Morrisons
Since 1899

News Release

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PRELIMINARY RESULTS FOR THE 52 WEEKS ENDED 3 FEBRUARY 2019
Meaningful, sustainable growth

Financial summary

- Group LFL sales(1) ex-fuel/ex-VAT up 4.8% (2017/18: 2.8%)
  Total revenue up 2.7% to £17.7bn (2017/18: £17.3bn), up 4.7% on a 52-week basis
- Profit before tax and exceptionals(2) up 8.6% to £406m (2017/18: £374m), and up 10.0% on a 52-week basis
- EPS before exceptionals(2) up 8.0% to 13.17p (2017/18: 12.19p)
- Statutory PBT after £86m exceptional items, down 15.8% to £320m (2017/18: £380m)
- Free cash flow(3) of £265m (2017/18: £350m, including £108m disposal proceeds)
- Free cash flow adjusted for disposal proceeds, operating working capital, and onerous payments up £44m (up 17.5%) to £296m (2017/18: £252m)
- Net debt £997m (2017/18: £973m)
- Net pension surplus of £688m (2017/18: £594m)
- ROCE increased to 7.9% (2017/18: 7.7%)
- Final ordinary dividend of 4.75p, taking the full-year ordinary dividend to 6.60p
- Further special dividend of 4.00p, taking the full-year special dividend to 6.00p
- Full-year total dividend up 24.9% to 12.60p (2017/18: 10.09p)

Strategic and operating highlights

- Customer satisfaction scores now up 20 percentage points in four years
- Ex-fuel revenue growth of 5.1% (52-week basis), the best since 2009/10
- Total dividend of £289m paid to shareholders in 2018/19
- Morrisons Daily convenience stores now in 115 locations
- New St Ives store shortlisted as one of top 5 globally, from 750 stores in 50 countries
- Since year end, started trial to offer Morrisons.com online shopping to Center Parcs' guests, and Safeway fascia re-introduced to the British high street for first time since 2005, with two MPK Garages stores converting to Safeway Daily

Targets update

- £700m annualised wholesale supply sales achieved ahead of end-2018 target
- Expect to begin to supply McColl's remaining c.300 convenience stores towards the end of 2019, and still expect £1bn of annualised wholesale supply sales in due course
- Further £12m incremental profit from wholesale, services, interest and online, taking the total so far to £54m. On track for our £75m–£125m target
- Plan to trial converting ten McColl's stores to Morrisons Daily convenience stores
- Net debt expected to remain at a low level, consistent with our capital discipline and the principles of our capital allocation framework

Andrew Higginson, Chairman, said:

"In a challenging period for customers and an ever-changing British retail scene, the turnaround at Morrisons has continued to progress well. The team has now completed four years of important work, building Morrisons as a broader, stronger business.

"I am delighted that sales and profit again grew strongly, and that we are able to share that growth with our shareholders through increased dividends."

David Potts, Chief Executive, said:

"A third consecutive year of strong sales and profit growth, and a total annual dividend up over 150 percent during those three years, show the Morrisons turnaround is well on track.

"This turnaround is based on improving the shopping trip for customers, making Morrisons more popular and accessible.

"And our customers are noticing. Most pleasing of all was another big increase in customer satisfaction, now up a full 20 percentage points in the last four years, which is all down to the friendliness and expertise of our team of unique food makers and shopkeepers."

Outlook

We remain confident that Morrisons still has many sales and profit growth opportunities ahead, and expect that growth to be meaningful and sustainable.

We also continue to expect free cash flow generation to remain strong. Reflecting progress so far and our expectations, we are today announcing a further special dividend of 4.00p per share, taking the total dividend for the year to 12.60p. We will retain a strong and flexible balance sheet, and will be guided each year by the principles of our capital allocation framework in assessing the uses of free cash flow.

We expect net debt to remain at a low level, consistent with our capital discipline and the principles of our capital allocation framework.

After progressing our wholesale partnership with McColl's more quickly than initially expected, we achieved our target of £700m of annualised wholesale supply sales ahead of our initial end-2018 guidance. We expect to begin to supply McColl's remaining c.300 convenience stores towards the end of 2019, with some sales benefit likely from the second half. Our plan for £1bn of wholesale supply sales in due course remains unchanged.

Net incremental profit from wholesale, services, interest and online was £12m during the period, bringing the cumulative total so far to £54m. We remain on track for our £75m–£125m medium-term target.

Figure 1 – 2018/19 profit reconciliation

£m	FY17/18 53 weeks	H1 18/19	H2 18/19	FY 18/19	Y-on-Y
Statutory operating profit	458	197	197	**394**	-14.0%
Statutory profit before tax	380	142	178	**320**	-15.8%
Exceptional items:					
– Net impairment and provision for onerous contracts	-6	-	5	**5**	
– Profit on disposal and exit of properties	-19	-	-2	**-2**	
– Costs associated with repayment of borrowings*	16	33	-	**33**	
– Guaranteed minimum pensions provisions	-	-	7	**7**	
– Costs associated with closure of pension scheme	-	-	19	**19**	
– Pension scheme set-up credit	-13	-	-	**-**	
– Net pension interest income*	-9	-8	-10	**-18**	
– Other exceptional items	25	26	16	**42**	
Operating profit before exceptionals	445	223	242	**465**	4.5%
Profit before tax and exceptionals	**374**	**193**	**213**	**406**	**8.6%**

* Adjusted in profit before tax and exceptionals, but not operating profit before exceptionals

Figure 2 – LFL sales performance (ex-VAT)

	2017/18	2018/19						
	Q4	**Q1**	**Q2**	**H1**	**Q3**	**Q4**	**H2**	**FY**
Retail contribution to LFL[1]	2.0%	1.8%	2.5%	2.1%	1.3%	0.6%	0.9%	1.5%
Wholesale contribution to LFL[2]	0.8%	1.8%	3.8%	2.8%	4.3%	3.2%	3.7%	3.3%
Group LFL ex-fuel	**2.8%**	**3.6%**	**6.3%**	**4.9%**	**5.6%**	**3.8%**	**4.6%**	**4.8%**
Group LFL inc-fuel	2.8%	1.9%	6.4%	4.2%	6.0%	3.0%	4.5%	4.3%

Reported in accordance with IFRS 15

[1] Includes supermarkets and Morrisons.com sales. Morrisons.com sales through customer fulfilment centres (CFCs) contributed 0.4% in Q4 2018/19

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

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

	2017/18	2018/19						
	Q4	**Q1**	**Q2**	**H1**	**Q3**	**Q4**	**H2**	**FY**
LFL Number of transactions[3]	2.0%	0.7%	2.6%	1.7%	0.2%	-1.0%	-0.4%	0.7%
LFL Items per basket[3]	-3.9%	-1.1%	-1.4%	-1.2%	-1.5%	0.2%	-0.6%	-0.9%

[3] Excludes Morrisons.com sales through CFCs

This announcement includes inside information.

Alternative Performance Measures

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

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

Definitions and additional requirements:

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

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

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

(2) **Profit before tax and exceptionals:** defined as profit before tax, exceptional items and net pension interest. **Earnings per share (EPS) before exceptionals:** defined as profit before exceptional items and net pension interest, adjusted for a normalised tax charge.

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

As previously reported, the Group has changed its primary measure for adjusted profit from 'underlying profit' to 'profit before tax, exceptional items and net pension interest', referred to as 'profit before tax and exceptionals'. This change has no impact on previously reported results.

(3) **Free cash flow:** defined as movement in net debt before the payment of dividends. Free cash flow for the period is £265m (2017/18: £350m), being the movement in net debt of £(24)m (2017/18: £221m) adjusted for dividends paid of £289m (2017/18: £129m).

– ENDS –

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

Financial overview

Total revenue was £17.7bn, up 2.7% year on year, and up 4.7% on a 52-week basis after adjusting for last year's 53rd week. Total 52-week ex-fuel revenue growth was 5.1%, which is the strongest underlying annual growth since 2009/10. The contribution from net new space was 0.3%, with three successful new store openings in Abergavenny, St Ives in Cambridgeshire, and Acocks Green in Birmingham. Total revenue excluding fuel was £14.0bn, up 3.2%.

Group LFL excluding fuel was up 4.8%, comprising contributions from retail of 1.5% (supermarkets 1.2%, online through CFCs 0.3%) and wholesale of 3.3%. In Q4, Group LFL was 3.8%, with retail contributing 0.6% and wholesale 3.2%.

Fuel sales were up 1.0% to £3.8bn, or up 3.0% on a 52-week basis.

Profit before tax and exceptionals was up 8.6% to £406m (2017/18 53 weeks: £374m). As reported, last year's 53rd week added £5m to profit, so profit before tax and exceptionals was up 10.0% on a 52-week basis.

This is another strong performance, with the core supermarkets continuing to grow despite some significant headwinds such as depreciation and start-up costs as we continue to build a broader, stronger Morrisons.

Net finance costs before exceptionals were £60m (2017/18: £73m).

Operating profit before exceptionals was up 4.5% to £465m (2017/18 53 weeks: £445m), with margin up four basis points year on year to 2.6%. EBITDA margin before exceptionals was 5.1%, up 12 basis points.

Statutory profit before tax (PBT) after exceptional items was down 15.8% to £320m (2017/18 53 weeks: £380m).

As previously stated, during the period we invested in both the start-up of our new store-pick capability and the new Erith CFC for Morrisons.com, and the accelerated roll-out of wholesale supply to McColl's. This enabled us both to increase our online household coverage significantly and achieve our target of £700m of annualised wholesale supply sales earlier than expected. As reported at our first-half results, it also meant we incurred some extra online and wholesale supply start-up costs, which eased slightly in the second half. Overall, the net incremental profit from wholesale, services, interest and online, was a further £12m during the year, bringing the cumulative total to £54m. We remain confident of our medium-term £75m–£125m incremental profit target.

Exceptional items recognised outside profit before tax and exceptionals were £86m, as listed in Figure 1.

Of these, £51m were reported during the first half, including £33m in relation to repayment of borrowings after £233m of successful bond tenders, and £28m within other exceptional items in relation to increased stock provisioning, as continued automation of our ordering systems led to operational changes, additional information regarding stock levels, and a change in methodology for estimating stock provisions.

During the second half, there was a £12m charge within other exceptional items relating to one-off costs associated with improvements to the distribution network, £26m of exceptional pension costs relating to guaranteed minimum pensions and costs associated with the previously announced closure of a scheme, £10m further net pension interest income (full year total £18m), a net £5m charge for impairment and provision of onerous contracts, and £2m profit on disposal and exit of properties.

EPS before exceptionals was up 8.0% to 13.17p (2017/18 53 weeks: 12.19p). Basic EPS was down 22.3% to 10.34p (2017/18 53 weeks: 13.30p), with 2017/18 benefitting from an effective tax rate of 18.2%.

Cash capital expenditure was £461m (2017/18: £500m).

Free cash flow was £265m (2017/18: £350m, including £108m disposal proceeds). Adjusting for disposal proceeds, operating working capital, and onerous payments, free cash flow was up £44m (up 17.5%) to £296m (2017/18: £252m).

Group net debt remained low at £997m, compared to £973m at the end of 2017/18.

The proposed final ordinary dividend is 4.75p per share, taking the full-year ordinary dividend up to 6.60p (2017/18: 6.09p). This is in line with our policy to pay a sustainable ordinary dividend covered around two times by EPS before exceptionals. In addition, we are again proposing returning surplus capital to shareholders via a further special dividend of 4.00p per share. Together with the interim special dividend of 2.00p announced with the 2018/19 interim results, this takes the full-year total dividend up 24.9% to 12.60p (2017/18: 10.09p).

Three new stores were opened during the period, adding c.68,000 square feet.

ROCE was 7.9%, up from 7.7% for 2017/18.

Strategy update

The concurrent Fix, Rebuild and Grow phases of our turnaround strategy are progressing well. They are built around six priorities, five ways of working, and ambitions for our four sets of stakeholders, all driven by our long-held convictions: that we still have a relative catch-up opportunity, can always keep improving for customers, and execution is key.

The six priorities are the drivers of our growth. Being more competitive, serving customers better, local solutions, popular and useful services, simplifying and speeding up, and making core supermarkets strong again encapsulate our many opportunities, and we made good progress with each during the year.

Our ways of working are customers first, teamwork, freedom in our framework, listening and responding, and improving our operations. They inform all our actions and behaviour.

Our stakeholder ambitions – for customers, colleagues, suppliers and shareholders – ensure progress is balanced and broad, and allow us to assess and measure success.

We again made strong progress for stakeholders. We have achieved more than three years of positive LFL, and 52-week ex-fuel revenue growth, at 5.1%, was the best since 2009/10. 52-week growth in profit before tax and exceptionals was 10.0%, and is now up 34.4% in the last three years (2015/16: £302m, before £60m closure and restructuring costs). Debt remains low, and both our balance sheet and cash flow are very strong.

Our supermarkets continued to improve: for example, in own brand, the *'Morrisons Makes it'* range, the Morrisons price list, local solutions, store format, and productivity. This helped another increase in our measure of customer satisfaction, now up 20 percentage points since the start of 2015/16. In addition, we opened three new stores, which are proving successful in the communities they serve, and also inspiring us with new ideas for the whole estate.

In wholesale, we accelerated supply to McColl's more quickly than initially planned and, together with the good progress with our other partners, we achieved our initial £700m annualised wholesale sales target early. We are on track to achieve our target of £1bn of wholesale sales in due course. For online, we expanded through the new Erith CFC and store pick, and Morrisons.com is now available to over 75% of British households. In addition, over 1,000 popular and useful service points have been introduced on our supermarket sites since the start of the programme with partners such as Amazon, Timpson and Doddle.

We still have significant opportunities to continue building a broader, stronger Morrisons that is more popular and accessible for customers. Those opportunities span sales, costs, productivity and every aspect of improving the customer shopping trip, and give us confidence that a meaningful, sustainable turnaround remains in our own hands.

Growth will continue to be capital light, but also driven by investment, particularly in digital capability, Fresh Look and new supermarkets, distribution and technology infrastructure, online, and wholesale. We will continue to adhere strictly to the principles of our capital allocation framework, and will review the uses of free cash flow each year. Accordingly, we are returning another 12.60p per share in ordinary and special dividends to shareholders.

Six priorities update

1. To be more competitive

British food retail is highly competitive, and this year it became increasingly so as the year progressed. After a strong summer, helped by favourable weather and the football World Cup, there was a change in consumer behaviour in the autumn, as uncertainty around Brexit became more personal and customers became more cautious. We listened hard to customers and responded quickly, and continued to invest in the shopping trip, providing consistently great value and good quality in the run-up to Christmas. Sales responded and improved towards the end of 2018.

As we more fully integrate manufacturing and retail, we are developing *'Morrisons Makes it'* as a standalone brand. This is great value, authentically British, fresh food, made by our skilled team of food makers. We have *'Morrisons Makes it'* fresh items across all of Market Street.

Customers are becoming more familiar with how these and their other favourites are part of an evolving Morrisons price list: a basket of the most popular items that customers regularly buy, where we are working hard to consistently ensure the best possible value. For example, at Christmas, despite some broader grocery industry inflation, we again kept the price of our customers' basket of the most popular items the same as last year.

We are becoming more competitive in some high-volume commodity items such as eggs and carrots. Recently acquired Chippindale Foods has been successfully integrated, enabling us to offer local and regional loose eggs for customers, improve prices in store, and reduce manufacturing production costs. Investment at our site in Flaxby, Yorkshire, has enabled similar benefits of owning more of the supply chain for carrots as that successfully launched for potatoes last year.

2018 was also a very busy year for own-brand innovation. Always listening to and following customers closely, we have developed several successful new ranges, including *'Naturally Wonky',* our brand of low-priced, good quality fruit and vegetables; *'Savers'*, our lowest-priced range; *'V Taste'*, our new vegan range; *'Little Kitchen'*, a new healthy range for children; two more new healthy ranges, *'Counted'* and '*Fresh Ideas'*; and *'Nutmeg'*, our clothing brand, has been extended into womenswear. In addition, as we stated at our interim results, we have increased the number of items we direct source, so cutting out the need for middlemen and enabling both closer relationships with suppliers and lower prices for customers.

As we become more competitive for customers, the work of our team of expert food makers and shopkeepers is increasingly being recognised. In addition to several awards during the first half – including Own Label Retailer of the Year at the Grocer Food & Drink Own Label Awards – in the second half, we won Supermarket of the Year at the Retail Industry Awards, Retailer of the Year at the Food and Farming Industry Awards, and Multiple Beer Retailer and Multiple Wine Retailer of the Year at the Drinks Retailing Awards. In addition, individual product successes included recognition for the quality and innovation of our Christmas products, with our *'Best'* All Butter Deep Filled Mince Pies, *'Free From'* Mince Pies and *'Best'* Poinsettia Hand Decorated Christmas Cake all winning both the Good Housekeeping and BBC Good Food taste tests.

2. To serve customers better

The key measure of our turnaround progress, and how we are serving customers better, is customer satisfaction. Our measure is an online survey questionnaire, completed by thousands of our customers every week, rating key measures such as checkout queues, availability and the friendliness of our colleagues. It has shown consistent improvement, with our overall customer satisfaction score up another eight percentage points during the year, and now up 20 percentage points since the start of 2015/16. During the second half, the busiest weeks ahead of Christmas and New Year showed the best year-on-year scores, with customers noting the improvements in colleague friendliness and checkout experience especially.

We continue to improve both our digital and online offers for customers. During the period we launched the Morrisons More app, allowing customers to collect and redeem Morrisons loyalty points digitally. The app is easy to use, avoids paper coupons and plastic loyalty cards, and allows customers to receive personalised offers and useful recipes direct to their mobile phones.

Online added substantial new growth capacity during the year, extending its coverage to over 75% of British households. Through the new CFC in Erith and new store-pick capability, we have significantly expanded our online catchment area to include south London, Surrey, Kent, the south coast, Devon and, for the first time, into Scotland, serving customers in Edinburgh and Glasgow. We have also recently started a trial to supply Center Parcs' guests with Morrisons.com online delivery direct to their holiday lodges.

3. Find local solutions

Local had another strong year and is becoming increasingly popular with customers.

Many local ideas are now being rolled out across Morrisons. Our initiative allowing customers to select individual local eggs started in 60 stores in June and is already in more than 330, meaning Morrisons is increasing its support of local farmers nationwide. Other examples include Squeaky Cheese, made from local Yorkshire milk, which was first seen at our food maker roadshow in June, was in 40 local stores in July, and is now in 75 stores.

Some stores and areas lend themselves especially well to local solutions, and we have been incorporating this into our new store and Fresh Look programmes. For example, our new stores in Abergavenny and St Ives, Cambridgeshire, opened with a total of 550 local items between them, many of which were sourced from our food maker events hosted for local customers ahead of the store openings. Similarly, Fresh Look refit stores with particular local speciality food makers nearby have been welcoming hundreds of new local products into stores. Examples include Prime Seafoods, based less than a mile from our Peterhead store in Aberdeenshire; Devonshire Apple Juice, sourced and pressed near our store in Plymouth; and English Lakes Ice Cream in Kendal, Cumbria.

Overall, sales of local suppliers' products were up by another 27% during the year, and have now almost doubled over the last three years.

Our team are also improving the regional events offer for customers, and better targeting important customer groups. For example, Hogmanay sales were up 4.5% year on year, and St David's Day sales were up 23%. For Ramadan, we expanded our offer and introduced 55 new special-buy lines, and sales were up 13%. We have also identified around over 50 Morrisons stores popular with students, and this year attended nearly 30 freshers' fairs, raising awareness of offers such as our 'More for Students Club'. Sales at our autumn student event were up 5.2% year on year. In addition, we again increased the range and space allocated to seasonal items in stores popular with tourists and holidaymakers, and grew sales well ahead of the rest of the estate in those stores during the summer.

4. Develop popular and useful services

There has been significant growth in useful services, helping make Morrisons supermarkets more popular destinations for customers.

Since the start of the programme with partners such as Amazon, Doddle and Timpson, we have introduced over 1,000 service points for customers at our stores, including another 50 Doddle locations during the second half. We also now have over 60 car and tyre change services in our car parks, with partners including We Buy Any Car, Car Park Valeting and Autoglass. We expect this number to increase substantially next year, including a plan to install electric car charging points at up to 100 stores.

In addition, we introduced other popular and useful services during the second half. We opened nine currency exchange kiosks with Travel Money and, if successful, plan for more in future. We also started trialling barber shops with different national operators.

We have now opened over 40 Morrisons Daily convenience stores on our petrol forecourts, and plan more in future. We are benefiting from many learnings in relation to operating costs, layout, range, merchandising, and promotions, which we will apply as we develop the format both at further Morrisons sites and with our wholesale partners such as Rontec, Sandpiper CI and MPK Garages.

5. To simplify and speed up the organisation

As we simplify and speed up, productivity improves, which itself creates more opportunity to simplify and speed up. This has become a virtuous circle, which we expect to generate further significant cost savings for many years to come.

For example, at our interim results we highlighted how automated in-store ordering was enabling the introduction of a new forecasting system. In the second half, we further improved our end-to-end distribution infrastructure: as well as some of the one-off improvements to the network, we also invested in enhancements in goods-in and goods-out capacity at our existing Bellshill depot in Scotland, and created additional capacity through a new third depot at Swan Valley in Northamptonshire.

6. To make core supermarkets strong again

During the year we completed around 60 further Fresh Look store improvements, bringing the total to almost 300 since the start of the programme.

The Fresh Look refits and extensions, together with our new stores, are providing innovation and learnings that we can apply across Morrisons. As stated in recent announcements, this has enabled new developments in areas such as Fruit & Veg, Café, Nutmeg, Home & Leisure, Toys, Garden and Party to be rolled out across the estate.

More broadly, we also have some new and innovative ideas on store design and layout. We were delighted that our new store in St Ives, Cambridgeshire, was selected by the Institute of Grocery Distribution from over 750 stores in more than 50 countries, for its shortlist of the top 5 stores of the year globally. Our very high footfall Wood Green store in London is our first to be designed around a food market and food-to-go. These and other new ideas are inspiring how we think about developing new formats across our estate.

Wholesale supply

It was an important year for wholesale, growing quickly to achieve our target of £700m of annualised year-end sales ahead of plan, and contributing over 3% to Group LFL. As reported at our first-half results, we incurred some extra wholesale supply start-up costs, which eased slightly in the second half. We are on track to achieve our target of £1bn of wholesale supply sales in due course.

Key to this growth has been an acceleration of the wholesale supply programme to our new partner, McColl's, more quickly than initially planned. By August, we were supplying around 1,300 McColl's stores with our Safeway range and branded items. In the coming weeks, we will start a trial to convert ten McColl's stores to Morrisons Daily convenience stores, with a full Morrisons convenience offer. In addition, we expect to begin to supply McColl's remaining c.300 convenience stores towards the end of 2019.

As we open convenience stores both on our own forecourts and with our partners, the Morrisons Daily fascia is growing quickly, and is now in 115 locations. This includes nearly 50 on Rontec forecourts and 20 in the Channel Islands with Sandpiper CI.

We also recently announced a new partnership with MPK Garages, and are in the process of together converting many of its forecourt convenience stores to Morrisons Daily. In addition, since year end, two smaller MPK shops have been converted to the Safeway Daily fascia, selling a range of brands and Safeway own brand. This is initially a trial for MPK shops not large enough for the full Morrisons Daily offer, and represents a return of the Safeway fascia to Britain's high streets for the first time since 2005.

We supply Amazon's customers across all its UK channels. For the same-day store-pick *'Morrisons at Amazon'* offer, there are over 10,000 items available to be ordered and delivered within one hour. The service is now available from Morrisons stores serving selected areas in and around London, and parts of Leeds, Birmingham and Manchester. New catchment areas during 2018/19 included parts of north-east London and Essex.

In addition, in a first expansion outside the UK and Channel Islands for our new wholesale supply business, we have begun exporting a range of Morrisons own-brand items to Big C in Thailand.

Financial strategy and update

Capital allocation framework

Our capital allocation framework has guided us in building a track record of capital discipline, and has served us and our stakeholders very well for the last five years. It remains unchanged. Our first priority is to invest in the stores and infrastructure and reduce costs. Second, we will seek to maintain debt ratios that support our target of an investment-grade credit rating. Third, we will invest in profitable growth opportunities. Fourth, we will pay dividends in line with our stated policy, and then any surplus capital will be returned to shareholders.

Shareholder returns

Consistent with the principles of our capital allocation framework, we announced both ordinary and special dividends during the year.

Our policy is for the ordinary dividend to be sustainable and covered around two times by EPS before exceptionals. The final ordinary dividend will be 4.75p per share, bringing the ordinary dividend for the full year to 6.60p.

In addition to both the ordinary dividend and the interim special dividend (2.00p, announced at the interim results), the Board is again proposing another final special dividend, this time of 4.00p per share. As we stated at our interim results, we remain confident that Morrisons has many meaningful and sustainable sales and profit growth opportunities ahead, and we also expect free cash flow to remain strong and sustainable. This further special dividend reflects our continued progress and expectations. We will continue to retain a strong and flexible balance sheet, and be guided by the principles of our capital allocation framework in assessing the uses of free cash flow.

In total, the full-year ordinary plus special dividends for 2018/19 are 12.60p per share, an increase of 24.9% year on year.

Subject to shareholder approval at our 2019 AGM, both the final ordinary and special dividends of 4.75p and 4.00p per share respectively will be payable on 1 July 2019 to shareholders on the share register at the close of business on 24 May 2019.

Cost savings

We have productivity programmes spanning several work streams end-to-end across the business. These are planned to deliver cost savings in many areas such as distribution, in-store administration, waste, goods not for resale, and at our manufacturing sites. We expect these cost savings to be significant and sustainable for many years to come.

Debt, cash flow and working capital

Net debt remained low at £997m (2017/18: £973m).

Free cash flow was £265m (2017/18: £350m, including £108m disposal proceeds), bringing the total to almost £3bn since the start of the programme in 2014/15. Adjusting for disposal proceeds, operating working capital, and onerous payments, free cash flow was up £44m (up 17.5%) to £296m (2017/18: £252m).

With the majority of our original disposal programme already achieved, disposal proceeds were £22m in the year (2017/18: £108m), bringing the total to £1,023m since we started the programme. We still expect to achieve our £1.1bn target.

The in-year cash outflow from ordinary and special dividends was £289m, a £160m increase year on year (2017/18: £129m).

The operating working capital outflow was £36m (2017/18: £35m inflow). The small outflow was primarily due to our investment in growth areas such as the new wholesale supply business. We still expect many future operating working capital generation opportunities.

Capital expenditure, depreciation and amortisation

Cash capital expenditure was £461m (2017/18: £500m), lower than both guidance and last year due mainly to the timing of various projects that will now fall into 2019/20. As a result, we expect 2019/20 capital expenditure will increase to c.£550m. In addition, we incurred £12m of onerous payments, which was lower than expected. For 2019/20, we expect a further c.£60m of onerous payments.

Depreciation and amortisation was £443m, in line with guidance (2017/18: £418m). On a non-IFRS 16 basis we expect another increase during 2019/20, to £470m–£480m.

Impairment review

We perform an annual store-by-store review of impairment and onerous contracts. The net charge was £5m, recognised outside profit before tax and exceptional items.

Finance costs

Net finance costs before exceptionals were £60m, down from last year (2017/18: £73m) in line with 2018/19 guidance of £60m–£65m. As previously announced, we successfully completed tender offers for £233m across three sterling bonds, incurring one-off costs of £33m which were recognised outside of profit before tax and exceptionals in the first half. We also refinanced and extended the term of our £1.35bn revolving credit facility, secured on attractive terms and running until 2023, with options to extend. On a non-IFRS 16 basis, we expect 2019/20 net finance costs before exceptionals to be c.£55m.

Pension

The net pension surplus was £688m at year end, down from £834m at the end of the first half, but up from £594m at the end of 2017/18. During the year, we announced the closure of the Retirement Saver Plan to new members and future accrual. The one-off costs associated with closure were £19m. In addition, following a High Court judgment in October 2018 relating to Lloyds Banking Group, we made a guaranteed minimum pension provision of £7m relating to the estimated cost of equalising pension benefits for men and women. There was also net pension interest income of £18m during the year. These exceptional pension items were recognised outside profit before tax and exceptionals.

We continue to work with the pension trustees to identify opportunities to de-risk the schemes. In January 2019, the trustees completed a further £413m buy-in of part of the Safeway scheme liabilities, bringing the cumulative total to £819m so far.

New space

As previously announced, three new stores opened during the year, in Abergavenny, St Ives in Cambridgeshire, and Acocks Green in Birmingham, adding c.68,000 square feet of selling space. During the year, net new space contributed 0.3% to total sales as guided.

During 2019/20, we plan to open two new and two replacement stores, with none due during the first half and the programme likely to be weighted towards the final quarter of the year. We expect 2019/20 net new space sales contribution to be around 0.1%.

Distribution network

Within other exceptional items was a £12m charge relating to one-off costs associated with improvements to the distribution network. These costs were incurred as part of a programme to increase network capacity and support the accelerated roll-out of wholesale supply.

Future reporting

The new IFRS 16 lease standard came into effect from 2019/20, representing a significant change in the accounting for and reporting of leases. As previously announced, we are adopting the fully retrospective approach on transition and are now in the final stages of quantifying the financial impact. Subject to completion of our work, we expect restated 2018/19 profit before tax and exceptionals to be around £10m lower than under the current accounting standards, and will provide a full update on the restatement of 2018/19 ahead of the 2019/20 interim results.

As announced at the 2018/19 interim results, after a review of Alternative Performance Measures emerging practice, we have changed our primary adjusted profit measure from 'underlying profit' to 'profit before tax, exceptional items and net pension interest', referred to as 'profit before tax and exceptionals'. In making this change, there is no restatement of 2017/18. In addition, we have moved to a three-column presentation, with exceptional items in a separate column on the face of the income statement.

From 2019/20, we are making two changes to future reporting. First, we will no longer report LFL Items per Basket and LFL Number of Transactions. As the business has grown in areas such as Food to Go and Clothing, more customers' baskets contain fewer but higher value items, and Items per Basket has become a less important KPI. While Number of Transactions is still important, and a KPI we remain very focussed on, it is no longer a KPI we will regularly report. Second, we will be reporting Q3 and Christmas trading together in early January, so will no longer report Q3 on its own in November.

People update

Our turnaround is colleague-led. By listening hard to colleagues and responding quickly we can improve the shopping trip for customers.

We value our colleagues' significant contribution and continue to share Morrisons success. This year our bonus for front-line colleagues will average over 2% of salary, on top of our competitive pay rates and benefits package. In our recent 'Your Say' survey, over 70% of colleagues told us they receive a fair day's pay for a fair day's work, over 20% ahead of the retail industry benchmark provided by our survey provider. Our overall engagement score for the year also remained strong at 76%.

We want all our colleagues to have a line manager who listens, helps and supports them. Our new store management structure is simpler, with broader team manager roles which are designed to provide better support and guidance to front line colleagues. We further invested in our store management teams with behavioural as well as technical training, and now recognise contribution with a performance-driven pay award and an increased team manager bonus opportunity. In addition, during the year hundreds of colleagues started one of our 'Pathways' management development programmes; already almost 100 have subsequently been promoted to more senior roles.

We remain committed to improving female representation in leadership roles, and have increased the proportion of female store managers, regional managers and Leadership Team members. We also have an objective of 50% female entrants for our development programmes.

During the year, we continued to invest in our *'My Morri'* digital communication platform, most recently launching a 'news desk' feature so colleagues can stay up to date with all the latest business activity and information.

Corporate responsibility and community

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

Supporting British farmers

We were recognised at the 2018 Food and Farming Industry Awards as Retailer of the Year as a result of our continued commitment to keep British agriculture profitable, affordable and sustainable. Our *'Milk for Farmers'* range, where part of the retail price goes directly back to farmers, has generated an additional £12m income for farmers since it launched in 2015. We received a Good Egg Award from Compassion in World Farming following our acquisition of the Chippindale Foods egg business, and our commitments to sell only cage-free shell eggs by 2022, and ingredient eggs by 2025.

Introducing paper bags

We are trialling the option of a paper carrier bag. The US-style paper bags are 100% PEFC accredited, sourced from forests that are managed responsibly. If the trial is successful, we will roll it out across all stores. We have replaced plastic bags for loose fruit and vegetables with paper bags in our stores. This removes 174 million plastic bags each year, which amounts to 269 tonnes of plastic.

Reducing plastic packaging

As well as the loose fruit and vegetables we already sell on Market Street, we are trialling the removal of plastic packaging from more of our fruit and vegetables. We are working with Waste & Resources Action Plan (WRAP) and the Department for Environment, Food and Rural Affairs to analyse the overall environmental impact of this trial.

Too Good to Waste boxes

We want to ensure that good food is never unnecessarily wasted. In 2018, we launched a *'Too Good to Waste'* box in stores, selling fresh fruit and vegetables just past their 'Display Until' date but still perfectly edible. Each 1 kilogramme box is filled with a mix of fresh fruit and vegetables and sells at a great value price of just £1.

Surplus food redistribution

Since our in-store unsold food programme began in 2016, we have donated over five million edible items to over 450 local community groups. Morrisons manufacturing sites have also been working with the national charity FareShare to donate food that cannot be sold in our stores, donating over 2 million meals to its network of charities since 2017.

CLIC Sargent and Charities

Since February 2017, our national charity partnership has raised almost £7m for CLIC Sargent, the UK's leading charity for children and young people with cancer. In 2018, collections in our stores raised £2m for the British Legion Poppy Appeal, £600,000 for the Marie Curie Daffodil Appeal, £167,000 for the DEC's Indonesian Tsunami Appeal and £90,000 for Children In Need. Community Champions in all our stores and sites provide product donations and help raise money for thousands of local charities and good causes.

Morrisons Foundation

The Morrisons Foundation continues to support charities making a positive difference in local communities. In the last year the Foundation donated over £5.5m to more than 440 charity projects across England, Scotland and Wales. The majority of the Morrisons Foundation's donations were awarded to charities close to a Morrisons store, supporting our aim to make a positive contribution to the communities that we serve. In addition to grant awards, the Foundation also provided match funding of more than £325,000 to boost the funds that Morrisons colleagues have raised for their chosen charities.

Consolidated income statement

52 weeks ended 3 February 2019

		2019			2018		
	Note	Before exceptionals £m	Exceptionals (note 3) £m	Total £m	Before exceptionals £m	Exceptionals (note 3) £m	Total £m
Revenue	4	**17,735**	**-**	**17,735**	17,262	-	17,262
Cost of sales		**(17,084)**	**(44)**	**(17,128)**	(16,629)	-	(16,629)
Gross profit		**651**	**(44)**	**607**	633	-	633
Other operating income		**88**	**-**	**88**	78	-	78
Profit/loss on disposal and exit of properties		**-**	**2**	**2**	-	19	19
Administrative expenses		**(274)**	**(29)**	**(303)**	(266)	(6)	(272)
Operating profit		**465**	**(71)**	**394**	445	13	458
Finance costs	5	**(64)**	**(33)**	**(97)**	(78)	(16)	(94)
Finance income	5	**4**	**18**	**22**	5	9	14
Share of profit of joint venture (net of tax)		**1**	**-**	**1**	2	-	2
Profit before taxation		**406**	**(86)**	**320**	374	6	380
Taxation	6	**(95)**	**19**	**(76)**	(89)	20	(69)
Profit for the period attributable to the owners of the Company		**311**	**(67)**	**244**	285	26	311
Earnings per share (pence)							
- Basic	8			**10.34**			13.30
- Diluted	8			**10.11**			13.03

Consolidated statement of comprehensive income

52 weeks ended 3 February 2019

Other comprehensive income/(expense)	**Note**	**2019 £m**	2018 £m
Items that will not be reclassified to profit or loss:			
Remeasurement of defined benefit pension schemes	16	**100**	323
Tax on defined benefit pension schemes		**(17)**	(55)
		83	268
Items that may be reclassified subsequently to profit or loss:			
Cash flow hedging movement		**9**	(18)
Items reclassified from hedging reserve in relation to repayment of borrowings	3	**-**	(2)
Tax on items that may be reclassified subsequently to profit or loss		**(1)**	(2)
Exchange differences on translation of foreign operations		**-**	(1)
		8	(23)
Other comprehensive income for the period, net of tax		**91**	245
Profit for the period attributable to the owners of the Company		**244**	311
Total comprehensive income for the period attributable to the owners of the Company		**335**	556

Consolidated balance sheet

3 February 2019

	Note	2019 £m	2018 £m
Assets			
Non-current assets			
Goodwill and intangible assets	9	**404**	428
Property, plant and equipment	10	**7,312**	7,243
Investment property	11	**26**	33
Pension asset	16	**730**	612
Investment in joint venture		**47**	53
Derivative financial assets	18	**15**	16
		8,534	8,385
Current assets			
Stock	13	**713**	686
Debtors	14	**347**	250
Derivative financial assets	18	**19**	15
Cash and cash equivalents	18	**264**	327
		1,343	1,278
Assets classified as held-for-sale	12	**39**	4
		1,382	1,282
Liabilities			
Current liabilities			
Creditors	15	**(3,085)**	(2,981)
Borrowings	18	**(178)**	(72)
Derivative financial liabilities	18	**(5)**	(13)
Current tax liabilities		**(27)**	(15)
		(3,295)	(3,081)
Non-current liabilities			
Borrowings	18	**(1,110)**	(1,245)
Derivative financial liabilities	18	**(2)**	(1)
Pension liability	16	**(42)**	(18)
Deferred tax liabilities		**(483)**	(478)
Provisions		**(353)**	(299)
		(1,990)	(2,041)
Net assets		**4,631**	4,545
Shareholders' equity			
Share capital		**237**	236
Share premium		**178**	159
Capital redemption reserve		**39**	39
Merger reserve		**2,578**	2,578
Retained earnings and other reserves		**1,599**	1,533
Total equity attributable to the owners of the Company		**4,631**	4,545

Consolidated cash flow statement

52 weeks ended 3 February 2019

	Note	2019 £m	2018 £m
Cash flows from operating activities			
Cash generated from operations	17	**842**	884
Interest paid		**(54)**	(66)
Taxation paid		**(76)**	(74)
Net cash inflow from operating activities		**712**	744
Cash flows from investing activities			
Interest received		**1**	4
Dividends received from joint venture	22	**7**	8
Proceeds from sale of property, plant and equipment and investment property		**22**	108
Purchase of property, plant and equipment and investment property		**(381)**	(429)
Purchase of intangible assets		**(77)**	(71)
Acquisition of business (net of cash received)		**(3)**	-
Net cash outflow from investing activities		**(431)**	(380)
Cash flows from financing activities			
Purchase of trust shares	20	**(9)**	(4)
Settlement of share awards	20	**(5)**	(7)
Proceeds from exercise of employee share options	20	**20**	33
Proceeds on settlement of derivative financial instruments		**-**	6
New borrowings		**275**	-
Repayment of borrowings		**(306)**	(245)
Costs incurred on repayment of borrowings		**(30)**	(17)
Dividends paid	7	**(289)**	(129)
Net cash outflow from financing activities		**(344)**	(363)
Net (decrease)/increase in cash and cash equivalents		**(63)**	1
Cash and cash equivalents at start of period		**327**	326
Cash and cash equivalents at end of period	18	**264**	327

Reconciliation of net cash flow to movement in net debt[1] in the period

	Note	2019 £m	2018 £m
Net (decrease)/increase in cash and cash equivalents		**(63)**	1
Cash inflow from increase in borrowings		**(275)**	-
Debt acquired on acquisition of business		**(2)**	-
Cash outflow from repayment of borrowings		**306**	239
Non-cash movements		**10**	(19)
Opening net debt		**(973)**	(1,194)
Closing net debt	18	**(997)**	(973)

[1] Net debt is defined in the Glossary.

Consolidated statement of changes in equity

52 weeks ended 3 February 2019

Current period

		Attributable to the owners of the Company						
		Share capital	Share premium	Capital redemption reserve	Merger reserve	Hedging reserve	Retained earnings	Total equity
	Note	£m	£m	£m	£m	£m	£m	£m
At 5 February 2018		236	159	39	2,578	2	1,531	4,545
Profit for the period		-	-	-	-	-	244	244
Other comprehensive income/(expense):								
Cash flow hedging movement		-	-	-	-	9	-	9
Remeasurement of defined benefit pension schemes	16	-	-	-	-	-	100	100
Tax in relation to components of other comprehensive income		-	-	-	-	(1)	(17)	(18)
Total comprehensive income for the period		-	-	-	-	8	327	335
Purchase of trust shares	20	-	-	-	-	-	(9)	(9)
Employee share option schemes:								
Share-based payments charge		-	-	-	-	-	34	34
Settlement of share awards	20	-	-	-	-	-	(5)	(5)
Share options exercised	20	1	19	-	-	-	-	20
Dividends	7	-	-	-	-	-	(289)	(289)
Total transactions with owners		1	19	-	-	-	(269)	(249)
At 3 February 2019		**237**	**178**	**39**	**2,578**	**10**	**1,589**	**4,631**

Prior period

		Attributable to the owners of the Company						
		Share capital	Share premium	Capital redemption reserve	Merger reserve	Hedging reserve	Retained earnings	Total equity
	Note	£m	£m	£m	£m	£m	£m	£m
At 30 January 2017		234	128	39	2,578	18	1,066	4,063
Profit for the period		-	-	-	-	-	311	311
Other comprehensive (expense)/income:								
Cash flow hedging movement		-	-	-	-	(18)	-	(18)
Items reclassified from hedging reserve in relation to repayment of borrowings	3	-	-	-	-	(2)	-	(2)
Exchange differences on translation of foreign operations		-	-	-	-	-	(1)	(1)
Remeasurement of defined benefit pension schemes	16	-	-	-	-	-	323	323
Tax in relation to components of other comprehensive income		-	-	-	-	4	(61)	(57)
Total comprehensive (expense)/income for the period		-	-	-	-	(16)	572	556
Purchase of trust shares	20	-	-	-	-	-	(4)	(4)
Employee share option schemes:								
Share-based payments charge		-	-	-	-	-	33	33
Settlement of share awards	20	-	-	-	-	-	(7)	(7)
Share options exercised	20	2	31	-	-	-	-	33
Dividends	7	-	-	-	-	-	(129)	(129)
Total transactions with owners		2	31	-	-	-	(107)	(74)
At 4 February 2018		**236**	**159**	**39**	**2,578**	**2**	**1,531**	**4,545**

1. General information and basis of preparation

The financial information, which comprises the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated cash flow statement, consolidated statement of changes in equity, and related notes, is derived from the full Group financial statements for the 52 week period ended 3 February 2019, which have been prepared under European Union endorsed International Financial Reporting Standards (IFRS) and those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

It does not constitute statutory financial statements within the meaning of section 434 of the Companies Act 2006. This financial information has been agreed with the auditor for release. The Group's financial statements (comprising the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated cash flow statement, consolidated statement of changes in equity, and related notes) are available for download on the Group's website at https://www.morrisons-corporate.com/investor-centre/financial-reports/

The Annual Report and Financial Statements for the 52 week period ended 3 February 2019 on which the auditor has given an unqualified report and which does not contain a statement under section 498 of the Companies Act 2006, will be delivered to the Registrar of Companies in due course.

The accounting policies used in completing this financial information have, unless otherwise stated, been consistently applied in all periods shown. These accounting policies are detailed in the Group's financial statements for the 52 week period ended 3 February 2019 which can be found on the Group's website https://www.morrisons-corporate.com/investor-centre/financial-reports/

New accounting standards, amendments and interpretations adopted by the Group

The following new standards, interpretations and amendments to standards are mandatory for the Group for the first time for the 52 weeks ended 3 February 2019:

- IFRS 9 'Financial Instruments'
- IFRS 15 'Revenue from Contracts with Customers'
- IFRIC 22 'Foreign Currency Transactions and Advance Consideration'
- Amendments to the following standards:
    - IAS 40 'Transfers of Investment Property'
    - IFRS 2 'Classification and Measurement of Share-based Payment Transactions'
    - IFRS 4 'Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts'
    - Clarifications to IFRS 15 'Revenue from Contracts with Customers'
    - Improvements to IFRSs (2014-2016)

The Group has considered the above new standards, and amendments to published standards, and has concluded that, except for IFRS 9 and IFRS 15, they are either not relevant to the Group or they do not have a significant impact on the Group's consolidated financial statements.

IFRS 9 'Financial Instruments'

IFRS 9 'Financial Instruments' replaces IAS 39 'Recognition and Measurement' and is applicable to financial assets and financial liabilities. Transition to IFRS 9 for the Group took place on 5 February 2018 and the Group has adopted the standard using the modified retrospective transition approach, which does not require restatement of prior year comparatives.

IFRS 9 introduced three key changes when compared to IAS 39 relating to:

- new requirements for the classification and measurement of financial assets and financial liabilities;
- a new model for recognising provisions based on expected credit losses; and
- revised hedge accounting by aligning hedge accounting more closely to risk management objectives.

Upon adoption of IFRS 9, there has been no change in the classification of financial assets. All trade receivables of the Group continue to be held at amortised cost under IFRS 9, and all other financial assets are held at fair value through other comprehensive income. For financial liabilities, the classification and measurement requirements under IFRS 9 are similar to those under IAS 39. In respect of the Group's hedging arrangements, the only change on transition to IFRS 9 relates to the standard allowing recognition of a proportion of option premiums within other comprehensive income, rather than in the consolidated income statement. This change, however, is immaterial to the consolidated financial statements.

1. General information and basis of preparation (continued)

IFRS 9 'Financial Instruments' (continued)
IFRS 9 also introduced a forward-looking expected credit loss model for recognising provisions in respect of financial assets and receivables. This, in theory, could result in earlier recognition of credit losses, than the incurred loss model of IAS 39. The Group has updated its accounting policy for the establishment of provisions against trade receivables to reflect the lifetime expected credit loss, consistent with the simplified approach under IFRS 9. However, the impact of using the expected credit loss model on the consolidated financial statements of the Group is immaterial.

As a result of the assessment, the Group concluded that IFRS 9 has an immaterial impact on the consolidated financial statements. Accordingly, no adjustment to the opening balance sheet at 5 February 2018 has been recognised.

IFRS 15 'Revenue from Contracts with Customers'
IFRS 15 'Revenue from Contracts with Customers' was published in May 2014 and has become effective for the Group from the period beginning 5 February 2018. The standard replaces IAS 18 'Revenue', IAS 11 'Construction contracts' and related interpretations. Transition to IFRS 15 for the Group took place on 5 February 2018 and the Group has adopted the modified retrospective transition approach which does not require restatement of prior year comparatives.

The standard introduces a five-step approach to the timing and recognition of revenue, based on performance obligations in customer contracts. Under IFRS 15, revenue should only be recognised when a customer obtains control of goods or services and has the ability to direct the use and obtain the benefits from the goods or services. It applies to all contracts with customers, except those in the scope of other standards.

During the 53 weeks ended 4 February 2018, the Group assessed in detail the impact of IFRS 15 on the consolidated financial statements. The impact assessment covered all of the Group's revenue and income streams, including those areas which require special consideration such as customer loyalty schemes, rights of return and wholesale arrangements. The Group concluded that IFRS 15 had an immaterial impact on the existing accounting policies for revenue recognition on the basis that the majority of the Group's transactions (volume and value) are for sale of goods in stores, online or to wholesale customers where the transfer of control is clear (either at the till or on delivery of goods). Accordingly, no adjustment to the opening balance sheet at 5 February 2018 has been recognised.

As part of the exercise of assessing the impact of IFRS 15, the Group reviewed and updated its accounting policies and disclosures around each of its income streams. Following the exercise, the Group classified £17m of commission income to other operating income in the period, which in the 53 weeks ended 4 February 2018 was included within 'other sales' in revenue (2018: £18m). There has been no reclassification for the 53 weeks ended 4 February 2018 as the adjustment is immaterial and presentational only.

New accounting standards, amendments and interpretations in issue but not yet effective
There are a number of standards and interpretations issued by the IASB that are effective for financial statements after this reporting period.

Of these new standards, amendments and interpretations, only IFRIC 23, IFRS 16, and the amendment to IAS 19 are relevant to the Group, and only IFRS 16 is expected to have a material impact on the Group's consolidated financial statements:

Amendment to IAS 19 'Employee Benefits'
An amendment to IAS 19 'Employee Benefits' was published in February 2018 and will be effective for the Group from the period beginning 4 February 2019. The amendment applies prospectively in connection with accounting for plan amendments, curtailments and settlements.

The amendment requires entities to use updated assumptions to determine current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement. The Group has assessed the impact of the amendment and concluded that it will not have a material impact on the consolidated financial statements.

IFRIC 23 'Uncertainty over income tax treatments'
IFRIC 23 'Uncertainty over income tax treatments' was issued in June 2017 and will be effective for the Group from the period beginning 4 February 2019. The interpretation covers how the Group accounts for taxation, where there is some uncertainty over whether treatments in the tax return will be accepted by HMRC or the relevant overseas jurisdictions.

Each uncertain treatment (or combination of treatments) is considered for whether it will be accepted, and if probable taxable profits/losses, tax bases, unused tax losses, unused tax credits and tax rates are accounted for consistently with the tax return. The Group accounts for each treatment using whichever of the two allowed measurement methods is expected to best predict the final outcome – the single most likely outcome or a probability weighted-average value of a range of possible outcomes.

1. General information and basis of preparation (continued)

New accounting standards, amendments and interpretations in issue but not yet effective (continued)

IFRIC 23 'Uncertainty over income tax treatments' (continued)

The Group will adopt the modified retrospective approach to transition on 4 February 2019. Under this approach, the comparatives in the consolidated financial statements for the 52 weeks ended 2 February 2020 will not be restated and the cumulative impact of IFRIC 23 will be recognised in opening retained earnings. The Group has referred to the IFRIC guidance, including the Draft Interpretation DI/2015/1 in previous periods, and is expecting the impact of IFRIC 23 to be immaterial.

IFRS 16 'Leases'

IFRS 16 'Leases' was published in January 2016 and will be effective for the Group from the period beginning 4 February 2019, replacing IAS 17 'Leases'.

The main principle of the standard is to eliminate the dual accounting model for lessees under IAS 17, which distinguishes between on balance sheet finance leases and off-balance sheet operating leases, and to provide a single model for lessee accounting. IFRS 16 requires lessees to recognise right-of-use assets and lease liabilities for all leases unless the lease term is 12 months or less or the underlying asset is of low value.

The standard represents a significant change in the accounting and reporting of leases and it will impact the income statement and balance sheet as well as statutory and Alternative Performance Measures used by the Group.

Transition to IFRS 16 for the Group will take place on 4 February 2019 and the Group will adopt the fully retrospective approach to transition. Under this approach, the comparatives in the consolidated financial statements for the 52 weeks ended 2 February 2020 will be restated. As at 3 February 2019, the Group has non-cancellable operating lease commitments of £2,331m. A small proportion of these commitments relate to short-term leases and those leases of low-value which will continue to be recognised on a straight-line basis in the consolidated income.

The Group has a project team which has reviewed all of the Group's leasing arrangements in light of the new lease accounting rules. This work is nearing completion, and the Group has estimated that had IFRS 16 been applied in the 52 weeks ended 3 February 2019, the impact on the consolidated balance sheet as at 3 February 2019 would have been:

- recognition of right-of-use assets of around £0.8bn disclosed within non-current assets;
- financial liabilities would increase by around £1.4bn to reflect the recognition of the discounted lease liabilities;
- derecognition of onerous lease provisions of around £0.2bn; and
- adjustment to opening retained earnings of c.£0.4bn.

IFRS 16 will also have a significant impact on the Group's consolidated income statement, particularly in respect of where and when costs are recognised in the income statement. The Group has estimated that the impact on profit before tax and exceptionals for the 52 weeks ended 3 February 2019 would have been around £10m lower than under IAS 17.

The profile of the costs recognised in the consolidated income statement will change compared to IAS 17. This is because the unwind of the discount on the lease liabilities and the depreciation on the right-of-use asset will be more front-loaded compared to the straight-line recognition of rental costs under IAS 17 following adoption of IFRS 16. In particular:

- Depreciation will increase due to the depreciation charge on the IFRS 16 right-of-use assets;
- Rental costs charged to the consolidated income statement on a straight-line basis will reduce; and
- Finance costs will increase driven by the unwind of the discount on the discounted lease liability.

On completion of the work, the financial estimates will be finalised and the interim results for the 26 weeks ended 4 August 2019 will be reported on a post-IFRS 16 basis, along with restated comparatives.

The total cash outflow for lease payments will not change under IFRS 16 but the split between operating cash flows and financing cash flows will change.

Lessor accounting, will be substantially unchanged from IAS 17. However, some additional disclosures will be required in the consolidated financial statements for the 52 weeks ended 2 February 2020.

All accounting policies for lessees and for lessors will be updated to reflect the impact of IFRS 16 in the consolidated financial statements for the 52 weeks ended 2 February 2020.

1. General information and basis of preparation (continued)

Principal risks

Certain risks are inherent in the business and are fundamental to the achievement of all of our key priorities. Other risks could directly impact the achievement of certain key priorities. The risks, which are shown in no particular order, are disclosed along with their alignment to the six priorities and the movement in residual risk during the year. Residual risk is stated after considering the actions taken by management in response to new and emerging issues impacting the identified risks.

RISKS	DESCRIPTION	MITIGATION
Business Interruption	There is a risk that a major incident, such as a significant failure of technology, a natural disaster, disruption in the supply chain or strike action, could cause significant disruption to business operations. The Group's response must be appropriate to minimise disruption and reputational damage. There is an increased risk of supply chain disruption and complexity in the event of a 'no deal' scenario – with regard to the UK's exit from the EU.	• We have recovery plans in place covering our stores, depots, sites and offices; • These plans include, where appropriate, secondary locations which would be used as backup in case of an incident; • Business continuity resilience and disaster recovery exercises are undertaken to test processes and management's ability to respond effectively; • A Crisis Management Group is in place to oversee these plans and to manage and respond to any major incidents; • We conduct supplier risk assessments and have contingency plans in place, where possible, to manage the risk of loss of supply; • Successful application for Authorised Economic Operator status; • We have been working with our European and International Suppliers and freight providers to safeguard and identify alternative supply routes; and • There has been continued investment in cloud technologies to provide further resilience to the Technology systems.
Competitiveness	The Grocery Sector continues to be highly competitive. If we do not engage with our suppliers and effectively manage our trade plan to remain competitive there is a risk this will adversely impact performance. Additional pressures on competitiveness have been seen from the impact on cost of goods following the decision to leave the EU and the Brexit negotiations that were ongoing throughout the year. A 'no deal' outcome could continue to create uncertainty in the UK Retail market and cause movement in foreign exchange rates. It could also result in additional costs, import duties, and delays when bringing goods into the UK.	• Our pricing, trade plan and promotional and marketing campaigns are actively managed; • Our strong balance sheet and strong cash flow will allow us to continue to invest in our proposition; • Long-term agreements are established with suppliers, ensuring a competitive customer offer to help maintain security of supply; • We continue to work closely with British growers and farmers; and • We continually review our range, category plan, and quality and respond to customer feedback. The 'Best' premium own-brand range has continued to grow to meet customer demand and we launched our low-price 'Wonky' and relaunched the 'Savers' brands.

1. General information and basis of preparation (continued)

RISKS	DESCRIPTION	MITIGATION
Customer	There is a risk that we do not meet the needs of our customers in respect of price, range, quality, service and sustainability concerns. We need to be responsive to changes in customer confidence and trends which have been impacted by changes to the economy and the UK's ongoing discussions about leaving the EU which led to uncertainty throughout the year. A 'no deal' outcome is likely to further impact customer sentiment, increasing the importance of listening and responding to our customers needs. If we do not provide the shopping trip that customers want, we could lose sales and market share particularly in an environment of weaker customer sentiment.	• One of our six priorities is 'to serve customers better' and we have a range of activities to support that; • An ongoing programme of customer listening is in place to gain a deep understanding of what our customers want and these have informed key activities such as our store Fresh Look programme and changes to range and introducing more locally sourced products; • We closely monitor research on customer perceptions and respond quickly wherever possible. For example, with plans to reduce plastic in the products we supply; and • We have worked with wholesale partners to make Morrisons products accessible to more customers and have continued to expand the geography covered by our online offering.
Data	A security breach leading to a loss of customer, colleague or Group confidential data is a key aspect of this principal risk. A major data security breach could lead to significant reputational damage and fines. The risk environment is challenging, with increased levels of cyber-crime and regulatory requirements.	• The Data Steering Group has the responsibility for overseeing data management practices, policies, regulatory awareness and training; • Information security policies and procedures are in place, including encryption, network security, systems access and data protection; • This is supported by ongoing monitoring, reporting and rectification of vulnerabilities; and • Focused working groups are in place – looking at the management of data across the business including colleague data, customer data, commercial data and financial data. This considers data transfer to third parties.
Financial and treasury	The main areas of this principal risk are the availability of funding and management of cash flow to meet business needs. There is a risk of a working capital outflow if there was a significant reduction in payment terms to suppliers. Some suppliers benefit from access to supply chain finance facilities. The withdrawal of these facilities may require some terms to be reviewed. In addition exposure to movement in foreign exchange rates continues to require management.	• The Group's Treasury function is responsible for the forward planning and management of funding, interest rate, foreign currency exchange rate and certain commodity price risks. They report to the Treasury Committee and operate within clear policies and procedures which are approved by the Board. The appropriateness of policies are reviewed on a regular basis; • The Group's treasury policy is to maintain an appropriate borrowing maturity profile and a sufficient level of headroom in committed facilities. This includes an assumption that supply chain finance facilities are not available for the benefit of suppliers; • There are governance processes in place to control purchases in foreign currency and management of commodity prices; and • For livestock and produce, we track prices and forecasts and enter into long-term contracts where appropriate to ensure stability of price and supply.

1. General information and basis of preparation (continued)

RISKS	DESCRIPTION	MITIGATION
Food safety and product integrity	There is a risk that the products we sell are unsafe or not of the integrity that our customers expect. It is of utmost importance to us, and to the confidence that customers have in our business, that we meet the required standards. If we do not do this it could impact business reputation and financial performance.	• Monitoring processes are in place to manage food safety and product integrity throughout the Group and supply chain; • Regular assessments of our suppliers and own manufacturing and store facilities are undertaken to ensure adherence to standards; • Our vertical integration model gives us control over the integrity of a significant proportion of our fresh food; • Management regularly monitors food safety and product integrity performance and compliance as well as conducting horizon scanning to anticipate emerging issues; and • The process is supported by external accreditation and internal training programmes.
Health and safety	The main aspect of this principal risk is of injury or harm to customers or colleagues. Failure to prevent incidents could impact business reputation and customer confidence and lead to financial penalties.	• We have clear policies and procedures detailing the controls required to manage health and safety risks across the business; • An ongoing training programme is in place for front line operators and management; • A programme of health and safety audits is in place across the Group with resource dedicated to manage this risk effectively; and • Management regularly monitors health and safety performance and compliance.
People	Our colleagues are key to the achievement of our plan, particularly as we improve the business. There is a risk that if we fail to attract, retain or motivate talented colleagues, we will not provide the quality of service that our customers expect. Business change and the challenging trading environment may impact on colleagues as would a 'no deal' Brexit. This could increase the risk of issues with the availability of EU labour in certain locations, particularly low skilled labour, and could increase the cost of agency labour.	• We have fair employment policies, and competitive remuneration and benefits packages; • A Group-wide reward framework is in place and roles are evaluated against an external framework, driving stronger consistency of rewards; • Our training and development programmes are designed to give colleagues the skills they need to do their job and support their career aspirations; • Line managers conduct regular talent reviews and processes are in place to identify and actively manage talent; • Colleague engagement surveys, listening sessions and networking forums are used to understand and respond to our colleagues; and • Opportunities continue to be identified, and implemented, to increase automation across the business.
Regulation	The Group operates in an environment governed by numerous regulations including GSCOP (Groceries Supply Code of Practice), competition, employment, health and safety and regulations over the Group's products. The Board takes its responsibilities very seriously and recognises that breach of regulation can lead to reputational damage and financial damages to the Group. Consideration is also given to any potential changes to regulations. Regulatory changes in the event of a 'no deal' outcome in areas such as the labelling of goods, transfer of data and exporting of products will have some impact on the Group.	• We have a GSCOP compliance framework in place including training for relevant colleagues and processes to monitor compliance; • We have a senior level working group in place to review and improve GSCOP compliance activity; • We have an independent whistleblowing line for suppliers to provide feedback to the Group and a Code Compliance Officer so that action can be taken as necessary; • The Group monitors for potential regulatory change and the impact on contractual arrangements; • We have training, policies and legal guidance in place to support compliance with Competition Law and other regulations; and • We actively engage with government and regulatory bodies on policy changes which could impact our colleagues and our customers.

1. General information and basis of preparation (continued)

Brexit

Throughout the year there has been continued uncertainty about Brexit and therefore this has remained an area of focus from a risk perspective. The Group has considered the risks associated with the different possible outcomes so that plans could be formulated that would allow a response. The uncertainties identified included the impact on the supply chain, imported food inflation, consumer confidence, potential changes to access to EU labour and changes in legal requirements. These uncertainties impact a number of the Group's principal risks and have therefore been factored into the assessment of the relevant risks throughout the year, and also considered as part of the required mitigation plans. 'No regret' decisions, which would be of benefit to the Group regardless of the outcome of the Brexit negotiations were also identified by the dedicated steering group. Actions in the year have included a successful application for Authorised Economic Operator status, seeking alternative supply routes for key products, review of the hedging policy, process automation and adapting the labour model, and an increase in stock levels for certain key lines.

Responsibility statement

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

To the best of each Director's knowledge:

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

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

2. Segmental Reporting

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

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

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

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

3. Profit before exceptionals

Profit before exceptionals is defined as profit before exceptional items and net pension interest. Further detail on profit before tax and exceptionals, profit before exceptionals after tax and earnings per share before exceptionals is provided in the Glossary.

The Directors consider that these adjusted profit and adjusted earnings per share measures referred to in the results provide useful information for shareholders on ongoing trends and performance. The adjustments made to reported profit/loss are to: exclude exceptional items, which are significant in size and/or nature; exclude net pension interest; and to apply a normalised tax rate of 23.5% (2018: 23.8%).

Profit before exceptionals and earnings per share before exceptionals measures are not recognised measures under EU-adopted IFRS and may not be directly comparable with adjusted measures used by other companies. The classification of items excluded from profit before exceptional requires judgement including considering the nature, circumstances, scale and impact of a transaction. Reversals of previous exceptional items are assessed based on the same criteria.

Given the significance of the Group's property portfolio and the quantum of impairment and property-related provisions recognised in the consolidated balance sheet, movements in impairment and other property-related provisions would typically be included as exceptional items, as would significant impairments of other non-current assets.

Despite being a recurring item, the Group has chosen to also exclude net pension interest from profit before exceptionals as it is not part of the operating activities of the Group, and its exclusion is consistent with the way it has historically been treated and with how the Directors assess the performance of the business.

	2019	2018
	£m	£m
Profit after tax	**244**	311
Add back: tax charge for the period[1]	**76**	69
Profit before tax	**320**	380
Adjustments for:		
Impairment and provision for onerous contracts[1]	**5**	(6)
Profit/loss arising on disposal and exit of properties[1]	**(2)**	(19)
Costs associated with the repayment of borrowings[1]	**33**	16
Pension exceptional items[1] (note 16)	**26**	(13)
Other exceptional items[1]	**42**	25
Net pension income[1] (note 16)	**(18)**	(9)
Profit before tax and exceptionals	**406**	374
Normalised tax charge at 23.5% (2018: 23.8%)[1]	**(95)**	(89)
Profit before exceptionals after tax	**311**	285
Earnings per share before exceptionals (pence)		
- Basic (note 8)	**13.17**	12.19
- Diluted (note 8)	**12.88**	11.94

[1] Adjustments marked [1] increase post-tax adjusted earnings by £67m (2018: decrease of £26m) as shown in the reconciliation of earnings disclosed in note 8.

[2] Normalised tax is defined in the Glossary.

Impairment and provision for onerous contracts

Following the Group's annual impairment and onerous contract review a net charge of £5m has been recognised. This includes a net impairment reversal of £55m (£163m impairment reversal offset by £108m impairment charge). The £108m impairment charge includes £97m in relation to property, plant and equipment and £11m in relation to intangible assets (see notes 10 and 9). The £163m impairment reversal relates entirely to property, plant and equipment (see note 10). A net £74m charge has been recognised in relation to provisions for onerous contracts. This has been partially offset by amounts released from accruals for amounts provided for onerous commitments of £21m. In addition to this, other property provisions increased by £7m mainly relating to provisions for dilapidations.

3. Profit before exceptionals (continued)

Impairment and provision for onerous contracts (continued)

Impairment and provision for onerous contracts in the 53 weeks ended 4 February 2018 totalled a net credit of £6m. This comprised of a net impairment reversal of £7m (£126m impairment reversal offset by £119m impairment charge), a net £1m credit relating to provisions for onerous contracts, and an increase in amounts provided for onerous commitments increased by a net £2m.

Profits/loss arising on disposal and exit of properties

Profits/loss arising on disposal and exit of properties, net of fees incurred, amounted to £2m (2018: £19m).

Costs associated with the repayment of borrowings

Costs associated with the early repayment of borrowing facilities and other refinancing activities total £33m (2018: £16m). This comprised of £30m relating to financing charges on redemption of financial instruments (primarily premiums) (2018: £17m) and £3m of fees and premiums written off on the repayment of bonds (2018: £1m). There were no amounts relating to gains or losses reclassified to the income statement on termination of hedging arrangements, which had previously been recognised in reserves (2018: £2m credit).

Pensions exceptional items

Pensions exceptional items include the following:

- Costs associated with the closure of pension schemes of £19m (2018: £nil) relate to an exceptional curtailment charge following the closure of the Group's Retirement Saver Plan to future accrual in September 2018 (see note 16).
- Guaranteed minimum pension of £7m (2018: £nil) relate to the estimated cost of equalising guaranteed minimum pension benefits for men and women, following a ruling by the High Court in October 2018. Further detail is provided in note 16.

In the 53 weeks ended 4 February 2018, the pension exceptional item was a pension scheme set-up credit of £13m related to back dated contributions in respect of the Group's defined contribution scheme which was established during that period. The credit represented the difference between the expected back dated contributions and the cost based on actual participation rates. Further detail is provided in note 16.

Other exceptional items

Other exceptional items include:

- £28m in relation to increased stock provisioning. During the 52 weeks ended 3 February 2019, the Group continued to automate its ordering systems. This led to operational changes and additional information regarding stock levels and a change in the methodology for estimating stock provisions.
- a £12m charge, relating to one-off costs associated with improvements to the Group's distribution network. These costs were incurred as part of a programme to increase network capacity and support the accelerated roll out of wholesale supply.
- a net charge of £2m, primarily in relation to previously recognised provisions for restructuring (£3m credit), and other costs incurred including in relation to legal cases in respect of historic events (£5m charge). The credit recognised in respect of restructuring costs represents the difference between the expected costs recognised based on estimates and the actual cost incurred.

In the 53 weeks ended 4 February 2018, other exceptional items included restructuring costs of £21m primarily relating to the restructuring of store management teams, and legal costs incurred in relation to cases in respect of historic events.

4. Revenue

	2019 £m	2018 £m
Sale of goods in-store and online	**13,265**	13,246
Other sales	**705**	290
Total sales excluding fuel	**13,970**	13,536
Fuel	**3,765**	3,726
Total revenue	**17,735**	17,262

All revenue is derived from contracts with customers.

5. Finance costs and income

	2019 £m	2018 £m
Interest payable on short-term loans and bank overdrafts	**(3)**	(2)
Interest payable on bonds	**(48)**	(63)
Interest capitalised	**1**	1
Total interest payable	**(50)**	(64)
Provisions: unwinding of discount	**(13)**	(13)
Other finance costs	**(1)**	(1)
Finance costs before exceptionals[1]	**(64)**	(78)
Costs associated with the repayment of borrowings (note 3)	**(33)**	(16)
Finance costs	**(97)**	(94)
Bank interest received	**4**	5
Finance income before exceptionals[1]	**4**	5
Net pension income (notes 3 and 16)	**18**	9
Finance income	**22**	14
Net finance costs	**(75)**	(80)

[1] Net finance costs before exceptionals marked [1] amount to £60m (2018: £73m).

6. Taxation

	2019 £m	2018 £m
Current tax		
- UK corporation tax	**79**	69
- overseas tax	**4**	4
- adjustments in respect of prior periods	**6**	(8)
	89	65
Deferred tax		
- origination and reversal of timing differences	**(19)**	(2)
- adjustments in respect of prior periods	**6**	6
	(13)	4
Tax charge for the period	**76**	69

The effective tax rate for the year was 23.7% (2018: 18.2%). The normalised tax rate for the year (excluding the impact of property transactions, business disposals, tax rate changes and other adjustments) was 23.5% (2018: 23.8%).

The normalised tax rate was 4.5% above the UK statutory tax rate of 19%. The main factor increasing the normalised tax rate is disallowed depreciation on UK properties which reflects the Group's strategy to maintain a majority freehold estate.

Legislation to reduce the standard rate of corporation tax to 17% from 1 April 2020 was included in Finance Act 2016 and was enacted in the prior period. Accordingly, deferred tax has been provided at 19% or 17% depending upon when the temporary difference is expected to reverse (2018: 19% or 17%).

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

7. Dividends

Amounts recognised as distributed to equity holders in the period:

	2019 £m	2018 £m
Final dividend for the period ended 4 February 2018 of 4.43p (2018: 3.85p)	**104**	90
Special final dividend for the period ended 4 February 2018 of 4.00p (2017: £nil)	**94**	-
Interim dividend for the period ended 3 February 2019 of 1.85p (2018: 1.66p)	**44**	39
Special interim dividend for the period ended 3 February 2019 of 2.00p (2018: £nil)	**47**	-
	289	129

The Directors propose a final ordinary dividend in respect of the financial period ended 3 February 2019 of 4.75p per share which will absorb an estimated £113m of shareholders' funds. The Directors also propose a special dividend of 4.00p per share which will absorb an estimated £95m of shareholders' funds. Subject to approval at the Annual General Meeting ('AGM'), these dividends will be paid on 1 July 2019 to shareholders who are on the register of members on 24 May 2019.

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

8. Earnings per share (EPS)

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

The Company has two (2018: two) classes of instrument that are potentially dilutive: those share options granted to employees where the exercise price together with the future IFRS 2 charge of the option is less than the average market price of the Company's ordinary shares during the period and contingently issuable shares under the Group's Long Term Incentive Plans (LTIPs).

a) Basic and diluted EPS (unadjusted)

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

	2019			2018		
	Earnings £m	**Weighted average number of shares millions**	**EPS pence**	Earnings £m	Weighted average number of shares millions	EPS pence
Unadjusted EPS						
Basic EPS						
Profit attributable to ordinary shareholders	**243.7**	**2,356.8**	**10.34**	311.1	2,338.6	13.30
Effect of dilutive instruments						
Share options and LTIPs	**-**	**53.2**	**(0.23)**	-	49.3	(0.27)
Diluted EPS	**243.7**	**2,410.0**	**10.11**	311.1	2,387.9	13.03

8. Earnings per share (continued)

b) EPS before exceptionals

EPS before exceptionals is defined as earnings per share before exceptional items and net pension interest. Basic EPS is adjusted to more appropriately reflect ongoing business performance.

The reconciliation of the earnings used in the calculations of EPS before exceptionals is set out below:

	2019			2018		
	Earnings £m	**Weighted average number of shares millions**	**EPS pence**	Earnings £m	Weighted average number of shares millions	EPS pence
EPS before exceptionals						
Basic EPS before exceptionals						
Profit attributable to ordinary shareholders	**243.7**	**2,356.8**	**10.34**	311.1	2,338.6	13.30
Adjustments to determine profit before exceptionals (note 3)	**66.8**	**-**	**2.83**	(26.1)	-	(1.11)
	310.5	**2,356.8**	**13.17**	285.0	2,338.6	12.19
Effect of dilutive instruments						
Share options and LTIPs	**-**	**53.2**	**(0.29)**	-	49.3	(0.25)
Diluted EPS before exceptionals	**310.5**	**2,410.0**	**12.88**	285.0	2,387.9	11.94

9. Goodwill and intangible assets

	2019 £m	2018 £m
Net book value		
At start of period	**428**	445
Additions	**79**	68
Interest capitalised	**1**	-
Impairment	**(11)**	(1)
Amortisation charge for the period	**(93)**	(84)
At end of period	**404**	428

The Group has performed its annual assessment of its amortisation policies and asset lives and deemed them to be appropriate.

As in previous years, fully amortised assets are retained in the Group's fixed asset register. In order to provide greater understanding of the Group's annual amortisation charge, assets which have become fully amortised in the year have been removed from both cost and accumulated amortisation.

Following the annual impairment review conducted by the Group, an impairment charge of £11m (2018: £1m) has been recognised in relation to intangible assets. This has been excluded from profit before exceptionals (see note 3).

10. Property, plant and equipment

	2019 £m	2018 £m
Net book value		
At start of period	**7,243**	7,227
Additions	**398**	427
Acquisition of business	**5**	-
Disposals	**(15)**	(87)
Interest capitalised	**-**	1
Transfers from investment property	**6**	-
Transfers to assets classified as held-for-sale	**(41)**	-
Depreciation charge	**(350)**	(333)
Net impairment reversal	**66**	8
At end of period	**7,312**	7,243

10. Property, plant and equipment (continued)

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

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

Included within leasehold land and buildings are assets held under finance lease with a cost of £303m (2018: £293m) and accumulated depreciation of £80m (2018: £75m).

The cost of financing property developments prior to their opening date has been included in the cost of the asset. The cumulative amount of interest capitalised in the total cost above amounts to £199m (2018: £199m).

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 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 store cash flows over the next three years by applying forecast sales and cost growth assumptions;
- project cash flows beyond year three, for the life of each store by applying a long-term growth rate; and
- discount the cash flows using a pre-tax rate of 9.0% (2018: 9.0%). The discount rate takes into account the Group's weighted average cost of capital.

'Fair value less costs of disposal' is estimated by the Directors based on their knowledge of individual stores, the markets they serve and likely demand from grocers or other retailers. This assessment takes into account the continued low demand from major grocery retailers for supermarket space, when assessing rent and yield assumptions on a store by store basis. In certain years, the Directors also obtain store level valuations prepared by independent valuers to aid this assessment. When assessing the assumptions at individual store level the Directors take into account the following factors:

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

Having applied the above methodology and assumptions, the Group has recognised a net impairment reversal of £66m (£163m impairment reversal offset by £97m impairment charge) during the year in respect of property, plant and equipment (2018: net £8m impairment reversal; £126m impairment reversal offset by £118m impairment charge). This movement reflects fluctuations from store level trading performance and local market conditions.

At 3 February 2019, the assumptions to which the value in use calculation is most sensitive to are the discount and growth rates. The Group has estimated a change of +/- 1% in either would result in a change in impairment of c.£60m.

11. Investment property

	2019 £m	2018 £m
Net book value		
At start of period	**33**	33
Additions	**-**	5
Transfer to property, plant and equipment	**(6)**	-
Transfers to assets classified as held-for-sale	**-**	(4)
Disposals	**(1)**	-
Depreciation charge	**-**	(1)
At end of period	**26**	33

12. Assets classified as held-for-sale

	2019 £m	2018 £m
Net book value		
At start of period	**4**	-
Transfer from property, plant and equipment	**41**	-
Transfers from investment property	**-**	4
Disposals	**(6)**	-
At end of period	**39**	4

13. Stock

	2019 £m	2018 £m
Finished goods	**713**	686

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

14. Debtors

	2019 £m	2018 £m
Trade debtors:		
Commercial income trade debtors	**4**	3
Accrued commercial income	**28**	29
Other trade debtors	**167**	123
Less: provision for impairment of trade debtors	**(4)**	(6)
	195	149
Prepayments and accrued income	**136**	91
Other debtors	**16**	10
	347	250

As at 3 February 2019 and 4 February 2018, 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 at 10 March 2019, £4m of the £4m commercial income trade debtor balance had been settled and £14m of the £28m accrued commercial income balance had been invoiced and settled.

15. Creditors

	2019 £m	2018 £m
Trade creditors	**2,449**	2,298
Less: commercial income due, offset against amounts owed	**(27)**	(28)
	2,422	2,270
Other taxes and social security payable	**113**	93
Other creditors	**126**	147
Accruals and deferred income	**424**	471
	3,085	2,981

Included within accruals and deferred income is £1m (2018: £4m) in respect of deferred commercial income.

As at 10 March 2019, £18m of the £27m commercial income due above had been offset against payments made.

16. Pensions

The Group operates a number of defined benefit retirement schemes (together 'the Schemes') providing benefits based on a benefit formula that depends on factors including the employee's age and number of years of service. The Morrison and Safeway Schemes provide pension benefits based on either the employee's compensation package and/or career average revalued earnings (CARE) (the 'CARE Schemes'). The CARE Schemes are not open to new members and were closed to future accrual in July 2015. The Retirement Saver Plan ('RSP') is a cash balance scheme, which provides a lump sum benefit based upon a defined proportion of an employee's annual earnings in each year, which is revalued each year in line with inflation subject to a cap. The RSP was closed to future accrual in September 2018. The position of each scheme at 3 February 2019 is a follows:

	2019 CARE £m	2019 RSP £m	2018 CARE £m	2018 RSP £m
Fair value of scheme assets	**4,471**	**349**	4,542	315
Present value of obligations	**(3,741)**	**(391)**	(3,930)	(333)
Net pension asset/(liability)	**730**	**(42)**	612	(18)

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

	2019 £m	2018 £m
Net pension asset at start of the period	**594**	272
Net interest income	**18**	9
Settlement and curtailment gain	**2**	10
Curtailment loss from closure of the pension scheme	**(19)**	-
Remeasurement in other comprehensive income	**100**	323
Employer contributions	**56**	75
Current service cost	**(53)**	(91)
Past service cost (Guaranteed minimum pensions)	**(7)**	-
Administrative cost	**(3)**	(4)
Net pension asset at end of the period	**688**	594

At 3 February 2019, schemes in surplus have been disclosed within the assets on the balance sheet. The Group has taken legal advice with regard to the recognition of a pension surplus and also recognition of a minimum funding requirement under IFRIC 14 'IAS 19 – The limit on a defined benefit asset, minimum funding requirement and their interaction'. This advice concluded that recognition of a surplus is appropriate on the basis that the Group has an unconditional right to a refund of a surplus. In respect of the RSP this is on the basis that paragraph 11(a) of IFRIC 14 applies enabling a refund of surplus during the life of the RSP.

16. Pensions (continued)

In respect of the Morrison Scheme, it is on the basis that paragraph 11(b) or 11(c) of IFRIC 14 applies enabling a refund of surplus assuming the gradual settlement of the scheme liabilities over time until all members have left the scheme or the full settlement of the Scheme's liabilities in a single event (i.e. as a scheme wind up). In respect of the Safeway Scheme, a refund is available on the basis that paragraph 11(b) of IFRIC14 applies. Amendments to the current version of IFRIC 14 are currently being considered. The legal advice received by the Group has concluded that the above accounting treatment should not be affected by the current exposure draft of the revised wording to IFRIC 14.

The current best estimate of Group contributions to be paid to the defined benefit schemes for the accounting period commencing 4 February 2019 is £7m (2018: £73m). This estimate includes amounts payable from Wm Morrison Property Partnership (the' SLP') and salary sacrificed contributions from employees.

During the 53 weeks ended 4 February 2018, the Group updated the methodology for deriving the discount rate assumption used in valuing the pension scheme liabilities. This methodology has also been used in the IAS 19 valuation at 3 February 2019. The Group believes that this approach better reflects expected yields on high quality corporate bonds over the duration of the Group's pension schemes, as required by IAS 19. The previous methodology estimated the discount rate with reference to both corporate bond and gilt yields. The updated method uses high quality corporate bond yields where available. At very long durations, where there are no high quality corporate bonds, the yield curve is extrapolated based on available corporate bond yields of mid to long duration.

Assumptions regarding future mortality experience are set based on actuarial advice and in accordance with published statistics. The mortality tables used for the 52 weeks ended 3 February 2019 are the S2PMA/S2PFA-Heavy tables (males/females) based on year of birth with a scaling factor of 110%/100% applied to the mortality rates in the Morrison/Safeway Scheme respectively, with CMI 2017 projections and a long-term rate of improvement of 1.5% p.a. For the 53 weeks ended 4 February 2018, the Group used the S2PMA/S2PFA-Heavy mortality tables (males/females) based on year of birth with a scaling factor of 110%/100% applied to the mortality rates in the Morrison/Safeway Scheme respectively, with CMI 2015 projections and a long term rate of improvement of 1.5% p.a.

Closure of the Retirement Saver Plan

Following the conclusion of a consultation process, the Group announced the closure of the Group's RSP to future accrual in September 2018. This resulted in an exceptional curtailment charge of £19m recognised in 52 week period ended 3 February 2019 (2018: £nil).

Guaranteed minimum pension

On 26 October 2018, the High Court issued a judgement in a claim involving Lloyds Banking Group's defined benefit pension schemes. This judgement concluded the schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. The issues determined by the judgement have a potential consequence for many other defined benefit pension schemes and are likely to result in an increase in the liabilities of the Morrison and Safeway Schemes. The Group has worked with the Trustees of the schemes and independent actuaries and estimated the cost of equalising benefits at £7m. This cost has been recognised in the consolidated income statement as an exceptional item in the 52 weeks ended 3 February 2019 (2018: £nil). Any subsequent changes to this amount in future periods will be treated as a change in actuarial assumption, and as such will be recognised in other comprehensive income.

Defined contribution scheme

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

As the MPRS is a defined contribution scheme, the Group is not subject to the same investment, interest rate, inflation or longevity risks as it is for the defined benefit schemes. The benefits that employees receive are dependent on the contributions paid, investment returns and the form of benefit chosen at retirement. During the 52 weeks ended 3 February 2019, the Group paid contributions of £28m to the MPRS (2018: £4m), and expects to contribute £79m for the following period (2018: £23m).

17. Cash generated from operations

	2019 £m	2018 £m
Profit for the period	**244**	311
Net finance costs	**76**	80
Taxation charge	**75**	69
Share of profit of joint venture (net of tax)	**(1)**	(2)
Operating profit	**394**	458
Adjustments for:		
Depreciation and amortisation	**443**	418
Impairment	**108**	119
Impairment reversal	**(163)**	(126)
Profit/loss arising on disposal and exit of properties	**(2)**	(19)
Adjustment for non-cash element of pension charges	**21**	10
Share-based payments charge	**34**	33
Increase in stock[1]	**(27)**	(72)
Increase in debtors[1]	**(89)**	(50)
Increase in creditors[1]	**82**	153
Increase/(decrease) in provisions[1]	**41**	(40)
Cash generated from operations	**842**	884

Total working capital inflow (the sum of items marked[1] in the table) is £7m in the year (2018: £9m outflow). This includes £60m (2018: £1m) as a result of the current year charges in respect of onerous contracts and accruals of onerous commitments, net of £12m (2018: £42m) of onerous payments and other non-operating payments of £5m (2018: £3m). When adjusted to exclude these items, the working capital outflow is £36m (2018: £35m inflow).

18. Analysis of net debt[1]

	2019 £m	2018 £m
Cross-currency interest rate swaps[2]	**9**	12
Fuel and energy price contracts	**6**	4
Non-current financial assets	**15**	16
Foreign exchange forward contracts	**3**	1
Fuel and energy price contracts	**16**	14
Current financial assets	**19**	15
Bonds[2]	**-**	(72)
Other short-term borrowings[2]	**(178)**	-
Foreign exchange forward contracts	**(4)**	(13)
Fuel and energy price contracts	**(1)**	-
Current financial liabilities	**(183)**	(85)
Bonds[2]	**(1,013)**	(1,245)
Revolving credit facility[2]	**(97)**	-
Fuel and energy price contracts	**(2)**	(1)
Non-current financial liabilities	**(1,112)**	(1,246)
Cash and cash equivalents	**264**	327
Net debt	**(997)**	(973)

[1]Net debt is defined in the Glossary.

Total net liabilities from financing activities (the sum of items marked [2] in the table) is £1,279m in the 52 weeks ended 3 February 2019 (2018: £1,305m).

Cash and cash equivalents include restricted balances of £3m (2018: £7m) which is held by Farock Insurance Company Limited, a subsidiary of Wm Morrison Supermarkets PLC.

19. Financial instruments

	2019 £m	2018 £m
Non-current financial assets		
Derivative financial assets	**15**	16
Total non-current financial assets	**15**	16
Current financial assets		
Derivative financial assets	**19**	15
Total current financial assets	**19**	15
Current financial liabilities		
Short-term borrowings	**(178)**	(72)
Derivative financial liabilities	**(5)**	(13)
Total current financial liabilities	**(183)**	(85)
Non-current financial liabilities		
Borrowings	**(1,110)**	(1,245)
Derivative financial liabilities	**(2)**	(1)
Total non-current financial liabilities	**(1,112)**	(1,246)

All derivatives are categorised as level 2 instruments. Level 2 fair values for simple, over-the-counter derivatives are calculated by using benchmarked, observable market interest rates to discount future cash flows.

20. Share capital and share premium

All issued shares are fully paid and have a par value of 10p per share (2018: 10p per share). The Group did not acquire any of its own shares for cancellation in the 52 weeks ended 3 February 2019 or the 53 weeks ended 4 February 2018.

The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at the meetings of the Company.

Trust shares

Included in retained earnings is a deduction of £21m (2018: £14m) in respect of own shares held at the balance sheet date. This represents the cost of 9,885,248 (2018: 7,661,470) of the Group's ordinary shares (nominal value of £1.0m (2018: £0.8m)). 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 3 February 2019 was £23m (2018: £17m). 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 3,945,258 (2018: 1,787,165) of its own shares to hold in trust for consideration of £9m (2018: £4m), and utilised 1,721,480 (2018: 2,584,182) trust shares to satisfy awards under the Group's employee share plans.

Proceeds from exercise of employee share options

The Group issued 12,440,132 (2018: 20,279,315) new shares to satisfy options exercised by employees during the period in respect of the Groups Share save schemes. Proceeds received on exercise of these shares amounted to £20m (2018: £33m) and these have been recognised as an addition to share capital and share premium in the period.

Settlement of share awards

During the 52 weeks ended 3 February 2019 the Group has settled 1,721,480 of share options out of trust shares which have vested during the period net of tax. The Group paid the £5m (2018: £7m) in cash on behalf of the employees, rather than selling shares on the employees' behalf to settle the employees tax liability on vesting of share options.

21. Commercial income

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

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

	2019 £m	2018 £m
Commercial income:		
Marketing and advertising funding	**51**	34
Volume-based rebates	**135**	192
Total commercial income	**186**	226

22. Related party transactions

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

During the 52 weeks ended 3 February, the Group received a dividend of £7m (2018: £8m) from MHE JVCo Limited. The Group has a 51.1% interest in MHE JVCo Limited.

23. Guarantees and contingent liabilities

Following the disposal of the land and building of its customer fulfilment centre at Dordon to a third party, the Group continues to guarantee the lease in respect of this site. If the lessee were to default, their lease obligations could revert back to the Group under the terms of the guarantee and become a liability of the Group. Should the lessee default, the additional future commitment is estimated at up to £31m (2018: £32m).

The Group has an ongoing legal case brought by a number of current and former colleagues relating to employee data theft in the 52 weeks ended 1 February 2015. In December 2017, the High Court concluded that the Group was liable for the actions of the former employee who conducted the data theft. The Group launched an appeal to this judgement and the High Court has confirmed that there will be no hearings on the level of compensation until the appeal has been concluded. During the 52 weeks ended 3 February 2019 the High Court rejected this appeal and the Group is now appealing to the Supreme Court. It is the Directors' view that at this stage of the process the Group cannot reliably assess the outcome of the case nor reasonably estimate the quantum of any loss and as such no provision has been recognised in these consolidated financial statements.

Glossary

Alternative Performance Measures

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

After a review of emerging practice around Alternative Performance Measures, the Group has amended its primary measure for adjusted profit. As a result 'underlying profit' has been replaced by 'Profit before exceptional items and net pension interest'. 'Profit before exceptional items and net pension interest' is referred to as 'Profit before exceptionals'. This change has no impact on amounts reported under the previous definition.

In moving to this measure, the Group has also adopted a three-column approach to the consolidated income statement. The Directors believe this new definition and presentation provides additional clarity on the treatment of adjusting items and is consistent with how the Directors assess the performance of the Group.

<table>
<tr><th>Measures</th><th>Closest equivalent IFRS Measure</th><th>Definition and purpose</th><th>Reconciliation for 2018/19 Group measures [1]</th></tr>
<tr><td colspan="4">Profit Measures</td></tr>
<tr><td>Like-for-like (LFL) sales growth</td><td>Revenue</td><td>Percentage change in year-on-year sales (excluding VAT), removing the impact of new store openings and closures in the current or previous financial year.

The measure is used widely in the retail industry as an indicator of ongoing sales performance. It is also a key measure for Director and management remuneration.</td><td><table>
<tr><th></th><th>52 weeks ended 3 February 2019 %</th></tr>
<tr><td>Group LFL (exc. fuel)</td><td>4.8%</td></tr>
<tr><td>Group LFL (inc. fuel)</td><td>4.3%</td></tr>
<tr><td>53rd week impact</td><td>(1.9)%</td></tr>
<tr><td>Net new space</td><td>0.3%</td></tr>
<tr><td>Total revenue year-on-year</td><td>2.7%</td></tr>
</table></td></tr>
<tr><td>Total sales growth</td><td>Revenue</td><td>Including fuel:
Percentage change in year-on-year total reported revenue.

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

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

This measure is a key measure for Director and management remuneration.</td><td>A reconciliation of total sales including and excluding fuel is provided in note 4.</td></tr>
<tr><td>Profit before tax and exceptionals</td><td>Profit before tax</td><td>Profit before tax and exceptional items is defined as profit before tax, exceptional items and net pension interest. This excludes exceptional items which are significant in size and/or nature and net pension interest.

This measure is a key measure used by the Directors. It provides key information on ongoing trends and performance of the Group and is used for Director and management remuneration.</td><td>A reconciliation of this measure is provided in note 3.</td></tr>
</table>

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

Glossary (continued)

Measures	Closest equivalent IFRS measure	Definition and purpose	Reconciliation for 2018/19 Group measures [1]
Profit Measures (continued)			
Profit before exceptionals after tax	Profit after tax	Profit before tax and exceptionals after a normalised tax charge. This measure is used by the Directors as it provides key information on ongoing trends and performance of the Group, including a normalised tax charge.	£311m being profit before tax and exceptionals of £406m less a normalised tax charge of £95m (see note 3).
Operating profit before exceptionals	Operating profit[2]	Reported operating profit before exceptional items, which are significant in size and/or nature. This measure is used by the Directors as it provides key information on on-going trends and performance of the Group.	£465m being reported operating profit (£394m) less profit/loss on disposal and exit of properties (£2m), plus impairment and provisions for onerous contracts (£5m), pensions exceptional costs (£26m) and other exceptional items of (£42m).
Net finance costs before exceptionals	Finance costs	Reported net finance costs excluding the impact of net pension interest and other exceptional items, which are significant in size and/or nature. This measure is used by the Directors as it provides key information on ongoing cost of financing excluding the impact of exceptional items.	A reconciliation of this measure is provided in note 5.
Basic earnings per share before exceptionals	Basic earnings per share	Basic earnings per share based on Profit before exceptionals after tax rather than reported profit after tax as described above. This measure is a key measure used by the Directors. It provides key information on ongoing trends and performance of the Group and is used for Director and management remuneration.	A reconciliation of this measure is included in note 8.
Diluted earnings per share before exceptionals	Diluted earnings per share	Diluted earnings per share based on profit before exceptionals after tax rather than reported profit after tax as described above.	A reconciliation of this measure is included in note 8.
Tax measures			
Normalised tax	Effective tax	Normalised tax is the tax rate applied to the Group's principal activities on an ongoing basis. This is calculated by adjusting the effective tax rate for the period to exclude the impact of exceptional items and net pension interest. This measure is used by the Directors as it provides a better reflection of the normalised tax charge for the Group.	A reconciliation of the tax charge is found in note 2.2.3 of the Group financial statements.

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

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

Glossary (continued)

Measures	Closest equivalent IFRS measure	Definition and purpose	Reconciliation for 2018/19 Group measures [1]
Cash flows and net debt measures			
Free cash flow	No direct equivalent	Movement in net debt before dividends. This measure is used by the Directors as it provides key information on the level of cash generated by the Group before the payment of dividends.	£265m being the movement in net debt (£24m) before payment of dividend (£289m).
Net debt	Borrowings less cash and cash equivalents and financial assets and liabilities	Net debt is cash and cash equivalents, non-current financial assets and current financial assets, less borrowings, current financial liabilities and non-current financial liabilities.	A reconciliation of this measure is provided in note 18.
Working capital movement	No direct equivalent	Movement in stock, movement in debtors, movement in creditors and movement in provisions.	A reconciliation of this measure is provided in note 17.
Operating working capital movement	No direct equivalent	Working capital movement adjusted for charges for onerous contracts, onerous payments and other non-operating payments. This measure is used by the Directors as it provides a more appropriate reflection of the working capital movement by excluding certain nonrecurring movements relating to property balances.	A reconciliation of this measure is provided in note 17.
Other measures			
Return on capital Employed (ROCE)	No direct equivalent	ROCE is calculated as return divided by average capital employed. Return is defined as annualised profit before exceptionals after tax adjusted for net finance costs before exceptionals and operating lease rentals (on land and buildings). Capital employed is defined as average net assets excluding net pension assets and liabilities, less average net debt, plus the lease adjustment (10 times rent charged). This measure is used by the Directors as it is a key ratio in understanding the performance of the Group.	ROCE (7.9%) equals return divided by average capital employed: Return (£463m) = profit before exceptionals after tax annualised (£311m) for net finance costs before exceptionals (£60m) and operating lease rentals (on land and buildings) (£92m). Average capital employed (£5,852m) = Average net assets excluding the net pension asset (£3,947m), average net debt (£985m) and the lease adjustment (£920m).

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