset	47	42
Net deferred tax liability	(415)	(430)

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

2 Taxation *continued*

2.3 Deferred tax *continued*

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

	Property, plant and equipment £m	Pensions £m	Other short term temporary differences £m	Total £m
Current period				
At 3 February 2014	(456)	2	24	(430)
Credited/(charged) to loss for the period	28	-	(21)	7
Credited to other comprehensive income and equity	-	6	2	8
At 1 February 2015	(428)	8	5	(415)
Prior period				
At 4 February 2013	(519)	5	43	(471)
Credited/(charged) to loss for the period	63	5	(18)	50
Charged to other comprehensive income and equity	-	(8)	(1)	(9)
At 2 February 2014	(456)	2	24	(430)

3 Operating assets

3.1 Accounting policies

Intangible assets

Goodwill

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

Brands

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

Software development costs

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

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

Licences

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

Property, plant and equipment

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

Notes to the Group financial statements *continued*

52 weeks ended 1 February 2015

3 Operating assets *continued*

3.1 Accounting policies *continued*

Depreciation rates

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

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

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

Investment property

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

Non-current assets classified as held-for-sale

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

Lessor accounting – operating leases

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

Finance leases

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

Impairment of non-financial assets

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

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

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

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

3 Operating assets *continued*

3.2 Goodwill and intangible assets

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

Included within software development costs are assets under construction of £153m (2014: £175m).

In previous years, fully depreciated assets have been retained in the Group's fixed asset register and included in the table above. In order to provide greater understanding of the Group's annual depreciation charge in the current year, these assets have been removed from both cost and accumulated depreciation.

Goodwill

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

Impairment testing of goodwill

Goodwill of £10m is allocated to the grocery group of CGUs. This group of CGUs has been tested for impairment via the value in use calculation described in note 3.3. The growth rate applied to the period after five years is 2% (2014: 2%).

Software development costs

The cumulative interest capitalised included within software development costs is £36m (2014: £27m). The cost of internal labour capitalised is not material for separate disclosure.

Prior period	Goodwill £m	Brands £m	Software development costs £m	Licences £m	Total £m
Cost					
At 4 February 2013	34	15	406	26	481
Additions	-	-	164	14	178
Interest capitalised	-	-	7	-	7
At 2 February 2014	34	15	577	40	666
Accumulated amortisation and impairment					
At 4 February 2013	-	2	49	15	66
Charge for the period	-	1	46	6	53
Impairment	24	12	52	1	89
At 2 February 2014	24	15	147	22	208
Net book amount at 2 February 2014	10	-	430	18	458

Included within the above is £51m of assets that were fully depreciated. These assets have been removed within the current year disclosure.

Notes to the Group financial statements *continued*

52 weeks ended 1 February 2015

3 Operating assets *continued*

3.2 Goodwill and intangible assets *continued*

Prior year impairment of software development costs, goodwill and brand

As explained in note 1.4, the 2013/14 impairment included £27m write off of the investment in the development of Morrisons own food online offer. Also included is £24m of goodwill which arose on acquisition of Kiddicare, £24m of software development assets, principally relating to Kiddicare, and £12m relating to the Kiddicare brand. A discount rate of 6.5% and a nil growth rate after five years were applied in the value in use calculation underpinning this impairment loss. These assets have subsequently been disposed of in the current year following the sale of Kiddicare.com Limited (note 4.6).

3.3 Property, plant and equipment

	Freehold land £m	Freehold buildings £m	Leasehold land and buildings £m	Plant, equipment, fixtures & vehicles £m	Total £m
Current period					
Cost					
At 3 February 2014	4,046	4,519	1,112	2,673	12,350
Additions at cost	53	107	22	206	388
Interest capitalised	-	2	-	-	2
Transfers to investment properties	-	(4)	-	-	(4)
Transfers to assets held-for-sale	(104)	(237)	(44)	(28)	(413)
Disposals	(6)	(18)	(7)	(17)	(48)
Fully written down assets	-	(39)	(28)	(1,533)	(1,600)
At 1 February 2015	3,989	4,330	1,055	1,301	10,675
Accumulated depreciation and impairment					
At 3 February 2014	211	1,264	355	1,895	3,725
Charge for the period	-	116	27	172	315
Impairment	449	302	214	148	1,113
Transfers to investment properties	-	(3)	-	-	(3)
Transfers to assets held-for-sale	-	(50)	(14)	(26)	(90)
Disposals	-	(14)	(6)	(17)	(37)
Fully written down assets	-	(39)	(28)	(1,533)	(1,600)
At 1 February 2015	660	1,576	548	639	3,423
Net book amount at 1 February 2015	3,329	2,754	507	662	7,252
Assets under construction included above	5	8	1	13	27

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

In previous years, fully depreciated assets have been retained in the Group's fixed asset register and included in the table above. In order to provide greater understanding of the Group's annual depreciation charge in the current year, these assets have been removed from both cost and accumulated depreciation.

Included within the above are leasehold land and buildings held under finance lease with a cost of £319m (2014: £308m) and accumulated depreciation of £22m (2014: £19m).

The cost of financing property developments prior to their opening date has been included in the cost of the asset. The cumulative amount of interest capitalised in the total cost above amounts to £271m (2014: £269m).

3 Operating assets *continued*

3.3 Property, plant and equipment *continued*

Impairment

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

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

- use the actual cash flows for each store in the current year;
- allocate a proportion of the Group's central costs to each store on an appropriate basis;
- project each store's cash flows over the next five years by applying forecast sales and cost growth assumptions;
- project cash flows beyond year five for the remaining useful life of each store by applying a long term growth rate; and
- discount the cash flows using a pre-tax rate of 9.0% (2014: 6.5%). The discount rate takes into account the Group's weighted average cost of capital.

'Fair value less costs of disposal' is estimated by the Directors based on their knowledge of individual stores and the markets they serve and likely demand from grocers or other retailers. The Directors also obtain valuations by store prepared by independent valuers and consider these in carrying out their estimate of fair value less cost of disposal for the purposes of testing for impairment. In determining their valuation, the independent valuers assume an expected rent and yield for each store based on the quality of the asset, local catchment and the store being occupied by a supermarket tenant with a similar covenant to Morrisons.

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

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

Having applied the above methodology and assumptions, the Group has recognised an impairment charge of £1,116m (tangible assets: £1,113m and intangible assets: £3m) during the year (2014: £459m).

An increase of 1% in the discount rate would result in an additional impairment charge of £70m.

Notes to the Group financial statements *continued*

52 weeks ended 1 February 2015

3 Operating assets *continued*

3.3 Property, plant and equipment *continued*

Prior period	Freehold land £m	Freehold buildings £m	Leasehold land and buildings £m	Plant, equipment, fixtures & vehicles £m	Total £m
Cost					
At 4 February 2013	3,994	4,211	1,009	2,340	11,554
Additions at cost	57	308	103	339	807
Interest capitalised	-	10	-	-	10
Transfer to investment properties	(5)	(8)	-	-	(13)
Disposals	-	(2)	-	(6)	(8)
At 2 February 2014	4,046	4,519	1,112	2,673	12,350
Accumulated depreciation and impairment					
At 4 February 2013	98	972	180	1,688	2,938
Charge for the period	-	109	35	192	336
Impairment	113	183	140	21	457
Transfer to investment properties	-	2	-	-	2
Disposals	-	(2)	-	(6)	(8)
At 2 February 2014	211	1,264	355	1,895	3,725
Net book amount at 2 February 2014	3,835	3,255	757	778	8,625
Assets under construction included above	112	43	2	79	236

Included within the above is £1,161m (of which £1,097m relates to plant and equipment) of assets that were fully depreciated. These assets have been removed within the current year disclosure.

As described in note 1.4, the impairment from the prior year related to costs incurred on stores the Group no longer intended to open, trading stores and assets of the Kiddicare business.

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

	2015 £m	2014 £m
At start of period	-	-
Transfers from property, plant and equipment at net book value	323	-
Transfers from investment property at net book value	51	-
Additions	3	-
Disposals	(293)	-
At end of period	84	-

Assets transferred from property, plant and equipment had a cost of £413m and accumulated depreciation of £90m. Assets transferred from investment property had a cost of £77m and accumulated depreciation of £26m.

3 Operating assets *continued*

3.5 Investment property

	2015 £m	2014 £m
Cost		
At start of period	183	189
Additions	1	3
Transfers from property, plant and equipment	4	13
Transfers to assets held-for-sale	(77)	-
Disposals	(3)	(22)
At end of period	108	183
Accumulated depreciation and impairment		
At start of period	64	66
Charge for the period	2	5
Transfers from/(to) property, plant and equipment	3	(2)
Transfers to assets held-for-sale	(26)	-
Disposals	(3)	(5)
At end of period	40	64
Net book amount at end of period	68	119

Included in other operating income is £21m (2014: £26m) of rental income generated from investment properties. At the end of the period the fair value of investment properties, including those held in assets held-for-sale, was £200m (2014: £230m). Investment properties are valued by independent surveyors on a vacant possession basis using observable inputs (fair value hierarchy Level 2).

3.6 Operating leases – lessor

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

	2015 £m	2014 £m
Within one year	26	30
More than one year and less than five years	85	99
After five years	114	140
	225	269

3.7 Capital commitments

	2015 £m	2014 £m
Contracts placed for future capital expenditure not provided in the financial statements (property, plant and equipment and intangible assets)	149	179

Notes to the Group financial statements *continued*

52 weeks ended 1 February 2015

4 Interests in other entities

4.1 Accounting policies

Joint ventures

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

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

Investments

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

Business combinations

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

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

Disposal of subsidiaries

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

4.2 Principal subsidiaries

The Group has taken advantage of the exemption under section 410(2) of Companies Act 2006 by providing information only in relation to subsidiary undertakings whose results or financial position, in the opinion of the Directors, principally affect the financial statements. All of the companies below are registered in England and Wales and the principal area of trading is the United Kingdom. All equity holdings are in ordinary shares.

Subsidiaries of Wm Morrison Supermarkets PLC	Principal activity	Equity holding %
Farmers Boy Limited	Manufacturer and distributor of fresh food products	100
Neerock Limited	Fresh meat processor	100
Wm Morrison Produce Limited	Produce packer	100
Safeway Limited	Holding company	100
Optimisation Developments Limited	Property development	100
Subsidiaries of other Group companies		
Safeway Stores Limited	Grocery retailer	100

In addition to the above, the Company has a number of other subsidiary companies, particulars of which will be annexed to the next annual return.

4 Interests in other entities *continued*

4.2 Principal subsidiaries *continued*

This includes the following overseas subsidiaries:

Overseas subsidiaries of the Group	Country of registration	Principal activity	Equity holding %
Bos Bros Fruit and Vegetables BV	Netherlands	Manufacturer and distributor of fresh food products	100%
Safeway Stores (Gibraltar) Pension Trustees Limited	Gibraltar	Dormant	100%
RP (No. 37) Limited	Jersey	Property development	100%
Stalwart Investments Limited	Jersey	Property holding company	100%
Freehold Investments Limited	Jersey	Property holding company	100%
Lease Securities Limited	Jersey	Property holding company	100%
Maypole Limited	Guernsey	Holding company	100%
Wm Morrison (HK) Limited	Hong Kong	Acquirer of non food products	100%
Farock Insurance Limited	Isle of Man	Insurance captive	100%

4.3 Joint ventures

The Group and Ocado Group plc are sole investors in a company (MHE JV Co), which owns the plant and equipment at the Dordon Customer Fulfilment Centre (CFC) (see note 4.5). Each party owns 50% of the equity of MHE JV Co and decisions regarding MHE JV Co require the unanimous consent of both parties. The Directors have considered the impact of IFRS 11 Joint arrangements, applicable this financial year, and determined that the Group continues to jointly control MHE JV Co.

MHE JV Co	2015 £m	2014 £m
Current assets	24	17
Non-current assets	117	118
Current liabilities	(5)	(17)
Net assets	136	118
Profit	4	2

The Company is also part of a joint venture, with The Great Steward of Scotland Dumfries House Trust, in respect of The Morrisons Farm at Dumfries House Limited, whose principal activity is to farm 859 acres of agricultural land located on the Dumfries House Estate near Cumnock in Ayrshire, Scotland. The Farm's results are immaterial to the Group.

4.4 Investments

	2015 £m	2014 £m
Equity investments at cost	31	31

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

Notes to the Group financial statements *continued*

52 weeks ended 1 February 2015

4 Interests in other entities *continued*

4.5 Business combinations

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

52 weeks ended 2 February 2014

On 24 July 2013 Wm Morrison Produce Limited acquired 51% of the equity of Global Ripeners Limited, a company within Global Pacific group, for £4m cash consideration. This acquisition further expands the Group's manufacturing capability in a key product, bananas. Global Pacific has retained 49% of the issued share capital. As part of the transaction a put and call option has been put in place between the Group and Global Pacific. As a result of the nature of these options, Global Ripeners Limited has been treated as a 100% subsidiary from acquisition, with the stake of Global Pacific being treated as debt. The fair value of the Group's commitment in relation to the 49% shareholding at the date of acquisition is £4m. No goodwill arose on this acquisition and plant and machinery of £4m has been recognised in the Group. Global Ripeners Limited had £4m of cash on acquisition.

On 31 July 2013, Global Ripeners Limited changed its name to Wm Morrison Bananas Limited.

Investment in food online

On 25 July 2013, Morrisons entered into an agreement with Ocado to provide operational and distribution services in relation to Morrisons online grocery offering.

As part of the agreement, Morrisons acquired a Customer Fulfilment Centre (CFC) in Dordon, which is leased back to Ocado under an operating lease. This acquisition has been effected via the purchase of 100% of the equity of Last Mile Developments Limited (LMD), which is controlled by, and becomes a subsidiary of, the Group. The Directors have considered the application of IFRS 3 Business Combinations to this acquisition and concluded that it is not in the scope of this standard. LMD is a single-asset leasing vehicle with no strategic processes and so does not meet the definition of a business. Consequently, the cash consideration paid of £81m has been allocated to Property in the Consolidated balance sheet and Cash flow statement in the prior year.

The Directors have considered the impact of IFRS 10 Consolidated financial statements, applicable this financial year, and determined that the Group continues to control LMD on application of that standard.

On 14 August 2013, LMD changed its name to Firsdel Limited.

In addition, Morrisons entered into a joint venture agreement with Ocado (see note 4.3) and invested £30m in the technology required to operate an online grocery business, which is recognised in the Group's software intangibles (see note 3.2).

4.6 Disposals relating to the Kiddicare business

A charge of £163m (comprising the write off of goodwill £24m, brand £12m, asset impairment £70m and onerous lease provisions £57m) was made last year in respect of the Kiddicare business. On 11 July 2014, the Group disposed of Kiddicare.com Limited to Endless LLP receiving consideration of £2m for the sale of the shares. This resulted in a profit on disposal of £4m. This profit is one-off in nature and so has been excluded from reported underlying profit. As at the year end, seven of the ten leases relating to Kiddicare had been assigned and two leases had been exchanged but not yet completed.

One of these two leases was subsequently assigned in February 2015.

5 Working capital and provisions

5.1 Accounting policies

Stock

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

Trade and other debtors

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

Cash and cash equivalents

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

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

Trade and other creditors

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

Provisions

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

5 Working capital and provisions *continued*

5.2 Stock

	2015 £m	2014 £m
Finished goods	658	852

Included in finished goods is a deduction for unearned elements of commercial income as the stock has not been sold.

5.3 Debtors

	2015 £m	2014 £m
Trade debtors:		
- Commercial income trade debtors	10	21
- Accrued commercial income	37	20
- Other trade debtors	136	147
Less: provision for impairment of trade debtors	(5)	(8)
	178	180
Prepayments and accrued income	51	116
Other debtors	10	20
	239	316

The ageing analysis of trade debtors is as follows:

	2015 £m	2014 £m
Neither past due nor impaired	178	176
Past due but not impaired:		
Not more than three months	-	1
Greater than three months	-	3
Impaired debt	5	8
	183	188

As at 1 February 2015 and 2 February 2014, trade debtors that were neither past due nor impaired related to a number of debtors for whom there is no recent history of default. The other classes of debtors do not contain impaired assets.

As of 5 March 2015, £7m of the £10m commercial income trade debtor balance had been settled and £21m of the £37m accrued commercial income balance had been invoiced and settled.

5.4 Creditors – current

	2015 £m	2014 £m
Trade creditors	1,493	1,568
Less: commercial income due, offset against amounts owed	(96)	(132)
	1,397	1,436
Other taxes and social security payable	96	58
Other creditors	241	315
Accruals and deferred income	487	463
	2,221	2,272

As of 5 March 2015, £83m of the £96m commercial income due above had been offset against payments made.

Notes to the Group financial statements *continued*

52 weeks ended 1 February 2015

5 Working capital and provisions *continued*

5.5 Provisions

	Onerous lease provision £m	Other property provisions £m	Total £m
At 3 February 2014	176	31	207
Charged to profit for the period	118	-	118
Utilised/released during the period	(42)	(2)	(44)
Unwinding of discount	6	1	7
At 1 February 2015	258	30	288

Part of onerous leases relate to sublet and vacant properties, with commitments ranging from one to 58 years. The provision is revised regularly in response to market conditions. During the year, £118m has been charged to onerous lease provisions in respect of the impairment detailed in note 1.4. The utilisation of onerous lease provisions this year mostly relates to the assignment of Kiddicare leases.

The majority of other property provisions relate to a petrol filling station decommissioning reserve for the cost of decommissioning petrol tanks, and provision for dilapidations on leased buildings, for the cost of restoring the asset to its original condition.

5.6 Cash generated from operations

	2015 £m	2014 £m
Loss for the period	(761)	(238)
Net finance costs	98	82
Taxation (credit)/charge	(31)	62
Share of profit of joint venture	(2)	(1)
Operating loss	(696)	(95)
Adjustments for:		
Depreciation and amortisation	387	393
Impairment	1,116	547
Profit arising on disposal and exit of properties and sale of businesses	(135)	(9)
Adjustment for non-cash element of pension charges	(5)	2
Other non-cash charges	14	4
Decrease/(increase) in stocks ¹	180	(71)
Decrease/(increase) in debtors ¹	77	(25)
(Decrease)/increase in creditors ¹	(76)	154
Increase in provisions ¹	108	131
Cash generated from operations	970	1,031

Total working capital (the sum of items marked ¹ above) is £289m in the year. This includes £157m as a result of the current year impairment and onerous leases charge (see note 1.4) and is net of £74m of onerous capital payments in the year. When adjusted to exclude these items, the working capital inflow is £206m.

6 Capital and borrowings

6.1 Accounting policies

Borrowings

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

Borrowing costs

All borrowing costs are recognised in the Group's profit for the period on an effective interest rate basis except for interest costs that are directly attributable to the construction of buildings and other qualifying assets, which are capitalised and included within the initial cost of the asset. Capitalisation commences when both expenditure on the asset and borrowing costs are being incurred, and necessary activities to prepare the asset for use are in progress. In the case of new stores, this is generally once planning permission has been obtained. Capitalisation ceases when the asset is ready for use. Interest is capitalised at the effective rate incurred on borrowings before taxation of 5% (2014: 5%). Capitalised interest is included within interest paid in cash flow from operating activities.

Leases

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

Sale and leaseback of properties

The accounting treatment of the sale and leaseback depends upon the substance of the transaction (by applying the lease classification principles described above). For sale and operating leasebacks, the assets are sold at fair value, and accordingly the profit or loss from the sale is recognised immediately in the Statement of comprehensive income. A number of new property operating leases have been entered into in the year ended 1 February 2015 (see property commitments note 6.8). When forming the conclusion of operating lease classification, consideration was given to the key lease classification indicators of IAS 17. The leases are typically for a 25 year period. The Directors have reviewed the remaining useful lives for these particular properties and concluded they are significantly longer than the period of the lease. As disclosed on page 88 a review of the useful economic lives of each of the property, plant and equipment categories has been performed in the year with no changes made. Other key indicators considered in reaching an operating lease classification were the present value of the minimum lease payments and the ownership clauses in the contracts upon expiry of the lease.

Notes to the Group financial statements *continued*

52 weeks ended 1 February 2015

6 Capital and borrowings *continued*

6.1 Accounting policies *continued*

Share capital

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

Own shares held

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

Net debt

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

6.2 Finance costs and income

	2015 £m	2014 £m
Interest payable on short term loans and bank overdrafts	(10)	(12)
Interest payable on bonds	(96)	(86)
Interest capitalised	11	17
Total interest payable	(95)	(81)
Provisions: unwinding of discount	(7)	(3)
Other finance costs	(3)	(2)
Net pension interest cost (section 8)	–	(1)
Finance costs	(105)	(87)
Bank interest received	5	3
Amortisation of bonds	1	2
Net pension interest income (section 8)	1	–
Finance income	7	5
Net finance cost	(98)	(82)

6.3 Borrowings

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

	2015 £m	2014 £m
Current		
Bank overdraft	1	3
Short term borrowings	10	400
£150m Sterling bonds 6.50% August 2015	–	150
	11	553

6 Capital and borrowings *continued*

6.3 Borrowings *continued*

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

	2015 £m	2014 £m
Non-current		
£200m Sterling bonds 6.00% January 2017	201	201
£200m Sterling bonds 6.12% December 2018	202	203
£400m Sterling bonds 4.625% December 2023	397	397
£400m Sterling bonds 3.50% July 2026	421	390
£300m Sterling bonds 4.75% July 2029	291	-
\$250m US private placement loan notes (USPP) 4.4% November 2026	164	149
€700m Euro bond 2.25% June 2020	518	568
Total non-current bonds and loan notes	2,194	1,908
Revolving credit facility	314	572
	2,508	2,480

Borrowing facilities

Borrowings are denominated in sterling, US dollars and euros, and bear fixed interest rates, with the exception of the revolving credit facility which bears floating interest rates. All borrowings are unsecured. In July 2014, the Group issued a £300m sterling bond at a fixed interest rate of 4.75% expiring in July 2029. This is part of the Group's £3bn Euro Medium Term Note programme. In September 2014 the Group entered into a new five year syndicated committed revolving credit facility of £1.35bn, replacing the £1.2bn facility that was due to mature in March 2016. The revolving credit facility incurs commitment fees at market rates and drawdowns bear interest at a spread above LIBOR.

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

At the balance sheet date, the Group has £1,180m (2014: £775m) of undrawn, floating, committed borrowing facilities available in respect of which all conditions present had been met.

Maturity of borrowings

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

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

	2015 £m	2014 £m
Less than one year	100	647
One to two years	290	88
Two to three years	78	858
Three to four years	277	69
Four to five years	386	268
More than five years	2,145	1,805

Notes to the Group financial statements *continued*

52 weeks ended 1 February 2015

6 Capital and borrowings *continued*

6.3 Borrowings *continued*

Fair values

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

These compare to carrying values as follows:

	2015		2014	
	Amortised cost £m	Fair value £m	Amortised cost £m	Fair value £m
Total bonds: non-current and current	2,030	2,115	1,909	1,959
Total loan notes: non-current	164	175	149	171
	2,194	2,290	2,058	2,130

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

6.4 Analysis of net debt

	Note	2015 £m	2014 £m
Cash and cash equivalents per balance sheet		241	261
Bank overdrafts	6.3	(1)	(3)
Cash and cash equivalents per cash flow		240	258
Foreign exchange forward contracts		6	1
Other financial assets	7.3	6	1
Short term borrowings and current bonds	6.3	(10)	(550)
Forward foreign exchange contracts	7.3	(6)	(4)
Energy price contracts	7.3	(12)	(6)
Current financial liabilities		(28)	(560)
Bonds	6.3	(2,030)	(1,759)
Private placement loan notes	6.3	(164)	(149)
Revolving credit facility	6.3	(314)	(572)
Cross-currency contracts and interest rate swaps	7.3	(45)	(34)
Energy price contracts	7.3	(5)	(2)
Non-current financial liabilities		(2,558)	(2,516)
Net debt		(2,340)	(2,817)

Cash and cash equivalents include restricted balances of £21m (2014: £37m) which is held by Farock Insurance Company Limited.

6 Capital and borrowings *continued*

6.5 Called-up share capital

	Number of shares millions	Share capital £m	Share premium £m	Total £m
Current period				
At 3 February 2014 and 1 February 2015	2,335	234	127	361
Prior period				
At 4 February 2013	2,346	235	107	342
Shares cancelled net of options exercised	(11)	(1)	20	19
At 2 February 2014	2,335	234	127	361

The total authorised number of ordinary shares is 4,000 million shares (2014: 4,000 million shares) with a par value of 10p per share (2014: 10p per share). All issued shares are fully paid. There were 41,962 shares issued pursuant to the exercise of options (2014: 8,811,865) for an aggregate consideration of £0.1m (2014: £21m). During the 52 weeks to 2 February 2014, the Group acquired 20,338,000 of its own shares for cancellation as part of the equity retirement programme for consideration of £53m. The equity retirement programme completed in March 2013 and the Group did not acquire any of its own shares for cancellation in the 52 weeks ended 1 February 2015.

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

Trust shares

Included in retained earnings is a deduction of £6m (2014: £5m) in respect of own shares held at the balance sheet date. This represents the cost of 2,907,374 (2014: 1,938,608) of the Group's ordinary shares (nominal value of £0.3m (2014: £0.2m)). These shares are held in a trust and were acquired by the business to meet obligations under the Group's employee share plans using funds provided by the Group. The market value of the shares at 1 February 2015 was £5m (2014: £5m). The trust has waived its right to dividends. These shares are not treasury shares as defined by the London Stock Exchange.

During the period the Group acquired 4,000,000 of its own shares to hold in trust for consideration of £8m, and utilised 3,031,234 trust shares to satisfy awards under the Group's employee share plans.

Treasury shares

During the 52 weeks ended 1 February 2015 the Group received nil proceeds (2014: £7m) in respect of treasury shares utilised to satisfy share options exercised by employees during the period. At 1 February 2015, no treasury shares remain (2014: nil).

Issue of new shares

The Group issued 41,962 (2 February 2014: 8,811,865) new shares to satisfy options exercised by employees during the period. Proceeds received on exercise of these shares amounted to £0.1m (2014: £21m).

6.6 Reserves

	2015 £m	2014 £m
Capital redemption reserve	39	39
Merger reserve	2,578	2,578
Hedging reserve	(22)	(15)
Retained earnings	638	1,729
Total	3,233	4,331

Notes to the Group financial statements *continued*

52 weeks ended 1 February 2015

6 Capital and borrowings *continued*

6.6 Reserves *continued*

Capital redemption reserve

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

Merger reserve

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

Hedging reserve

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

6.7 Capital management

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

The Group's capital management objectives are to safeguard its ability to continue as a going concern providing returns to shareholders via optimising debt and equity balances, maintaining an investment grade credit rating and having adequate liquidity headroom. The Group manages its capital structure by issuing new debt or shares. During the current financial year, net debt has reduced by £477m, reflecting strong operating cash flow, reduced capital expenditure and £448m of property disposals. Additional funding of £300m has been obtained through the Group's bond programme, whilst the Group's syndicated revolving credit facility has been renewed and extended to £1.35bn. The overall impact of this additional funding has been an increase in the average maturity period of the Group's debt. Throughout the year, the Group has comfortably complied with the gearing and fixed charge cover covenants attaching to its revolving credit facility, and the USPP.

6.8 Operating leases – lessee

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

	2015		2014	
	Property £m	Vehicles, plant and equipment £m	Property £m	Vehicles, plant and equipment £m
Within one year	108	15	77	11
More than one year and less than five years	411	28	292	25
After five years	1,520	–	934	–
	2,039	43	1,303	36

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

Property operating lease commitment within one year	£m
At 3 February 2014	77
Impact of disposal programme	15
Leases on new stores	14
Other	2
At 1 February 2015	108

7 Financial risk and hedging

7.1 Accounting policies

Derivative financial instruments and hedge accounting

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

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

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

Cash flow hedges

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

Fair value hedge

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

7.2 Financial risk management

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

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

Foreign currency risk

The majority of purchases made by the Group are denominated in sterling, however some trade purchases are made in other currencies, primarily the euro and US dollar. The Group's objective is to reduce short term profit volatility from exchange rate fluctuations. It is Group policy that a minimum of 80% of committed and highly probable exposures

within the next six months are hedged and at least 40% of exposures in the following six months. At the balance sheet date, the Group had hedged 84% of its exposure within the next six months (2014: 84%).

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

At the reporting date, the sensitivity to a reasonable possible change (+/- 10%) in the US dollar and euro exchange rates would equate to a £7m post tax profit or loss exposure in relation to the euro and £5m in relation to the US dollar, for the unhedged forecast foreign currency exposures over the next 12 months. The impact on other comprehensive income would be £20m.

Liquidity risk

The Group policy is to maintain a balance of funding borrowings across a range of maturities and a sufficient level of committed headroom to meet obligations. The Group finances its operations using a diversified range of funding providers including banks, bondholders, and USPP noteholders.

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

The Treasury Committee compares the committed liquidity available to the Group against the forecast requirements and policy headroom.

Interest rate risk

The Group's long term policy is to protect itself against adverse movements in interest rates by maintaining at least 60% of its total borrowings at fixed interest rates. As at the balance sheet date 79% (2014: 62%) of the Group's borrowings are at fixed rate.

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

Credit risk

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

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

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

Commodity price risk

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

Notes to the Group financial statements *continued*

52 weeks ended 1 February 2015

7 Financial risk and hedging *continued*

7.2 Financial risk management *continued*

The Group has adopted a capital at risk model for hedging its fuel and power consumption. The Treasury Committee reviews the Group's exposure to commodity prices and ensures it remains within policy limits. A change of +/- 10% in the market value of the commodity price at the balance sheet date would affect other comprehensive income by £9m (2014: £10m).

7.3 Derivative financial assets and liabilities

Derivative financial assets	2015 £m	2014 £m
Current		
Foreign exchange contracts	6	1
	6	1

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

Derivative financial liabilities	2015 £m	2014 £m
Current		
Foreign exchange contracts	6	4
Energy price contracts	12	6
	18	10
Non-current		
Cross-currency swaps and interest rate swaps	45	34
Energy price contracts	5	2
	50	36

Maturity analysis of derivatives	2015 £m			2014 £m		
	< 1 year £m	1 – 5 years £m	5 + years £m	< 1 year £m	1 – 5 years £m	5 + years £m
Derivatives settled on a gross basis						
Cross-currency swaps – cash flow hedges						
– Outflow	(25)	(80)	(823)	(25)	(99)	(830)
– Inflow	19	77	756	20	78	793
Interest rate swaps – fair value hedges						
– Outflow	(3)	(11)	(18)	(3)	(11)	(22)
– Inflow	7	28	46	7	28	56
Forward contracts – cash flow hedges						
– Outflow	(215)	–	–	(232)	–	–
– Inflow	210	–	–	212	–	–
Derivatives settled on a net basis						
Energy price contracts – cash flow hedges						
– Outflow	(12)	(4)	–	(10)	–	–

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

7.4 Hedging activities

Cash flow hedges

At 1 February 2015 and 2 February 2014, the Group held US dollar cross-currency swaps designated as cash flow hedges. Prior to this, the cross-currency swaps were designated as fair value hedges against the commitment to issue the USPP. At 1 February 2015, the Group also held euro cross-currency swaps designated as cash flow hedges. The notional principal amount of the outstanding cross-currency swaps at 1 February 2015 was \$250m (2014: \$250m) and €700m (2014: €700m).

7 Financial risk and hedging *continued*

7.4 Hedging activities *continued*

The energy price contracts and foreign currency derivatives shown in note 7.3 are also designated as cash flow hedges. The cash flows hedged will occur within 12 months of the balance sheet date.

Fair value hedges

Profits recognised on fixed-to-floating interest rate swaps designated in fair value hedges are £31m (2014: loss of £4m). The change in fair value of the underlying hedged item was a loss of £31m (2014: gain of £4m).

8 Pensions

8.1 Accounting policies

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

Defined benefit schemes

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

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

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

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

8.2 Defined benefit schemes: summary and description

The Group operates three defined benefit retirement schemes (together 'the Schemes') providing benefits based on a benefit formula that depends on factors including the employee's age and number of years of service. The Morrison and Safeway Schemes provide pension benefits based on either the employee's compensation package or career average revalued earnings (CARE) (the 'CARE Schemes'). The CARE Schemes are generally not open to new members. The RSP is a cash balance scheme, which provides a lump sum benefit based upon a defined proportion of an employee's annual earnings, which is revalued each year in line with inflation.

The position of each scheme at 1 February 2015 is as follows:

Net position (liability)/asset:	2015 £m	2014 £m
CARE schemes	(43)	(13)
RSP	4	2
Combined net position	(39)	(11)

At the year end, schemes in surplus have been disclosed within assets on the balance sheet and schemes in deficit have been disclosed within liabilities. In the prior year a net position was disclosed within liabilities since the surplus was considered immaterial.

The disclosures below show the details of the schemes combined:

Balance sheet:	2015 CARE £m	2015 RSP £m	2014 CARE £m	2014 RSP £m
Fair value of scheme assets	4,047	87	3,055	39
Present value of obligations	(4,090)	(83)	(3,068)	(37)
Net pension (liability)/asset	(43)	4	(13)	2

Notes to the Group financial statements *continued*

52 weeks ended 1 February 2015

8 Pensions *continued*

8.2 Defined benefit schemes: summary and description *continued*

	2015 CARE £m	2015 RSP £m	2014 CARE £m	2014 RSP £m
Consolidated statement of comprehensive income				
Current service cost - recognised in cost of sales	39	33	24	-
Current service cost - recognised in administrative expenses	4	4	8	-
Administrative costs paid by Schemes - recognised in administrative expenses	3	1	3	-
Curtailement gain	(1)	-	-	-
Net interest on net pension asset/liability - finance (income)/costs	-	(1)	1	-
Total expense charged to statement of comprehensive income	45	37	36	-
Statement of other comprehensive income:				
Remeasurements in other comprehensive income charge/(credit)	31	-	(11)	-

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

The latest full actuarial valuations have been carried out as at 1 April 2013 for the Safeway Scheme and 5 April 2013 for the Morrison Scheme and the RSP. The results of these valuations for the CARE Schemes have been used and updated for IAS 19 'Employee benefits' purposes for the period to 1 February 2015 by a qualified independent actuary. For the RSP, an actuarial valuation for the purposes of IAS 19, based on member data as at 1 February 2015, has been completed by an independent actuary. The Schemes expose the Group to inflation risk, interest rate risk and market investment risk. In addition, the CARE Schemes expose the Group to longevity risk.

8.3 Scheme assets

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

Currently, the investment strategy of the CARE Schemes is to maintain a balance of approximately 40% equities and 60% bond-like investments. RSP investments are currently based primarily in equities. There are no direct investments in the parent Company's own shares or property occupied by any member of the Group.

Fair value of Scheme assets:

	2015 CARE £m	2015 RSP £m	2014 CARE £m	2014 RSP £m
Equities (quoted)	1,401	84	1,289	39
Corporate bonds (quoted)	1,109	-	891	-
Government bonds (quoted)	-	-	6	-
Liability driven investments (unquoted)	1,534	-	863	-
Cash (quoted)	3	3	6	-
Total	4,047	87	3,055	39

Liability driven investments (LDI)

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

8 Pensions *continued*

8.3 Scheme assets *continued*

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

	2015 CARE £m	2015 RSP £m	2014 CARE £m	2014 RSP £m
Fair value of scheme assets at start of period	3,055	39	2,839	-
Recognition of RSP scheme assets	-	-	-	39
Interest income	137	3	137	-
Return on scheme assets excluding interest	879	9	96	-
Employer contributions	46	39	34	-
Employee contributions	1	2	10	-
Benefits paid	(68)	(4)	(58)	-
Administrative expenses	(3)	(1)	(3)	-
Fair value of scheme assets at end of period	4,047	87	3,055	39

The Group has previously entered into a pension funding partnership structure under which it has contributed interests in a Scottish Limited Partnership ('SLP') valued at £90m (as at 31 January 2013) to the CARE schemes. The CARE Schemes' interests in the SLP reduce the respective deficits on a funding basis, although the agreements do not affect the position directly on an IAS 19 accounting basis because the investments held by the CARE Schemes do not qualify as assets for IAS 19 purposes.

As partners in the SLP, the CARE Schemes are entitled to receive a share of the profits of the SLP twice a year for 20 years. The profits shared with the Schemes are reflected in the Group financial statements as pension contributions. The SLP made a cash contribution of £6.6m during the year ending 1 February 2015, and will make annual contributions of £6.6m for a further 18 years.

8.4 Present value of obligations

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

	2015 CARE £m	2015 RSP £m	2014 CARE £m	2014 RSP £m
Defined benefit obligation at start of period	(3,068)	(37)	(2,859)	-
Recognition of RSP defined benefit obligation	-	-	-	(37)
Current service cost	(43)	(37)	(32)	-
Interest expense	(137)	(2)	(138)	-
Actuarial loss - demographic assumptions	(21)	-	-	-
Actuarial loss - financial assumptions	(889)	(16)	(118)	-
Actuarial gain - experience	-	7	31	-
Curtailement gain	1	-	-	-
Employee contributions	(1)	(2)	(10)	-
Benefits paid	68	4	58	-
Defined benefit obligation at end of period	(4,090)	(83)	(3,068)	(37)

The durations of the defined benefit obligations at the end of the 2015 reporting period are: RSP 20 years; Morrisons CARE 27 years; Safeway CARE 26 years. The weighted average duration of all three schemes is 26 years.

Notes to the Group financial statements *continued*

52 weeks ended 1 February 2015

8 Pensions *continued*

8.4 Present value of obligations *continued*

8.4.1 Significant actuarial assumptions

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

Financial assumptions	2015 CARE	2015 RSP	2014 CARE	2014 RSP
Discount rate applied to scheme liabilities (% p.a.)	3.10%	3.10%	4.50%	4.40%
Inflation assumption (RPI) (% p.a.)	3.10%	3.10%	3.50%	3.50%
Life expectancies	2015 CARE	2015 RSP	2014 CARE	2014 RSP
Longevity in years from age 65 for current pensioners				
Male	22.6	n/a	22.3	n/a
Female	24.0	n/a	23.2	n/a
Longevity in years from age 65 for current members aged 45				
Male	24.8	n/a	24.7	n/a
Female	26.4	n/a	25.6	n/a

Assumptions regarding future mortality experience are set based on actuarial advice and in accordance with published statistics. The mortality tables used at both year ends 2014 and 2015 are the SIPMA/S1PFA-Heavy tables (males/females) based on year of birth. Following analysis completed as part of the 2013 actuarial valuations a scaling factor of 110% was applied to the mortality tables used in the Morrison Scheme as at 1 February 2015. Amongst the UK population, there is a continuing trend for a generation to live longer than the preceding generation, and this has been reflected in the longevity assumption as at 2 February 2014 by adopting 80%/60% (males/females) of the 'long cohort' longevity projections and also incorporating a minimum annual rate of improvement in longevity of 1.25% p.a. For the 2015 year end, and in line with the 2013 actuarial valuations this projection was updated to use the CMI 2012 rates with an annual rate of improvement of 1.5% p.a.

Related actuarial assumptions (expressed as weighted averages)

	2015 CARE	2015 RSP	2014 CARE	2014 RSP
Rate of increases in salaries (% p.a.)	3.10%	2.30%	3.50%	3.50%
Rate of increase of pensions in payment: RPI inflation capped at either 2.5% p.a. or 5% p.a. (% p.a.)	2.10%/3.10%	–	2.30%/3.50%	–
Pre-retirement revaluation for active members (% p.a.)	3.10%	1.80%	3.50%	2.10%
Rate of increase of pensions in deferment: CPI inflation capped at either 2.5% p.a. or 5% p.a. (% p.a.)	-/2.30%	2.30%/–	-/2.70%	2.50%/–
CPI inflation (% p.a.)	2.30%	2.30%	2.70%	2.70%

8.4.2 Sensitivity analysis on significant actuarial assumptions

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

		2015 CARE £m	2015 RSP £m	2014 CARE £m	2014 RSP £m
Discount rate applied to Scheme obligations	+/- 0.1% pa	-/+ 99	-/+ 2	-/+ 73	-/+ 1
Inflation assumption (RPI and associated assumptions)	+/- 0.1% pa	+/- 89	+/- 1	+/- 64	+/- 1
Longevity	+/- one year	+ 159	–	+/- 94	–

8 Pensions *continued*

8.5 Funding

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

The current best estimate of Group contributions to be paid for the accounting period commencing 2 February 2015 is £92m. This estimate includes amounts payable from the SLP and salary sacrificed contributions from employees.

8.6 Proposed closure of CARE schemes to future accrual

During January 2015, the Group reached an agreement in principle with the Trustees of the CARE Schemes to close them to future accrual, subject to the outcome of consultation with current scheme members. The Group's proposal is that scheme members' accrued benefits will be frozen (subject to inflationary revaluation), and that future benefits will no longer accrue in these schemes. Following this agreement the Group has entered into a consultation with scheme members on 23 February 2015. The Group expects that the consultation process will conclude during May 2015. Subject to the outcome of the consultation, any changes would become effective in early July 2015. The financial effect of closing these schemes to future accrual would be to reduce the Group's exposure to future volatility, and increases in pension liabilities and costs.

9 Share-based payments

9.1 Accounting policy

Share-based payments

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

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

The charge in the period for share-based payments was £11m (2014: £6m).

9.2 Share save schemes

The Share save scheme began in May 2000 and all employees (including Executive Directors) are eligible once the necessary service requirements have been met. The scheme allows participants to save up to a maximum of £250 each month for a fixed period of three years. Options are offered at a discount of 20% to the mid-market closing price on the day prior to the offer and are exercisable for a period of six months commencing after the end of the fixed period of the contract. The exercise of options under this scheme is subject only to service conditions. The schemes that launched in May 2011 and subsequently are under the new scheme rules approved by the shareholders in June 2010.

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

Grant date	20 May 2014	13 May 2013	14 May 2012	17 May 2011
Share price at grant date	£2.10	£2.92	£2.79	£3.01
Fair value of options granted	£11.6m	£8.1m	£9.1m	£11.5m
Exercise price	£1.64	£2.25	£2.36	£2.28
Dividend yield	6.21%	4.17%	3.69%	3.2%
Annual risk free interest rate	1.00%	0.45%	0.53%	1.65%
Expected volatility*	18.3%	16.8%	19.4%	24.2%

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

Notes to the Group financial statements *continued*

52 weeks ended 1 February 2015

9 Share-based payments *continued*

9.2 Share save schemes *continued*

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

	2015		2014	
	Weighted average exercise price in £ per share	Options thousands	Weighted average exercise price in £ per share	Options thousands
Movement in outstanding options				
Outstanding at start of period	2.30	42,993	2.34	43,660
Granted	1.64	41,208	2.25	18,901
Exercised	2.28	(42)	2.37	(11,578)
Forfeited	2.16	(33,374)	2.32	(7,990)
Outstanding at end of period	1.85	50,785	2.30	42,993
Exercisable at end of period	2.28	56	2.37	36

	2015		2014	
	Weighted average share price at date of exercise £	Number of shares thousands	Weighted average share price at date of exercise £	Number of shares thousands
Share options exercised in the financial period	2.14	42	2.73	11,578

	2015		2014	
	Weighted average remaining contractual life		Weighted average remaining contractual life	
Share options outstanding at the end of the period				
Range of exercise prices	£1.64 to £2.36		£2.25 to £2.37	
Weighted average remaining contractual life	2.5 years		2.0 years	

9.3 Long term incentive plans

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

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

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

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

Grant date	16 Oct 2014	20 Jun 2014	22 Apr 2014	17 Oct 2013	22 Apr 2013	15 Oct 2012	13 Apr 2012	1 Oct 2011
Share price at grant date	£1.57	£1.91	£2.02	£2.79	£2.80	£2.75	£2.91	£3.02
Assumed leavers (Senior employees only)	7%	–	7%	8%	8%	5%	5%	5%
Performance criteria (Management Board only)	–	–	55%	50%	50%	65%	65%	77%
Fair value of share awards	£0.9m	£3.0m	£16.7m	£1.5m	£18.8m	£1.5m	£28.1m	£1.4m

9 Share-based payments *continued*

9.3 Long term incentive plans *continued*

	2015	2014
	Share awards thousands	Share awards thousands
Movement in outstanding share awards		
Outstanding at start of period	10,444	24,630
Granted	10,484	7,267
Forfeited	(2,135)	(21,453)
Outstanding at end of period	18,793	10,444
Exercisable at end of period	-	-

The weighted average remaining contractual life of the share awards is 2.6 years (2014: 2.0 years).

9.4 One-off share awards

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

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

Grant date	2015	2014
Share price at grant date	£2.12	-
Assumed leavers	-	-
Fair value of share awards granted	£0.4m	-

There are 165,358 share awards outstanding at the end of the period (2014: nil). The movement during the period is entirely the result of options being granted. The weighted average remaining contractual life of the share awards is 1.1 years (2014: nil years).

9.5 Restricted share award

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

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

Grant date	22 April 2013 ¹	22 April 2013 ²	17 October 2013
Share price at grant date	£2.80	£2.80	£2.79
Assumed leavers	8%	8%	8%
Fair value of share awards granted	£7.1m	£7.1m	£0.6m

¹ Vested in April 2014.

² Vests April 2015.

	2015	2014
	Share awards thousands	Share awards thousands
Movement in outstanding share awards		
Outstanding at start of period	4,926	-
Granted	-	4,926
Exercised	(2,453)	-
Lapsed	(133)	-
Outstanding at end of period	2,340	4,926

Notes to the Group financial statements *continued*

52 weeks ended 1 February 2015

9 Share-based payments *continued*

9.6 Deferred share bonus plan

Certain members of senior management participate in the deferred share bonus plan under which 33% to 50% of any bonus payable is deferred in shares for three years from the date the deferred share award is made. Dividend equivalents accrue over the vesting period, to be paid when the shares vest. Vesting of these share awards is subject only to service conditions.

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

Grant date	2014/15 scheme	2013/14 scheme
Share price at grant date	£2.10	-
Assumed leavers	0%	-
Exercise price	£nil	-
Fair value of share awards granted	£0.6m	-

	2015	2014
	Share awards thousands	Share awards thousands
Movement in outstanding share awards		
Outstanding at start of period	937	1,424
Granted	286	-
Exercised	(408)	(487)
Outstanding at end of period	815	937

The weighted average remaining contractual life of the share awards is 0.8 years (2014: 0.8 years).

10 Other

10.1 Related party transactions

As identified on page 60 of the Directors' report, the Directors were advised during the year that certain distributions made in the years ended 3 February 2013 and 2 February 2014 were not in accordance with the Companies Act 2006. The resolution referred to in this section of the Directors' Report also meets the criteria of a related party transaction under IAS 24. The matter has been resolved through the filing of a circular with the UK Listings Authority on 10 February 2015 and a general meeting of the Company's shareholders on 6 March 2015.

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

Wm Morrison Supermarkets PLC – Company balance sheet

1 February 2015

	Note	2015 £m	2014 £m
Fixed assets			
Intangible assets	11.3.1	26	30
Tangible assets	11.3.2	2,866	3,541
Investments	11.5	3,470	3,470
Investment in joint venture		68	66
		6,430	7,107
Current assets			
Stock		420	543
Derivative financial assets	11.4	6	1
Debtors – amounts falling due within one year	11.6	2,290	2,824
Cash at bank and in hand		–	99
		2,716	3,467
Creditors – amounts falling due within one year	11.7	(2,011)	(4,291)
Net current assets/(liabilities)		705	(824)
Total assets less net current assets/(liabilities)		7,135	6,283
Creditors – amounts falling due after more than one year	11.8	(2,346)	(2,320)
Provisions for liabilities	11.9	(279)	(185)
Net assets – excluding pension asset		4,510	3,778
Net pension asset	11.10	12	9
Net assets – including pension asset		4,522	3,787
Capital and reserves			
Called-up share capital	11.12	234	234
Share premium	11.13	127	127
Capital redemption reserve	11.13	39	39
Merger reserve	11.13	2,578	2,578
Hedging reserve	11.13	(22)	(15)
Profit and loss account	11.13	1,566	824
Total shareholders' funds		4,522	3,787

The accounting policies on pages 114 to 117 and notes on pages 117 to 126 form part of these financial statements.

The financial statements on pages 113 to 126 were approved by the Board of Directors on 11 March 2015 and were signed on its behalf by:

Trevor Strain
Chief Financial Officer

Wm Morrison Supermarkets PLC – Company accounting policies

52 weeks ended 1 February 2015

11 Company financial statements

11.1 Accounting policies

Basis of preparation

These separate financial statements of Wm Morrison Supermarkets PLC (the Company) have been prepared on a going concern basis under the historical cost convention, except as disclosed in the accounting policies set out below, and in accordance with applicable accounting standards under UK GAAP and the Companies Act 2006.

As noted in the annual report and financial statements for the year ended 2 February 2014, the Directors were advised that certain distributions (including share repurchases) carried out in the years ended 3 February 2013 and 2 February 2014 were made otherwise than in accordance with the Companies Act 2006. At a general meeting of the Company's shareholders, held on 6 March 2015, a resolution was passed which ratified the payment of the relevant dividends, authorised the re-execution of the relevant share repurchases and removed any right for the Company to pursue shareholders or directors for the repayment of the relevant funds. The overall effect of this resolution being passed is to return all parties to the position that they would have been in had the relevant distributions been made in accordance with the Companies Act 2006.

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

Accounting reference date

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

Revenue recognition

Sale of goods in-store and online, and fuel

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

Other sales

Other revenue includes income from concessions and commissions based on the terms of the contract. Revenue collected on behalf of others is not recognised as turnover, other than the related commission. Sales are recorded net of value added tax.

Match & More and other initiatives

The fair value of Match & More and other initiatives is determined to be the value to the customer of the points issued, adjusted for factors such as the expected redemption rate. Given Match & More was launched in the year the Company will continue to assess the appropriateness of the rates against actual redemptions going forward.

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

Cost of sales

Cost of sales consists of all costs to the point of sale including property, manufacturing, warehouse and transportation costs. Store depreciation, store overheads and store-based employee costs are also allocated to cost of sales.

Other operating income

Other operating income primarily consists of income not directly related to grocery retailing and mainly comprises rental incomes and income generated from recycling of packaging. Rental income arising from operating leases is accounted for on a straight-line basis to the date of the next rent review.

Investments

Investments in subsidiary undertakings and joint ventures

Investments in subsidiary undertakings and joint ventures are stated at cost less provision for impairment.

Investments in equity instruments

All equity instruments are held for long term investment and are measured at fair value, where the fair value can be measured reliably. Where the fair value of the instruments cannot be measured reliably, the investment will be recognised at cost less accumulated impairment losses in accordance with FRS 26 'Financial instruments: recognition and measurement'. Any impairment is recognised immediately in profit or loss.

Tangible assets

Tangible assets are stated at cost less accumulated depreciation and accumulated impairment losses. Costs include directly attributable costs. Annual reviews are made of estimated useful lives and material residual values.

Depreciation

The policy of the Company is to provide depreciation at rates that are calculated to write off the cost less residual value of tangible fixed assets on a straight-line basis. The rates applied are:

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

Fixed assets are reviewed for indications of impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. This is performed for each income generating unit, which in the case of a supermarket is an individual retail outlet. If there are indications of possible impairment, then a test is performed on the asset affected to assess its recoverable amount against carrying value. An impaired asset is written down to its recoverable amount, which is the higher of value in use or its net realisable value. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

11 Company financial statements *continued*

11.1 Accounting policies *continued*

If there is indication of an increase in fair value of an asset that had been previously impaired, then this is recognised by reversing the impairment, but only to the extent that the recoverable amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised for the asset.

Software development costs

Costs that are directly attributable to the creation of identifiable software, which meet the development asset recognition criteria as laid out in FRS 15 'Tangible fixed assets' are recognised as tangible assets.

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

Financial instruments

Trade and other debtors

Trade and other debtors are initially recognised at fair value, which is generally equal to face value, and subsequently held at amortised cost. Provision is made when there is objective evidence that the Company will not be able to recover balances in full, with the charge being recognised in the profit and loss account. Balances are written off when the probability of recovery is assessed as being remote.

Cash at bank and in hand

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

Trade and other creditors

Trade and other creditors are initially stated at fair value, which is generally equal to face value, and subsequently held at amortised cost.

Borrowings

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

Derivative financial instruments

Derivative financial instruments are initially measured at fair value, and are remeasured at fair value through profit or loss, except where the derivative qualifies for hedge accounting.

Cash flow hedges

A cash flow hedge mitigates the Company's exposure to variability in cash flows attributable either to a recognised asset or liability or a highly probable forecasted transaction. The Company has cross-currency swaps and energy price contracts designated as cash flow hedges.

The effective part of any movement in the fair value of the derivative is recognised in the statement of total recognised gains and losses (STRGL) and presented in the hedging reserve within equity. Ineffectiveness is immediately recognised in profit for the period, energy price contracts within cost of sales and cross-currency swaps within finance income/costs. Cumulative gains or losses on derivatives held in the hedging reserve are reclassified into profit for the period when the transaction occurs.

Fair value hedges

A fair value hedge mitigates the Company's exposure to changes in fair value of a recognised asset or liability or a firm commitment. The change in fair value of the hedged asset or liability that is attributable to the hedged risk is recognised in profit for the period.

Capital management

The capital management policy of the Company is consistent with that of the Group set out in note 6.7.

Borrowing costs

All borrowing costs are recognised in the Company's profit and loss account on an accruals basis, except for interest costs that are directly attributable to the construction of buildings and other qualifying assets which are capitalised and included within the initial cost of the asset. Capitalisation commences when both expenditure on the asset and borrowing costs are being incurred, and necessary activities to prepare the asset for use are in progress. In the case of new stores, this is generally once planning permission has been obtained. Capitalisation ceases when the asset is ready for use. Interest is capitalised at the effective rate incurred on borrowings before taxation of 5% (2014: 5%).

Pension costs

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

Pension scheme assets are valued at market rates. Pension scheme obligations are an estimate of the amount required to pay the benefits that employees have earned in exchange for current and past service, assessed and discounted to present value using the assumptions shown in note 11.10). The net pension liability or asset recognised in the Company's balance sheet is the net of the schemes' assets and obligations, which are calculated separately for each scheme. The operating and financing costs of the schemes are recognised separately in the profit and loss account in the period in which they arise. Death-in-service costs are recognised on a straight-line basis over their vesting period. Actuarial gains and losses are recognised immediately in the STRGL.

A liability or asset is recognised in the balance sheet in respect of the Company's net obligations to the schemes and is stated net of deferred tax.

Foreign currencies

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

Wm Morrison Supermarkets PLC – Company accounting policies *continued*

52 weeks ended 1 February 2015

11 Company financial statements *continued*

11.1 Accounting policies *continued*

Provisions

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

Leases

Leases in which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases; all other leases are classified as finance leases.

Lessor accounting – operating leases

Assets acquired and held for use under operating leases are recorded as fixed assets and are depreciated on a straight-line basis to their estimated residual values over their estimated useful lives. Operating lease income is recognised on a straight-line basis to the date of the next rent review.

Sale and leaseback

The accounting treatment of the sale and leaseback depends upon the substance of the transaction (by applying the lease classification principles described above). For sale and operating leasebacks, the assets are sold at fair value, and accordingly the profit or loss from the sale is recognised immediately in the profit and loss account. A number of new property operating leases have been entered into in the year ended 1 February 2015 (see property commitments note 6.8). When forming the conclusion of operating lease classification, consideration was given to the key lease classification indicators of SSAP 21. The leases are typically for a 25 year period. The Directors have reviewed the remaining useful lives for these particular properties and concluded they are significantly longer than the period of the lease. As disclosed on page 88 a review of the useful economic lives of each of the property, plant and equipment categories has been performed in the year with no changes made. Other key indicators considered in reaching an operating lease classification were the present value of the minimum lease payments and the ownership clauses in the contracts upon expiry of the lease.

Lessee accounting – operating leases

Rental payments are taken to the profit and loss account on a straight-line basis over the life of the lease.

Lessee accounting – finance leases

The lower of the fair value and the present value, calculated using the interest rate implicit in the lease, of the future minimum lease payments is included within property, plant and equipment and financial liabilities as an obligation to pay future rentals. Depreciation is provided at the same rates as for owned assets, or over the lease period, if shorter. Rental payments are apportioned between the finance charge and the outstanding obligation so as to produce a constant rate of finance charge on the remaining balance.

Deferred and current taxation

Current tax payable is based on the taxable profit for the period using tax rates in effect during the period. Taxable profit differs from the profit as

reported in the profit and loss account as it is adjusted both for items that will never be taxable or deductible and timing differences.

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at average rates expected to apply when they crystallise, based on tax rates enacted or substantively enacted at the balance sheet date. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in different periods from those in which they are included in the financial statements.

A net deferred tax asset is recognised only when it is recoverable on the basis that it is more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted. Deferred tax assets and liabilities are not discounted.

Stock

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

Share-based payments

The Company issues equity-settled share-based payments to certain employees in exchange for services rendered by them. The fair value of the share-based award is calculated at the date of grant and is expensed on a straight-line basis over the vesting period with a corresponding increase in equity. This is based on the Company's estimate of share options that will eventually vest. This takes into account movement of non-market conditions, being service conditions and financial performance, if relevant. Fair value is measured by use of a binomial stochastic option pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for effects of non-transferability, exercise restrictions and behavioural considerations. The cost of the share-based award relating to each subsidiary is calculated, based on an appropriate apportionment, and recharged through intercompany.

Financial contracts

Where the Company enters into financial contracts to guarantee the indebtedness of other companies within its Group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where the Company has purchased its own equity share capital, the consideration paid, including directly attributable incremental costs, is deducted from retained earnings until the shares are cancelled. On cancellation, the nominal value of the shares is deducted from share capital and the amount is transferred to the capital redemption reserve.

Notes to the Company financial statements

52 weeks ended 1 February 2015

11 Company financial statements *continued*

11.1 Accounting policies *continued*

Exemptions

The Company has taken advantage of the exemption from the disclosure requirements of FRS 29 'Financial instruments: disclosures'. The cash flows of the Company and financial instruments disclosures are included in the consolidated financial statements.

The Company is exempt under the terms of FRS 8 'Related parties' from disclosing related party transactions with wholly owned entities that are part of the Wm Morrison Supermarkets PLC Group.

The Company has taken advantage of the exemption available under section 408 of the Companies Act 2006 and not presented a profit and loss account for the Company.

11.2 Profit and loss account

The profit after tax for the Company for the 52 week period ended 1 February 2015 was £1,055m (52 weeks ended 2 February 2014: £1,023m). The Company's auditor, PricewaterhouseCoopers LLP (2014: KPMG Audit Plc), charged £0.4m (2014: £0.4m) for audit services in the year, £nil (2014: £0.1m) for services related to taxation and £0.3m (2014: £0.1m) for other services.

11.3 Intangible and tangible assets

11.3.1 Intangible assets

	Acquired intangibles £m
Cost	
At 3 February 2014	30
Additions at cost	-
At 1 February 2015	30
Accumulated depreciation and impairment	
At 3 February 2014	-
Charged in the period	4
At 1 February 2015	4
Net book value	
At 1 February 2015	26
At 2 February 2014	30

Intangible assets primarily consist of purchased technology required to operate an online grocery business.

Notes to the Company financial statements *continued*

52 weeks ended 1 February 2015

11 Company financial statements *continued*

11.3 Intangible and tangible assets *continued*

11.3.2 Tangible assets

	Land and buildings		Plant, equipment, fixtures & vehicles £m	Software development costs £m	Total £m
	Freehold £m	Leasehold £m			
Cost					
At 3 February 2014	3,436	624	1,722	-	5,782
Additions	25	173	185	-	383
Interest capitalised	-	-	9	-	9
Reclassifications	(484)	-	(168)	652	-
Transfers	28	-	-	-	28
Disposals	(402)	(75)	(68)	-	(545)
At 1 February 2015	2,603	722	1,680	652	5,657
Accumulated depreciation and impairment					
At 3 February 2014	855	251	1,135	-	2,241
Charged in the period	109	13	113	-	235
Reclassifications	(175)	-	(2)	177	-
Transfers	2	-	-	-	2
Impairment	186	168	127	-	481
Disposals	(93)	(13)	(62)	-	(168)
At 1 February 2015	884	419	1,311	177	2,791
Net book value					
At 1 February 2015	1,719	303	369	475	2,866
At 2 February 2014	2,581	373	587	-	3,541

In previous years software development costs have been held within other categories of property, plant and equipment. In order to provide greater understanding of the depreciation charge, these have been reclassified and presented separately above.

Included in the note above is an amount of £907m (2014: £955m) relating to non-depreciable land and £163m (2014: £222m) of assets under construction. The cost of assets held under finance leases at 1 February 2015 is £336m (2014: £285m), with related accumulated depreciation of £101m (2014: £75m). The cost of property assets held as lessor included above is £57m at 1 February 2015 (2014: £144m) and accumulated depreciation of £46m (2014: £42m).

The cost of financing asset developments prior to them being ready for use has been included in the cost of the project. The cumulative amount of interest capitalised in the total cost above amounts to £128m (2014: £119m). Interest is capitalised at the effective interest rate of 5% (2014: 5%) incurred on borrowings.

Included in the charge for the period is an impairment charge of £481m. The events and circumstances resulting in this loss are explained in note 1.4 and the key assumptions used in the calculation of recoverable amount are discussed in note 3.3.

11.4 Derivative financial assets

	2015 £m	2014 £m
Current assets		
Forward foreign currency contracts	6	1
	6	1

11 Company financial statements *continued*

11.5 Investments

	Investment in equity instruments £m	Investment in subsidiary undertakings £m	Total £m
Cost			
At 3 February 2014	31	3,510	3,541
Disposals	-	(70)	(70)
At 1 February 2015	31	3,440	3,471
Provision for impairment			
At 3 February 2014	-	71	71
Disposals	-	(70)	(70)
At 1 February 2015	-	1	1
Net book value			
At 1 February 2015 and 2 February 2014	31	3,439	3,470

On 11 July 2014, the Company disposed of Kiddicare.com Limited to Endless LLP.

A list of the Company's principal subsidiaries is shown in note 4.2.

The Directors believe that the carrying value of remaining investments is supported by their underlying net assets.

11.6 Debtors – amounts falling due within one year

	2015 £m	2014 £m
Trade debtors	118	167
Amounts owed by Group undertakings	1,950	2,258
Other debtors	6	14
Prepayments	216	385
	2,290	2,824

Prepayments includes £180m (2014: £330m) relating to amounts falling due after more than one year. Amounts owed by Group undertakings are unsecured, interest free, and repayable on demand.

11.7 Creditors – amounts falling due within one year

	2015 £m	2014 £m
Trade creditors	1,379	1,247
Amounts owed to Group undertakings	113	2,087
Other taxation and social security	73	63
Other creditors	89	73
Bank overdraft	24	155
Term loan	-	400
Foreign currency swaps	6	4
Energy price contracts	12	6
Accruals and deferred income	315	256
	2,011	4,291

Amounts owed to Group undertakings are unsecured, interest free and repayable on demand.

Notes to the Company financial statements *continued*

52 weeks ended 1 February 2015

11 Company financial statements *continued*

11.8 Creditors – amounts falling due after more than one year

	2015 £m	2014 £m
Revolving credit facility	314	572
\$250m US private placement loan notes (USPP) 4.4% November 2026	164	149
£400m sterling bonds 4.625% December 2023	397	397
£400m sterling bonds 3.50% July 2026	421	389
€700m euro bond 2.25% June 2020	518	569
£300m sterling bonds 4.75% July 2029	291	-
Amounts owed to Group undertakings	191	208
Cross-currency swaps and interest rate swaps	45	34
Energy price contracts	5	2
	2,346	2,320

Borrowings are denominated in sterling, US dollars and euros, and bear fixed interest rates, with the exception of the revolving credit facility which bears floating interest rates. All borrowings are unsecured. In July 2014, the Company issued a £300m sterling bond at a fixed interest rate of 4.75% expiring in July 2029. This is part of the Company's £3bn Euro Medium Term Note programme. In September 2014 the Company entered into a new five year syndicated committed revolving credit facility of £1.35bn, replacing the £1.2bn facility that was due to mature in March 2016. The revolving credit facility incurs commitment fees at market rates and drawdowns bear interest at a spread above LIBOR.

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

Finance leases

Net obligations under finance leases of £191m (2014: £139m) are payable in two to five years, and are included in amounts owed to Group undertakings in the table above.

11.9 Provisions for liabilities

	Onerous lease provision £m	Other property provisions £m	Deferred taxation £m	Total £m
At 3 February 2014	88	10	87	185
Charge/(credit) recognised in profit and loss	117	-	(22)	95
Credit recognised directly in the STRGL	-	-	(2)	(2)
(Utilised)/released during the period	(3)	-	-	(3)
Unwinding of discount	3	1	-	4
At 1 February 2015	205	11	63	279

Further details of the property provisions are provided in note 5.5. The potential deferred taxation on timing differences, calculated at 20% (2014: 20%), is set out below and has been provided for in full.

	2015 £m	2014 £m
Excess of capital allowances over depreciation	100	114
Provisions and short term timing differences	(37)	(27)
Provision at the period end excluding deferred tax on pension asset	63	87
Deferred tax liability on pension asset (note 11.10.3)	3	3
Provision at the period end including deferred tax on pension asset	66	90

The deferred tax liability of £3m (2014: £3m) relating to the pension asset has been deducted in arriving at the net pension asset on the balance sheet.

11 Company financial statements *continued*

11.10 Pensions

11.10.1 CARE scheme

The Company operates a defined benefit pension scheme ('CARE') and a cash balance scheme. The CARE scheme is called the Wm Morrison 1967 Pension Scheme and provides benefits defined on retirement based on age at date of retirement, years of service and a formula using either the employee's compensation package or career average revalued earnings (CARE). The Retirement saver plan ('RSP') is a cash balance scheme, which provides a lump sum benefit based upon a defined proportion of an employee's annual earnings, which is revalued each year in line with inflation.

The latest full actuarial valuations have been carried out as at 5 April 2013 for the CARE Scheme and the RSP. The results of these valuations have been used and updated for FRS 17 'Retirement benefits' purposes for the period to 1 February 2015 by a qualified independent actuary.

The Group has previously entered into a pension funding partnership structure under which it has contributed interests in a Scottish Limited Partnership (SLP) valued at £90m (as at 31 January 2013) to the Group's two CARE Schemes, of which £30m (as at 31 January 2013) related to the Morrison CARE Scheme. The CARE Schemes' interests in the SLP reduce the respective deficits on a funding basis and an accounting basis because the investments held by the CARE Schemes qualify as assets for FRS 17 purposes.

As partners in the SLP, the CARE Schemes are entitled to receive a share of the profits of the SLP twice a year for 20 years. The SLP made a cash contribution of £6.6m (£2.2m during the year ending 1 February 2015) and will make annual contributions of £6.6m (£2.2m in respect of the Morrison CARE Scheme) for a further 18 years.

11.10.2 Assumptions

The major assumptions used in this valuation to determine the present value of the scheme's defined benefit obligation are shown below.

Financial

	2015 CARE	2015 RSP	2014 CARE	2014 RSP
Rate of increase in salaries	3.10%	2.30%	3.50%	2.70%
Rate of increase in pensions in payment and deferred pensions	2.10% to 3.10%	1.80% to 2.30%	2.30% to 3.50%	2.10% to 2.50%
Discount rate applied to scheme liabilities	3.10%	3.10%	4.50%	4.40%
Inflation assumption (RPI/CPI)	3.10%/2.30%	3.10%/2.30%	3.50%/2.70%	3.50%/2.70%

Longevity

The average life expectancy in years of a member who reaches normal retirement age of 65 and is currently aged 45 is as follows:

	2015 CARE	2015 RSP	2014 CARE	2014 RSP
Male	24.2	n/a	24.7	n/a
Female	25.8	n/a	25.6	n/a

The average life expectancy in years of a member retiring at the age of 65 at balance sheet date is as follows:

	2015 CARE	2015 RSP	2014 CARE	2014 RSP
Male	22.0	n/a	22.3	n/a
Female	23.4	n/a	23.2	n/a

Assumptions regarding future mortality experience are set based on actuarial advice and in accordance with published statistics. The longevity assumption considers how long a member will live when they reach the age of retirement. Amongst the UK population there is a continuing trend for a generation to live longer than the preceding generation, and this has been reflected in the longevity assumption. This means that a 45 year-old today is assumed to live on average longer than a 65 year-old today.

The projection used as at 1 February 2015 is the CMI 2012 projection table and incorporates a long term rate of improvement in longevity of 1.5% pa. This compares to a projection of 80%/60% (males/females) of the 'long cohort' projection as at 2 February 2014.

In calculating the present value of the liabilities an appropriate mortality table that reflects the longevity assumption is used. The current mortality table used is 110% S1PFA/110% S1PFA-Heavy YOB (2014: S1PMA/S1PFA-Heavy YOB).

Notes to the Company financial statements *continued*

52 weeks ended 1 February 2015

11 Company financial statements *continued*

11.10 Pensions *continued*

The major assumptions used to determine the expected future return on the scheme's assets, were as follows:

	2014 CARE	2014 RSP
Long term rate of return on:		
Equities	7.40%	7.40%
Bonds	4.50%	n/a
Gilts	3.40%	n/a
Liability driven investments	3.40%	n/a
Scottish Limited Partnership	4.65%	n/a
Cash	1.10%	n/a

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescales covered, may not necessarily be borne out in practice.

Due to changes in UK accounting standards which apply to the Company from 1 February 2015 the expected return on scheme assets assumptions is no longer required.

11.10.3 Valuations

The fair value of the scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities which are derived from cash flow projections over long periods and are inherently uncertain, were as follows:

	2015 CARE £m	2015 RSP £m	2014 CARE £m	2014 RSP £m
Equities	364	87	339	39
Bonds	288	-	228	-
Gilts	-	-	2	-
Liability driven investments	421	-	218	-
Scottish Limited Partnership	32	-	29	-
Cash	1	-	1	-
Total market value of assets	1,106	87	817	39
Present value of scheme liabilities	(1,095)	(83)	(805)	(37)
Net pension asset	11	4	12	2
Related deferred tax liability	(2)	(1)	(3)	-
Net pension asset after deferred tax	9	3	9	2

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

	2015 CARE £m	2015 RSP £m	2014 CARE £m	2014 RSP £m
Fair value of scheme assets at start of period	817	39	745	-
Expected return on scheme assets	44	4	41	-
Actuarial gain	239	7	19	-
Employer contributions	21	39	18	-
Employee contributions	1	2	5	-
Benefits paid	(16)	(4)	(11)	-
Recognition of RSP scheme assets at end of period	-	-	-	39
Fair value of scheme assets at end of period	1,106	87	817	39

11 Company financial statements *continued*

11.10 Pensions *continued*

The movement in the present value of the defined benefit obligation during the period was as follows:

	2015 CARE £m	2015 RSP £m	2014 CARE £m	2014 RSP £m
Defined benefit obligation at the beginning of the period	(805)	(37)	(717)	-
Current service cost	(24)	(37)	(16)	-
Employee contributions	(1)	(2)	(5)	-
Other finance income	(36)	(2)	(35)	-
Actuarial loss	(245)	(9)	(43)	-
Benefits paid	16	4	11	-
Recognition of RSP scheme assets at end of period	-	-	-	(37)
Defined benefit obligation at the end of the period	(1,095)	(83)	(805)	(37)

11.10.4 Sensitivities

Listed below is the impact on the liabilities of changing key assumptions whilst holding other assumptions constant:

		2015 CARE £m	2015 RSP £m	2014 CARE £m	2014 RSP £m
Discount factor	+/- 0.1%	-/+28	-/+2	-/+ 20	-
Longevity	+/- 1 year	+/- 44	n/a	+/- 25	n/a

11.10.5 Profit and loss account impact

The following amounts have been charged in arriving at operating profit in respect of pension costs:

	2015 CARE £m	2015 RSP £m	2014 CARE £m	2014 RSP £m
Current service cost	(24)	(37)	(16)	-

The amounts for current service cost and pensions credit have been charged in the following profit and loss account lines:

	2015 CARE £m	2015 RSP £m	2014 CARE £m	2014 RSP £m
Cost of sales	(19)	(30)	(13)	-
Administrative expenses	(5)	(7)	(3)	-
	(24)	(37)	(16)	-

The following amounts have been included in other finance income:

	2015 CARE £m	2015 RSP £m	2014 CARE £m	2014 RSP £m
Expected return on pension scheme assets	44	4	41	-
Interest on pension scheme liabilities	(36)	(2)	(35)	-
	8	2	6	-

Notes to the Company financial statements *continued*

52 weeks ended 1 February 2015

11 Company financial statements *continued*

11.10 Pensions *continued*

11.10.6 Amounts recognised in the statement of total recognised gains and losses

The amounts included in the Statement of total recognised gains and losses (STRGL) were:

	2015 CARE £m	2015 RSP £m	2014 CARE £m	2014 RSP £m
Actual return less expected return on scheme assets	239	7	19	-
Experience gains and losses arising on scheme liabilities	-	7	(7)	-
Changes in assumptions underlying the present value of scheme liabilities	(245)	(16)	(36)	-
Recognition of the RSP in the balance sheet at the end of the period	-	-	-	2
Actuarial loss recognised in the STRGL	(6)	(2)	(24)	2
	2015 CARE £m	2015 RSP £m	2014 CARE £m	2014 RSP £m
Cumulative gross actuarial movement recognised in the STRGL	(152)	2	(190)	2
Taxation on cumulative actuarial movement recognised in the STRGL	-	-	38	-
Cumulative net actuarial movement recognised in the STRGL	(152)	2	(152)	2

The actual return on scheme assets can therefore be summarised as follows:

	2015 CARE £m	2015 RSP £m	2014 CARE £m	2014 RSP £m
Expected return on scheme assets	44	4	41	n/a
Actuarial movement recognised in the STRGL reflecting the difference between expected and actual return on assets	239	7	19	n/a
Actual return on scheme assets	283	11	60	n/a

The expected return on scheme assets was determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date. Expected returns on equity and property investments reflect long term real rates of return experienced in the respective markets.

11.10.7 History of experience gains and losses

	2015 £m	2014 £m	2013 £m	2012 £m	2011 £m
Difference between the expected and actual return on scheme assets:					
Amount	246	19	37	36	13
Percentage of scheme assets	20.6%	2.3%	5.0%	5.6%	2.4%
Experience gains and losses arising on scheme liabilities:					
Amount	7	(7)	-	1	(52)
Percentage of present value of scheme liabilities	0.6%	(0.9)%	-	0.3%	(9.7)%
Effects of changes in the demographic and financial assumptions underlying the present value of the scheme liabilities:					
Amount	(261)	(36)	(39)	(58)	20
Percentage of present value of scheme liabilities	(22.2)%	(4.4)%	(5.4)%	(9.1)%	3.7%
Total amount recognised in statement of total recognised gains and losses:					
Amount	(8)	(24)	(2)	(21)	(19)
Percentage of present value of scheme liabilities	(0.68)%	(3.0)%	(0.3)%	(3.3)%	(3.5)%
Total value of scheme assets	1,193	817	745	638	553
Present value of defined benefit obligation	(1,178)	(805)	(717)	(638)	(537)
Net pension asset	15	12	28	-	16

11 Company financial statements *continued*

11.11 Reconciliation of movements in equity shareholders' funds

	2015 £m	2014 £m
Profit for the financial period	1,055	1,023
Cash flow hedging movement	(9)	-
Actuarial losses on pension schemes	(8)	(24)
Tax relating to pension schemes and cash flow hedging	2	(2)
Purchase of trust shares	(8)	-
Shares purchased for cancellation	-	(53)
Share options exercised net of treasury shares purchased	-	28
Share-based payments (note 11.14)	11	6
Dividends (note 1.8)	(308)	(283)
Net increase in equity shareholders' funds	735	695
Opening equity shareholders' funds	3,787	3,092
Closing equity shareholders' funds	4,522	3,787

11.12 Share capital

	2015 £m	2014 £m
Authorised		
4,000 million ordinary shares of 10p each (2014: 4,000 million)	400	400
Issued and fully paid		
2,335 million ordinary shares of 10p each (2014: 2,335 million)	234	234

Ordinary shares

	2015 £m	2014 £m
At start of period	234	235
Shares cancelled	-	(2)
Share options exercised	-	1
At end of period	234	234

11.13 Reserves

	Share premium account £m	Capital redemption reserve £m	Merger reserve £m	Hedging reserve £m	Profit and loss account £m
At start of period	127	39	2,578	(15)	824
Profit for the period	-	-	-	-	1,055
Cash flow hedging movement	-	-	-	(9)	-
Actuarial losses on pension schemes	-	-	-	-	(8)
Tax relating to pension schemes and cash flow hedging	-	-	-	2	-
Purchase of trust shares	-	-	-	-	(8)
Share-based payments	-	-	-	-	11
Dividends	-	-	-	-	(308)
At end of period	127	39	2,578	(22)	1,566

Notes to the Company financial statements *continued*

52 weeks ended 1 February 2015

11 Company financial statements *continued*

11.13 Reserves *continued*

Capital redemption reserve

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

Merger reserve

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

Hedging reserve

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

11.14 Share-based payments

The disclosure requirements for FRS 20 'Share-based payment' are identical to that of IFRS 2 'Share-based payment'. The charge for the year relating to the Company net of tax was £11m (2014: £6m). Full IFRS 2 disclosures are provided in section 9.

11.15 Capital commitments

	2015 £m	2014 £m
Contracts placed for future capital expenditure not provided in the financial statements (property, plant and equipment and intangible assets)	144	129

11.16 Operating lease commitments

Annual commitments under non-cancellable operating leases:

	2015		2014	
	Land and buildings £m	Plant, equipment, fixtures and vehicles £m	Land and buildings £m	Plant, equipment, fixtures and vehicles £m
Expiring within one year	-	2	1	1
Expiring within two to five years inclusive	2	13	2	11
Expiring over five years	63	-	37	-
	65	15	40	12

11.17 Contingent liabilities

The Company has given an unlimited guarantee in respect of the overdraft of all the subsidiary undertakings within the Group's banking offset agreement. The overdraft position at 1 February 2015 was £178m (2014: £21m).

The Company has also provided a guarantee in respect of sterling bonds amounting to £440m at fair value (2014: £605m) in respect of a subsidiary undertaking. Where the Company enters into financial contracts to guarantee the indebtedness of other companies within its Group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

11.18 Related party transactions

The Company has taken the exemption available in FRS 8 'Related parties' from disclosing related party transactions with wholly owned entities that are part of the Wm Morrison Supermarkets PLC Group.

Five year summary

52 weeks ended 1 February 2015

Consolidated statement of comprehensive income

	2015 £m	2014 £m	2013 £m	2012 £m	2011 £m
Turnover	16,816	17,680	18,116	17,663	16,479
Cost of sales	(16,055)	(16,606)	(16,910)	(16,446)	(15,331)
Gross profit	761	1,074	1,206	1,217	1,148
Other operating income	78	81	80	86	80
Profit/loss arising on disposal and exit of properties and sale of businesses	135	9	(1)	(1)	(1)
Administrative expenses	(1,670)	(1,259)	(336)	(329)	(323)
Operating (loss)/profit	(696)	(95)	949	973	904
Finance costs	(105)	(87)	(75)	(47)	(43)
Finance income	7	5	5	21	13
Share of profit of joint venture (net of tax)	2	1	-	-	-
(Loss)/profit before taxation	(792)	(176)	879	947	874
Analysed as:					
Underlying profit before tax	345	719	880	948	875
Impairment and onerous lease provisions	(1,273)	(903)	-	-	-
Profit/loss on disposal and exit of properties	131	9	(1)	(1)	(1)
Profit arising on disposal of Kiddicare.com Limited	4	-	-	-	-
Net pension interest income/(cost)	1	(1)	-	-	-
	(792)	(176)	879	947	874
Taxation	31	(62)	(232)	(257)	(242)
(Loss)/profit for the period attributable to the owners of the Company	(761)	(238)	647	690	632
Earnings per share (pence)					
- basic	(32.63)	(10.23)	26.65	26.68	23.93
- diluted	(32.63)	(10.23)	26.57	26.03	23.43
- underlying basic (2014 restated)	10.93	23.08	27.26	25.55	23.03
Dividend per ordinary share (pence)	13.65	13.00	11.80	10.70	9.60

Five year summary *continued*

52 weeks ended 1 February 2015

Consolidated balance sheet

	2015 £m	2014 £m	2013 £m	2012 £m	2011 £m
Assets					
Goodwill and intangible assets	520	458	415	303	184
Property, plant and equipment	7,252	8,625	8,616	7,943	7,557
Investment property	68	119	123	259	229
Net pension asset	4	-	-	-	38
Investment in joint venture	68	66	-	-	-
Investments	31	31	31	31	-
Other financial assets	-	-	-	1	3
Non-current assets	7,943	9,299	9,185	8,537	8,011
Current assets	1,144	1,430	1,342	1,322	1,138
Non-current assets classified as held-for-sale	84	-	-	-	-
Liabilities					
Current liabilities	(2,273)	(2,873)	(2,334)	(2,303)	(2,086)
Other financial liabilities	(2,558)	(2,516)	(2,396)	(1,600)	(1,052)
Deferred tax liabilities	(415)	(430)	(471)	(464)	(499)
Net pension liabilities	(43)	(11)	(20)	(11)	-
Provisions	(288)	(207)	(76)	(84)	(92)
Non-current liabilities	(3,304)	(3,164)	(2,963)	(2,159)	(1,643)
Net assets	3,594	4,692	5,230	5,397	5,420
Shareholders' equity					
Called-up share capital	234	234	235	253	266
Share premium	127	127	107	107	107
Capital redemption reserve	39	39	37	19	6
Merger reserve	2,578	2,578	2,578	2,578	2,578
Retained earnings and hedging reserves	616	1,714	2,273	2,440	2,463
Total equity attributable to the owners of the Company	3,594	4,692	5,230	5,397	5,420

Supplementary information

52 weeks ended 1 February 2015

	2015 %	2014 %	2013 %	2012 %	2011 %
(Decrease)/increase on previous year %					
Turnover	(4.89)	(2.41)	2.56	7.18	6.94
Operating (loss)/profit	(44.60)	(14.86) ³	(2.47)	7.63	10.78
(Loss)/profit before taxation	349.35	(120.02)	(7.18)	8.35	1.86
(Loss)/profit after taxation	219.38	(136.79)	(6.23)	9.18	5.69
Underlying profit before taxation	(52.02)	(12.87)	(3.64)	7.56	13.30
Diluted earnings per share	(218.96)	(138.50)	1.92	11.10	4.74
Dividend per ordinary share	5.00	10.17	10.28	11.46	17.07
% of turnover					
Operating profit	2.63	4.57 ³	5.24	5.51	5.49
(Loss)/profit before taxation	(4.71)	(1.00)	4.85	5.36	5.30
(Loss)/profit after taxation	(4.52)	(1.35)	3.57	3.91	3.84
Retail portfolio					
Size 000s square feet (net sales area)					
0-5	153	102	12	3	-
5-15	75	76	64	65	45
15-25	126	123	135	135	137
25-40	260	252	239	228	213
40+	53	52	48	44	44
Total number of stores	667	605	498	475	439
Petrol filling stations	334	328	312	300	296
Total sales area (000s square feet)	14,723	14,233	13,421	12,904	12,261
Total sales area excluding convenience (000s square feet)	14,332	13,976	13,383	12,894	12,261
Average store size (000s square feet) ²	27.9	27.8	26.9	27.4	27.9
Average sales area (000s square feet) ¹	14,442	13,640	13,396	12,456	11,959
Total supermarket takings ex petrol (gross) £m ²	14,033	14,593	14,875	14,585	13,916
Average takings per square feet per week (£) ²	19.11	20.58	21.62	22.52	22.38
Average takings per store per week ex petrol (£000) ²	518	558	591	618	624
Average number of customers per store per week ²	22,034	22,874	23,905	25,083	25,583
Average take per customer (£) ²	23.83	24.41	24.73	24.62	24.40
Employees					
Full time	48,519	52,315	56,177	57,169	58,287
Part time	71,259	75,088	72,528	74,038	73,787
Total	119,778	127,403	128,705	131,207	132,074
Full time equivalent (average)	85,545	90,264	91,760	94,114	95,181
Average per FTE employee:					
Turnover (£000s)	197	196	197	188	173
Operating profit (£)	5,167	8,952 ³	10,342	10,339	9,498
Employee costs (£)	23,029	21,847	21,327	19,530	19,311

¹ Includes sales area of divested stores.

² Excludes convenience.

³ Before non-recurring exceptional costs.

The impact of week 53 in the period ended 3 February 2013 was to increase turnover by £328m and increase profit before taxation by £11m.

Investor relations and financial calendar

Financial calendar 2015/16

Financial events and dividends

Quarterly management statement	7 May 2015
Final dividend record date	8 May 2015
Annual General Meeting	4 Jun 2015
Final dividend payment date	10 Jun 2015
Half year end	2 Aug 2015
Interim results announcement	10 Sep 2015
Interim dividend record date	1 Oct 2015
Interim dividend payment date	5 Nov 2015
Quarterly management statement	9 Nov 2015
Financial year end	31 Jan 2016

Company Secretary

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Telephone: 0845 611 5000

Annual General Meeting

The AGM will be held on 4 June 2015 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 2014/15 Annual report is also available to view in HTML format at www.morrisons-corporate.com/ar2015

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 2014/15 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.

Registrars and shareholding enquiries

Administrative enquiries about the holding of Morrisons shares, such as change of address, change of ownership, dividend payments and the dividend reinvestment plan should be directed to:

Capita Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Telephone: 0871 664 0300
Overseas: +44 208 639 3399
Calls cost 10p per minute plus network extras.

www.capitaassetservices.com
ssd.capita.co.uk

Solicitors

Ashurst LLP
Broadwalk House
5 Appold Street
London EC2A 2HA

Eversheds LLP
Eversheds House
70 Great Bridgewater Street
Manchester M1 JES

Gordons LLP
Riverside West
Whitehall Road
Leeds LS1 4AW

Shareholder information

The number of shareholders at 1 February 2015 was 47,955 (2014: 48,347) and the number of shares in issue was 2,335,084,014 (2014: 2,335,041,736).

Analysis by shareholder	Number of holders	% holders	Balances at 1 Feb 2015	% capital
Private shareholder	41,653	86.86	106,203,913	4.55
Nominee companies	5,630	11.74	2,026,936,970	86.80
Deceased accounts	323	0.67	571,238	0.02
Limited companies	163	0.34	3,197,812	0.14
Other institutions	70	0.15	8,870,692	0.38
Bank and bank nominees	58	0.12	62,380,049	2.67
Investment trusts	20	0.04	111,453	0.005
Pension funds	16	0.03	94,899	0.004
Family interests	21	0.04	126,714,348	5.43
Insurance companies	1	0.002	2,640	0.0001

Analysis by shareholder	Number of holders	% holders	Balances at 1 Feb 2015	% capital
1-1,000	25,673	53.54	11,136,901	0.48
1,001-10,000	19,763	41.21	59,071,735	2.53
10,001-1,000,000	2,331	4.86	187,776,430	8.04
Over 1,000,000	188	0.39	2,077,098,948	88.95

Independent auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Benson House
33 Wellington Street
Leeds LS1 4JP

Stockbrokers

Jefferies Hoare Govett
Vintners Place
68 Upper Thames Street
London EC4V 33J

Bank of America Merrill Lynch
Merrill Lynch Financial Centre
2 King Edward Street
London EC1A 1HQ

Investment bankers

NM Rothschild & Sons Limited
1 King William Street
London EC4N 7AR

Information at your fingertips

Customer

Our website, www.morrisons.com, allows you to learn more about Morrisons and our offering.

Offers

- Latest promotions
- Specific product offerings
- Marketing
- Sign up for our latest offers by email
- Online service

Market Street

More about our unique in-store offering, along with video presentations of where our food comes from and how to buy, cook and present it. You can now find nutrition information for Market Street on our website.

Recipe and ranges

Information about our food ranges, healthy eating and mouth-watering recipes along with ideas of what drink goes well with each recipe.

Lifestyle

View our current and archived monthly magazine and read our handy health information for the whole family.

Let's Grow

Information about our Let's Grow scheme, including how to register, facts, how it works and teaching resources.

Corporate

Our corporate website, www.morrisons-corporate.com, has the following sections.

Work with Morrisons

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

User-friendly

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 2014/15 on-screen, viewing only the parts you want to, at www.morrisons-corporate.com/ar2015

Webcasts

Webcasts of the Directors delivering the preliminary results for 2014/15 on 12 March 2015 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.

About Morrisons

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

Designed & Produced by

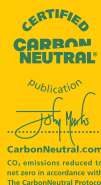
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MORRISONS

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Visit our website:

www.morrison.com