THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

MRW.L - Full Year 2014 WM Morrison Supermarkets PLC Earnings Call

EVENT DATE/TIME: MARCH 12, 2015 / 09:30AM GMT

© 2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

CORPORATE PARTICIPANTS

Andy Higginson *Wm Morrison Supermarkets PLC - Chairman*

Trevor Strain *Wm Morrison Supermarkets PLC - CFO*

CONFERENCE CALL PARTICIPANTS

Andrew Gwynn *UBS - Analyst*

John Kershaw *Exane BNP Paribas - Analyst*

Mike Dennis *Cantor Fitzgerald - Analyst*

Rob Joyce *Goldman Sachs - Analyst*

James Collins *Stifel Nicolaus & Company Inc. - Analyst*

James Tracey *Redburn Partners - Analyst*

Rickin Thakrar *Espirito Santo Investment Bank - Analyst*

Sreedhar Mahamkali *Macquarie Research - Analyst*

PRESENTATION

Andy Higginson - *Wm Morrison Supermarkets PLC - Chairman*

Good morning, everyone. Welcome to Morrisons' preliminary results for the 12 months ended February 1, 2015.

As this is my first announcement as Chairman, I'd like to take a little longer than usual to share with you some of my initial impressions of the business, and some thoughts on how we'll begin to improve trading momentum.

Before I start, I should say that I'm delighted David Potts will be joining us as our Chief Executive on Monday. David's the best retailer I have worked with in 25 years in the industry, and I know he'll bring a focus on the customer, exceptional delivery, and immense energy to the business; and really delighted he's coming.

So, anyway, let's turn to the results for last year. Turnover was down 5% to GBP16.8 billion; and underlying profits were down, as expected, to GBP345 million.

Our dividend for the year will be 13.65p; in line with the commitment that was made 12 months ago.

These results reflect the reset of the business last March, and the investment we've made in our customer proposition. I think, later, Trevor will take you through the detail of the progress we've made against the plan, including the improving trends we're seeing in KPIs.

I would, however, like to highlight the strong progress Trevor and his team have made on cash flow, working capital, and cost savings across the business. This is essential to support our investment program. And we remain optimistic that we'll achieve our goals for costs, working capital, property disposal, and, hence, cash flow, during the year ahead.

The final dividend we announced today was set last March, in the context of historic profit levels.

In setting guidance for the year ahead, the Board's taken into account the confidence we have in the cash flow projections; the need for a new CEO to have flexibility around his investment plans; and the needs of external stakeholders, be they lenders or shareholders. We've committed to a dividend underpin of not less than 5p per share in the next financial year.

Whilst our broad strategy of saving money from the way we operate to reinvest in our customer proposition is the right one, David will be reviewing the plan with a clear remit to improve trading momentum.

© 2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

We'll need to have greater focus, pace, and energy as we work to restore Morrisons' value offer, and improve all of the aspects of our customer shopping trip. First and foremost, that will be done through a relentless focus on the customer. We need to put the customer at the heart of everything we do; it's a simple thing to say, but not easy to do well.

We'll invest cost savings back in the customer, whether that's in price, better service, availability, and, of course, in colleague hours. This year we've already invested further in price, putting hours back into stores, and giving our store managers more freedom to do what they do best, which is to sell.

And there'll be more to come. Our focus will be on our core business; the supermarkets, as we've said. Online will take time to grow, although it is slightly ahead of plan at the moment, so we're pleased with that.

And although convenience has long-term potential, we need to refine our proposition and our site-selection process before we expand that business further.

So, moving onto my initial impressions of Morrisons, it is a business with a number of unique strengths. We've got a strong balance sheet with solid long-term funding. We own nearly all our own stores. Those stores are actually a great size and a very consistent format.

We own our own manufacturing facilities, and produce over half of the fresh food that we sell. That's unique in the UK and gives Morrisons a provenance that is not available to our competition.

Manufacturing can be a weapon for us. Market Street gives us a great reputation for fresh, which is the cornerstone of any great food business. And our skilled butchers, bakers, fishmongers, greengrocers in our stores are something that none of our competitors can match us on.

And we're Morrisons; we've got a fabulous brand, and a big customer base with a genuine affection for our business.

I've known Morrisons for many years, firstly as a really tough competitor, and then from my many visits to the shops, and stores, and sites since I joined. Whilst we will transform how the business operates, we won't forget who we are and the unique offer we have for customers. We must be Morrisons.

In summary, we've got enormous strengths. But it will take time to regain growth, and that will be the absolute focus of David and his management team.

Our destiny's in our own hands. If we invest further in the customer proposition and really get it right, we will see more customers buying more things from us. More customers means more volume; and it also means our stores are busier, our colleagues are happier, the foods fresher, and we'll get better deals from suppliers.

More customers, more volume will lead to better like-for-likes in time, although it's going to be bumpy with deflation to face into. Ultimately, this will translate to increased profitability, but it will be a sequential improvement.

And now, if you will, I'll hand over to Trevor, who'll take you through the details of last year, and the year ahead.

Trevor Strain - ***Wm Morrison Supermarkets PLC - CFO***

Thanks, Andy. Good morning, everyone. This morning, I'm going to update you on the initiatives we set out last year, before the usual run through of the numbers.

As Andy said, there's still a huge amount for us to do, but we have made good progress on all elements of the plan. Our cash performance was a particular highlight of the period; and we're also seeing progress in the key operational metrics, as you can see on the charts on the right of this slide.

As a quick reminder, we committed to GBP1 billion of cost savings last March to be delivered over three years. That GBP1 billion will be used three ways: in priority order, first, to invest in the core proposition; second, to offset any trading and structural cost headwinds; and third, to grow earnings.

We delivered GBP224 million of cost savings last year. Progress has been good, and in line with expectations in all areas.

In end-to-end operations, we've delivered GBP70 million of savings, and are on track for GBP300 million over three years. To deliver this, we have implemented a major restructure of our in-store teams to make them more efficient, with clearer lines of responsibility and fewer layers of management, as we have previously announced.

© 2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

We have utilized our manufacturing business by moving some invisible tasks upstream, and freed up our skilled in-store colleagues to serve our customers better.

During the year, we moved production of almost 120 beef and pork lines to our manufacturing business, which has extended the shelf life, reduced the waste, and improved sales. For example, sales of our signature beef range are up by 100%.

Colleagues with craft skills, like butchers, are a huge asset for the business. With more of our butchers' time freed up to do what they do best, serve our customers, counter sales are up by more than 10%. Going forward, we will work to make the most of these skills.

We're also well on track with our plans for the rollout of sales-based ordering with the first category, frozen, launching soon.

In indirect procurement and loss prevention, we've delivered GBP50 million of savings across the business, and we're on track for our three-year target of GBP200 million.

In promotional investment and sourcing, we made a good start with GBP104 million of savings delivered last year. We reduced the number of weekly items on promotion by more than 10% in the second half, and promotional participation is lower.

We have also reduced SKUs by more 2,500; over 10%, since the start of the program.

We've made substantial savings in both branded and own-brand sourcing, with more still to do, but we're on track for GBP500 million over three years.

We have made progress in the areas where we needed to improve the proposition. Most importantly, our prices are lower. During the year, we invested a net GBP315 million into our proposition, the majority of which was in price; this was done in several ways throughout the year. And since year end, we have cut prices again.

We are committed to keep lowering prices, and price stability is a key objective, but we have more to do.

The Match & More card was launched in the run-up to Christmas, and it provides reassurance on our pricing. In the business, Match & More is not used as an excuse for us to avoid lowering prices; it is used as a mirror to help us inform where we will cut.

We will work with our suppliers to ensure the trend towards fewer, better promotions continues.

And we're starting to make strides in own brand. Our new own brand team is beginning to realize some of the many opportunities, and is being independently recognized.

Morrisons' products won nearly 200 awards during the last year, which was over three times as many as for the previous year. Our priority, though, is to improve the proposition, and there is still much for us to do in the year ahead.

Before I move onto the numbers, an update on online and convenience. We're pleased with our first year online. From a standing start, with our first delivery being made just last January, we exited last year with around GBP200 million of annualized sales, and near 50% coverage of UK households.

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

During the year ahead, we will open at least one addition spoke. But our focus will be on improving the delivery density within our extensive, highly populated existing coverage area.

Moving onto convenience, standing back, convenience with a small c, has always been a critical driver of store choice for customers. And convenience is a growth area of the market. You will have seen from the release, we are significantly slowing the pace of new store openings.

Over recent years, the channel has grown at pace in Morrisons, however, our stores in their second year are not performing as we anticipated. We are working to improve the proposition and our site-selection capabilities. And today, we've announced to impacted colleagues that, after a difficult period of reflection, it is appropriate to propose to close 23 shops in 2015.

THOMSON REUTERS

© 2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

Now, moving onto the detail of the results, I will do the normal financial summary. But you will also see from the release, and the slides, that there are some new areas of disclosure today for commercial income and depreciation. We believe that this disclosure is appropriate for shareholders.

As well as the dividend update that Andy ran through, we have set out our approach on impairment and property valuation, which I will explain in more detail later.

Total turnover of GBP16.8 billion fell by 4.9%.

The operating loss and loss before tax includes a property impairment, and a number of components that we guided at the start of the year, specifically, the significant investment in our proposition; trading losses relating to new channels; and one-off costs.

Underlying PBT is the best measure of underlying trading performance. And GBP345 million was in line with the expectations we set last year, and close to the mid-point of the guidance range set 12 months ago.

Net debt fell by GBP477 million during the year, which was better than initially guided, as we successfully delivered on all elements of our cash flow plan.

And the dividend was up 5% to 13.65p per share; in line with our commitment of a minimum 5% increase for 2014, 2015.

I'll now provide some color around all of these components. Turnover, moving left to right, we saw a contribution of GBP360 million from new stores, contributing 2.7% to ex-fuel sales.

Sales from our like-for-like stores, which includes online, fell by GBP795 million, 5.9%. The online contribution was 0.6%.

Fuel sales fell by GBP408 million, driven mostly by deflation as we passed on lower oil prices to customers.

Other sales were down GBP21 million year on year, 8%, primarily due to the disposal of Kiddicare in July, which was a GBP50 million impact in half 2.

The next slide breaks out the elements of total store sales excluding fuel, which fell by GBP435 million in the period. Core supermarkets were the main driver of this decline, and this was partly offset by the contribution from our new business channels.

Our like-for-like performance remained negative, but improved through half 2. Our most important volume KPIs improved through the year. And during both our key Christmas trading period and Q4 as a whole, we grew volume market share in food.

All of this shows a move in the right direction. But as Andy said, we need to invest in the customer proposition, improve execution in order for us to build trading momentum.

This slide breaks out the key drivers of underlying profit in the period. The components should be familiar. Underlying profit for last year, restated in line with the definition adopted for this year, was GBP719 million.

The 2014, 2015 underlying profit was GBP345 million, with the fall driven mainly by GBP315 million of net investment in the customer proposition, as guided.

Negative like for likes, new store contribution, and cost headwinds, which were primarily payroll and property, impacted profit by GBP210 million, as expected. These impacts were offset by GBP224 million of productivity savings.

And finally, both one-off costs and new business development costs were broadly as guided. The GBP68 million of one-off costs included restructuring costs, launch costs for Match & More, and Kiddicare trading losses.

The GBP71 million relating to new business development was up GBP5 million year on year, and included the trading losses of both online and convenience.

The primary adjustments to get from the underlying profit to the statutory loss before tax of GBP792 million are property-related profits and the impairment of GBP1.3 billion, on which I'll provide more detail later.

Our calculation of underlying earnings is set out on this slide. I'll talk through the key factors contributing to the decline in underlying profits year on year; and at an underlying EPS level, this translates to 10.9p per share.

© 2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Looking at operating profit, stripping out the benefit of property disposals, and adjusting for the impact of impairments, our underlying operating margin fell by 190 basis points to 2.6%.

Moving onto cash, as we planned, there has been a significant improvement in the Group's cash flow with well over GBP1.1 billion improvement year on year.

Free cash flow, i.e., adjusting for dividends, was GBP785 million.

Cash flow from operations before onerous property payments was over GBP1 billion, and slightly up on last year.

Lower profit was offset by much improved working capital, which I will go through on the next slide.

In the period, we realized GBP450 million in cash proceeds from our disposal program, in line with our expectations; and cut CapEx by over half to GBP520 million, which was lower than guided.

Tax was lower than last year, due to the lower profits, but also due to an inflow received after completing prior-year returns.

Overall, net debt reduced by GBP477 million in the period to GBP2.3 billion, which was better than initially guided, but in line with the updated guidance issued at the time of our Q3 IMS.

In the coming year, we expect a further reduction in net debt and are guiding to a range of GBP1.9 billion to GBP2.1 billion.

18 months ago, we set out a focus on tight capital discipline and operational cash flow. A year ago, we set out our targets. And we're now starting to see these benefits land, with the Group generating positive cash pre-property disposals, and after dividend.

The rigorous focus on working capital improvement that I spoke about in September has been effective, and is ongoing. The business is now focused, day to day, on stock debt and terms.

On a statutory cash flow from operations note, you will see a working capital improvement of GBP289 million. This is after GBP74 million of onerous property payments, which were below the GBP100 million guided last March. It also includes GBP157 million, as a result of this year's impairment on onerous leases. So the underlying improvement in operating working capital was GBP206 million.

The GBP206 million was delivered after absorbing three significant headwinds: first, negative like for likes; second, a lower creditors' balance as a result of lower closing stock levels in certain categories. Both of these were anticipated. The third was a GBP80 million adverse impact in creditors, driven by the significant fall in the fuel price.

On stock, depot cover has reduced by four days. And importantly, this has been achieved without impacting our on-shelf availability.

Within creditors, our supply chain finance initiative is now up and running and progressing well.

Further working capital benefits will come in years two and three of the program, as initiatives, like sales-based ordering, start to land. And we remain on track for our target of GBP600 million of working capital improvement over three years.

Moving to property, we've made a strong start to our three year, GBP1 billion property disposal program, realizing GBP448 million of proceeds in the first year, in line with guidance.

Profits on disposal was GBP131 million.

Over the remainder of the plan, we are committed to holding the freehold element in our supermarket estate at above 80%, which is by far the highest ratio in the sector.

The sale and leaseback element of the program is mostly complete. And going forward, the focus is on property development opportunities and non-core disposals. Overall, we expect granulized net rent impact of disposals will be GBP20 million to GBP25 million by the end of the three-year program.

THOMSON REUTERS

© 2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

To highlight a few points on the balance sheet, as I said at the interims, our policy is to have strong, well-funded pension schemes with a broadly neutral position, all based on prudent assumptions.

The triennial pension valuation was completed in July 2014. At the time of the last valuation, in 2010, the pension schemes were almost fully funded. That position is virtually unchanged with the deficit falling to GBP40 million; and the schemes are over 97% funded.

In January, we announced a proposal, subject to a consultation process, to harmonize our pension schemes and close the two career average-defined benefit schemes to future accrual.

Whilst talking about the balance sheet, I wanted to revisit our capital allocation framework. In the coming year, we will increase our investment in refreshing the core estate.

With regards to the balance sheet metrics, given the current credit rating, we have amended one component of the framework, to include a commitment to metrics that support an investment grade rating, rather than specifically a strong investment grade, pragmatically reflecting where the rating sits today. Our investment in new channels, specifically convenience, is being reduced, partially as a result to our commitment to this capital discipline.

This slide shows our debt maturity profile. 12 months ago, the Group had around GBP2 billion of maturities in the three years ahead. With the refinancing activity that we updated you on in September, that number has now fallen to GBP350 million in the three years ahead of us today.

Also, at the year-end debt level, there is headroom of over GBP1.1 billion versus the committed facilities.

Turning now to the impairment charge of GBP1.3 billion, when book value exceeds recoverable value the asset is impaired. The recoverable amount is the higher of value and use to us, and the market value. There are two key drivers of this impairment charge: first, a change in some forward-looking assumptions, specifically regarding performance and a higher discount rate; and secondly, most importantly, a more prudent assessment of market value.

Where we rely on the market value to justify the carrying value on the balance sheet of an individual store, we have assessed who the likely alternative occupier could be, either a big grocer, a small store operator, or a secondary non-food retailer, and then applied an appropriate market-based rent.

Looking at the broader property valuation, our property portfolio is a key asset, and we remain committed to holding over 80% supermarket freehold ownership. And, as you know, we review property value every year. Based on the third-party assessment completed in December, our property is now valued at GBP8.5 billion.

We recently announced the proposed closure of 10 loss-making small supermarkets during 2015, all of which were acquired as part of the Netto and Co-op acquisitions. Total sales area is 83,000 square feet, and annual sales are less than GBP50 million. This is in addition to six M local closures last year, and the 23 proposed for this year.

After these proposed closures, and the addition of three new supermarkets, we expect net new space to be negative for the coming year, prior to any new M local openings.

We continually review the performance of all stores and remain committed to rigorous and optimal capital discipline, and we will undertake an annual store closures' review.

Moving onto disclosure, the context around commercial income has changed in the last few months. There is no direct accounting standard that prescribes disclosure requirements, but we believe it is appropriate to provide new disclosure in this area.

Let me just start on this with some perspectives. First, we don't see this as income. We see it as an adjustment to cost prices; and in that context, we view it in relation to the cost of goods.

Secondly, and most importantly, there is very little room for any judgment, or subjectivity. Even though this scope for judgment is very low, we are providing full disclosure on commercial income. For us, commercial income includes marketing and advertising funding, and volume-based rebates. For those areas, we have provided a more comprehensive accounting policy; the quantums in the P&L; and the balance sheet position at the year end, and at the end of last week, as at March 5.

The corporate governance report will also include a detailed description of the control environment.

THOMSON REUTERS

© 2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

We are also providing some new depreciation disclosure. In previous years, fully depreciated assets have been retained in the Group's fixed asset register. To provide a greater understanding of the depreciation charge, these have been removed from both cost and accumulated depreciation. At the balance sheet date, fully depreciated assets were GBP1.6 billion.

In summary, looking back, we delivered the guidance set 12 months ago on underlying profit; reduction in debt; working capital; and in cost savings.

The business has many strengths: we own most of our supermarkets, we have strong cash flows, and a strong pension position.

We will focus our time on listening and responding to customers and working hard every day to improve the shopping trip. We have a lot to do in the year ahead.

David joins us on Monday, and Andy and I are both looking forward to working with him.

Let's move into Q&A.

QUESTION AND ANSWER

Andrew Gwynn - ***UBS - Analyst***

Andrew Gwynn, UBS. Two questions, if I could. Firstly, just on David Potts, could you clarify the incentivization that you put in place? You talk a lot about trading momentum, I'm just wondering if there's any profit forecasts or any expectation of EPS and his LTIP.

The second question was just on the impairments. You note in there there's a shift in the discount rates, how much of the impairment is the discount rates? How much is the adjustment on the market value?

Trevor Strain - ***Wm Morrison Supermarkets PLC - CFO***

I'll go first on impairments. The impact of the discount rate is about GBP150 million.

In terms of the adjustment for the market value, Andrew, we haven't broken out the detailed component parts. I think the best way to think about it is it's around 70% of the GBP1.3 billion comes from the market value.

Andy Higginson - ***Wm Morrison Supermarkets PLC - Chairman***

In terms of David starting, one of the challenges for today has been to make sure we give David the right amount of headroom to come in and assess the business and formulate his own plan. So the LTIP targets will be set later in the year when David's had a chance to get into the business and understand it, and look at his plans for the future.

Andrew Gwynn - ***UBS - Analyst***

Is it possible to clarify your early thinking on it? Is it largely about trade momentum, or are there any --?

Andy Higginson - ***Wm Morrison Supermarkets PLC - Chairman***

I'm not quite sure what you're trying to get at. But in terms of -- the way we see the creation of shareholder value within the business is to get the core stores performing. They are the overwhelming majority of the business, 110% of profits on some measures.

We've got two small start-up businesses in convenience and online that may generate great value in the future, but, for the near term, will be relatively unimportant. So the core thinking is to try and get those businesses going, starting with trading momentum, and that's what David will be focused on when he comes.

THOMSON REUTERS

© 2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

Bruno?

Unidentified Audience Member

On the first question, there's quite a bit of strategy for the year seems to have been set in terms of a floor on the dividend; CapEx guidance; net debt guidance; changes to the online growth for convenience. When David starts on Monday, how much leeway does he really have to radically, or not so radically, disagree? Or is it more just about trading?

The second question, Trevor, is more related to what we discussed at half 1. Because I'm struggling whether this is everything in control, there may be some minor tweaks or some radical changes to guidance.

I'm thinking about at H1 you said that, in terms of impairments, you had looked at it before, you'd used conservative assumptions, and there was no need at the moment. So, suddenly there's a lot of additional impairment; it almost would imply that the conservative assumption you used at H1, or previous years, aren't true any more. Is that, therefore, the change in profitability, the same on the headwinds you create for David?

The third point is around trading. Clearly, you quote the positive numbers on market share from Nielsen, but looking at the latest counter data, the four-weekly, it seems to radically get worse. Would you like to comment on that, please? Thank you.

Andy Higginson - ***Wm Morrison Supermarkets PLC - Chairman***

So, Bruno, what can I say? I would think giving guys like you a job like this is a bit like those stories from the mid-west, where a toddler finds a loaded handgun in his parent's bedroom (laughter). Never quite sure what's going to happen, but it has a bad feel.

Bruno and I go back a long way. I was asked to mentor Bruno when he worked at Tesco, and he left the business shortly afterwards.

So, what can I say? In terms of David, I think, first of all, I mean, you know David quite well from your days in Tesco. David would not have taken this job to be the COO, and he's very much a CEO and we're very excited about him coming as a CEO.

A lot of what we tried to do in this announcement is to try and give a degree of guidance for the financial community, but, at the same time, keep his hands free to set the strategy as he sees fit.

I think a statement that says the creation of shareholder value in the business comes from revising or improving the supermarket business is not really a shattering insight that ties the hands of a CEO. It's self-evident, really.

And there's a lot of talk about strategy. Really, sorting a business like Morrisons out at this stage is really about strategy; it's actually about execution. And that is one of the things that David will bring in, in great quantities.

I think he has a free hand. We wanted to give some reassurance for what is, clearly, a period of uncertainty while he comes in and settles down. And we've tried to strike the right balance. That's all I can say. But, to be completely clear, David will have a completely free hand to come in and run the business as he sees fit, as any chief executive ought to do.

Do you want to add anything on impairment?

Trevor Strain - ***Wm Morrison Supermarkets PLC - CFO***

Yes, a couple of thoughts. We did a GBP900 million impairment last year, Bruno. We do our own impairment testing at the end of the year. In that GBP903 million, there was GBP379 million relating to stores. And what I said at year end, and last year, was that we had reset our approach to how we assess new space, going forward, and we'd look to all of our trading estates.

Thinking back to this room 12 months ago, we had questions around discounters as being niche. And I think the profitability outlook for the sector in the current year has probably changed quite fundamentally vis a vis 12 months ago when we did that impairment.

© 2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Having done that impairment review today, or reported on it today, what we've done is stand back and look at what we think -- and we talked in these meetings over the last two years about the property valuation. And there's been much good stuff written by a lot of the guys in the room around the impact of the -- the arguments around property valuation.

And what we've done is stood back and looked at those carrying values in the context of the environment at this year end, and taken a very prudent and conservative approach, which is right and proper to do when you're looking at the carrying value of the assets on the balance sheet.

So the only thing you can say about impairments is they're judgments. We made the judgments in the context of that environment 12 months ago, and we made the judgments in the context of the environment today, and they're different.

John Kershaw *- Exane BNP Paribas - Analyst*

John Kershaw, Exane. A couple from me. I suppose, following on from that, just what does success look like then if the fundamentals of the industry have structurally changed? You were talking to profit growth fundamentally, going forward, perhaps that view has changed a little bit.

Then, perhaps a couple on the GBP1 billion of cost savings. Andy, perhaps from your external perspective, how much of that looks genuinely unique to Morrisons? And how do you really get GBP600 million of working capital efficiency out of this business when you've taken GBP200 million out of stock already?

Then, a couple more technicals. Depreciation, because of what you've done, it's difficult to see what's in the underlying. I think it looks more like GBP315 million in the underlying profit, rather than the GBP390 million guided, based on the fixed-asset note. That doesn't sound like the right number, so tell me why I am wrong.

And just finally, what's the point to convenience?

Trevor Strain *- Wm Morrison Supermarkets PLC - CFO*

Deprecation, you've got depreciation guide includes the amortization on intangibles, right, so that gets you to the GBP387 million.

I think in the depreciation number, John, there's a few ups and downs. The reason we provided that extra depreciation disclosure is, if you run the math on it, you will see that the impact of the assets dropping off the deprecation schedule, if you like, is much bigger than the additions.

So, in the depreciation for the number we've just closed you've got the impairment impact from last year, which is quite small, because the impairment on stores was quite small; you've got the impact of additions; and you've also got the impact of the drop-offs rolling in.

I think looking forward at depreciation, you've got the same shape of impacts again in the year ahead, with one difference, the whip that's sat in intangibles will mostly go live. So that means we're guiding towards a depreciation number of around GBP400 million today.

In terms of cost savings, I think the commercial elements are open to the industry, so that's half, because they're driven by having smaller ranges and a less promotional offer.

I think in terms of the GBP200 million on goods not for resale, indirect procurement, and the loss-prevention elements, a lot of those, I think, are unique to Morrisons. They are genuine catch-up.

And I think when you look at the GBP300 million in cost savings across the sort of supermarkets' operating model I think that falls into the some-and-some bucket. We won't be the only retailer in the last 12 months who's restructured management layers, we've all done that. But we're the only one who is going to be putting in SBO this year. And I think it's sort of some and some, really.

Andy Higginson *- Wm Morrison Supermarkets PLC - Chairman*

In terms of the external perspective and what success looks like, I've always felt that, that phrase, that retailing teaches the difference between simple and easy, is right for our sector, I think. It's a very simple business in concept, but delivering it isn't easy. It's a very difficult thing to do, in many ways.

© 2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

I think, for me, in the very simple way I tend to look at the business, success is about getting more customers choosing to shop with us. Convenience with a small c has always been the single biggest factor of choice between different supermarkets. It's always been hard to get customers to drive past someone else's store to come to your store, if someone else's store is nearer by. And that convenience element still goes to the heart of the market, I think.

It is about lots of small things. It isn't a eureka moment where you reinvent food retailing, it is about doing a lot of little things in the store. Tesco used to call it every little helps, Morrisons used to call it more reasons to shop at Morrisons. These are the ways that you attract customers in. And it's an accumulation of lots of different things that make customers want to shop with you, rather than with someone else.

There is no such thing as a customer. As we know, there are very many and very varied types of customer, who choose shops for different reasons.

So success, for me, is really getting back in tune, which is what Morrisons always did. They're probably more intuitively, if you go back 10 years, 15, years, in tune with their customers than in the kind of more modern marketing parlance that's more systems and analysis based. But being in tune with the customers that don't want to shop at Morrisons is really where success lies.

I don't think the shopping trip at Aldi and Lidl, or in fact many of the other discounters, is really any different in fundamental nature than it is for people who shop at Morrisons. It's basically your grocery shop; you go out and do your food shopping.

And what we have to do is make Morrisons sufficiently attractive that those people who would actually like to shop at Morrisons but for a variety of reasons, whether it's the price list, or whether it's the service, or the deterioration of some of our stores and the lack of investment, there's a whole host of reasons why, why at the moment those customers don't feel they have permission to shop with us. And we have to give them that permission back; and to do that, we just have to be better.

There's no great rocket science to it. There's no structural reason why we can't do that. We're plenty big enough in the scale of things. We've got many strengths, particularly our balance sheet, and our stores which allow us to do more than some of our competition. We have many skills left in the business that others have got rid of, and rue having got rid of, actually. So I think we look to those things.

And you bring in a management team, like David Potts, who has forgotten more things about grocery retailing than probably most of us in this room know, and I think you've got a chance. But it's really a question, in terms of those cost savings, of thinking our way to being a simpler business.

And it starts with the customer. You start with, for example, ranges. It's not about reducing the SKUs in our stores, it's about having simpler ranges that are easier to shop. Now, a consequence of that may be that you end up reducing SKUs in the stores, but, actually, the objective is to get ranges that fit our customer needs better than anyone else, and having a core range within that which is fantastically well priced, and then choice around it that allow people to shop, supplemented by a bit of sexy promotions from time to time that will encourage them to come in.

It's as old as the hills, but we have to organize ourselves to do that. We've got no excuses. We are big enough; we've got the balance sheet strength to be able to do it; we've got the cost savings within the business to free up to be able to fund most of that ourselves, and we need to get on.

Mike Dennis - ***Cantor Fitzgerald - Analyst***

Mike Dennis, Cantor Fitzgerald. Just on your differentiation and manufacturing, where do you stand with that now in terms of last year, and going forward? As a percentage of your business, your GBP13 billion business, where is manufacturing? And what opportunity do you see within a simplification of your business in terms of range?

And just within that, I know a wider macro thing in terms of the euro weakness, how beneficial is now manufacturing to you against your competitors, given your sensitivity to exchange rates and inflation?

Andy Higginson - ***Wm Morrison Supermarkets PLC - Chairman***

Right, well, whole series of stuff in there. I think, first of all, to make a statement of the big number, it will be David's decision, really, around manufacturing that will count more than anything, and he has to assess that.

© 2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

I think you have to take it as a given that manufacturing has to demonstrate that it's competitive in the way that it produces products. But once you get beyond that initial stage, and taking that as an assumption, which may or may not be a big assumption but nevertheless, taking that assumption, the key question really is whether manufacturing can be a weapon for us in differentiating ourselves at the customer shelf. If it can, it has a future in the business; and if it can't, you can take that strategic view that really it doesn't matter who makes it for you. If there's no strategic difference for what they do, there's no value add then maybe its future is a different one to being in-house.

As we sit here today, the view would be that that's an opportunity for us. It gives us the flexibility to do things that our competitors maybe can't. It certainly adds to that provenance thing. When you're really trying to be the best fresh offer in the market having real control over that supply chain, whether it's through the packing, or whatever, is really key.

But just like anything, with a new CEO coming in, all of these things are open for investigation and a different decision. As we sit here today, if manufacturing can be a weapon for us in differentiating Morrisons from the pack, and winning in the market, then it has a great future in house.

Unidentified Audience Member

Three things: price, convenience, and online. On price, how much of your price cuts has been funded by a reduction in input costs? And, therefore, can you give us an indication of where your price position, relative to the competition, is? Are you better, worse, or the same?

On convenience, the issues you've got, are they industry issues, or are they Company-specific issues? And if they're Company-specific issues, why have you failed in such a high percentage of stores compared to the competition? What is it they're doing right and you're doing wrong, and what's the learnings there?

And then online, you're talking about looking at alternative delivery, I think the phrase was, in the future. Are you referring to click and collect, or are you referring to your going to do some picking in stores, etc?

And just finally, related to that, are you happy with the Ocado agreement, and the capacity which Ocado offers you for growing that business?

Andy Higginson - ***Wm Morrison Supermarkets PLC - Chairman***

So, two or three things. Quickly, in terms of online, yes, we were referring to click and collect, so that would be that one.

Do you want to take the price one?

Trevor Strain - ***Wm Morrison Supermarkets PLC - CFO***

Yes, I think a couple of thoughts. I think the input cost numbers probably are around 15% to 20% impact in the year.

I think, though, the dynamic in the industry around pricing has changed fundamentally over the last six months. So we put the same chart up that we showed in terms of number and ups and downs, and I think across the sector you see a lot more downs over the last six months than you did in the six months previous, when we put it up.

In terms of our relative position, we're still quite comfortable that our relative position has unchanged. In terms of the basket that our customers are paying, that's lower. And you've got some -- you've probably got a bit more difference emerging in approaches to pricing than we're seeing, whether that be split between branded, own branded, or different players taking slightly different approaches.

But in terms of relative position, I think we're quite comfortable with where we are. There is still a lot for us, and probably the whole sector, still to do, though.

Do you want me to do convenience, Andy, or do you want to do it?

Andy Higginson - ***Wm Morrison Supermarkets PLC - Chairman***

Yes, if you want.

THOMSON REUTERS

© 2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

Trevor Strain - ***Wm Morrison Supermarkets PLC - CFO***

I think they're Company-specific issues, and the issues are broadly twofold. As we look at the range we have in our shops, we think we've got opportunities to make that range better for our customers, and that's something that we need to do.

And I think the second issue, and I think this is underpinning the choice around closures, is they are site-specific issues. A consequence of going at the accelerated pace is that some of those sites aren't going to make an adequate return, and rather than push on and blindly pursue a turnover number and a store number target we're going to pause, effectively put our foot on the ball, make sure we're got the right range, and learn what differentiates a good site from a bad site.

We've got some good sites, and we've had some bad sites. I think that -- don't know if you want to add anything to that.

Andy Higginson - ***Wm Morrison Supermarkets PLC - Chairman***

No, I think that's fine. I think these are all -- both that and online, morrisons.com, are both kind of new initiatives. And whenever you start a new initiative you run the risk of tripping up in the early days, and I think we've tripped up perhaps more spectacularly than we might. But 30% of the stores closing, whatever it is, is a warning sign.

I think the simple message is you can't keep giving people suitcases full of cash to do things when they're not delivering the numbers, really. So we need to get that to a point where it can deliver some good numbers, before we give them a load of cash, really.

The Ocado one, morrison.com's going pretty well; it's actually ahead of where the plan was.

I think Ocado, in terms of our delivery partner, do a good job. I think the customer experience is good. And that's just been allowed to run on, really.

But I think as I said at the beginning, it's not really a flash of inspiration or anything, but the real value in the business will be created in the near term, next three to five years really, from sorting out the supermarkets, really. And that's really where we need to keep a focus on.

So Ocado will just keep going, in the way that we planned; convenience, put a foot on the ball and have a look; and the core supermarkets, crack on.

Clive?

Unidentified Audience Member

Is it your essential expectation that David broadly agrees with the strategy that's been put into place, I think is the first question?

And, in that respect, a lot of companies that have got new management at the minute are talking about going backwards to go forwards. So is it reasonable that we have a mindset that Morrisons perhaps does need more wiggle room to put trade momentum, as you say, in the business?

And then just finally, just more broadly, how do you sit looking at the industry this year given the happenings, the chaos of the last year, with respect to just some of the bigger things; inflation, deflation, and the price competition in the industry?

Andy Higginson - ***Wm Morrison Supermarkets PLC - Chairman***

So what was the last -- just say the last bit, again.

Unidentified Audience Member

Sorry, just what's your expectations today looking at the industry conditions in terms of inflation, deflation, and price competition, sorry?

© 2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Andy Higginson - *Wm Morrison Supermarkets PLC - Chairman*

Okay, obviously, when we went out and did the CEO search, central to all of the interviews and the candidates who came forward, and we had a cracking list, was what are your kind of thoughts on the business, the industry, and so on, and so forth?

I think it's fair to say that if we'd have had a candidate, David was one of them, who had, for example, articulated the vision of the future being digital, and the exiting all our core supermarkets as quickly as possible, it's unlikely that candidate would have made the grade, as it were.

So I think it is fair to say that although David is not yet on board, and is not taking executive decisions, I think that's covered the [lawyers' angle, has it, Mark], that, yes, he is broadly of the view that improving the supermarkets would be the right thing to do.

Beyond that, though, I do want to keep emphasizing David has to have the chance to come in, assess the business in a far more detailed way than a Chairman would, in the way that a CEO would, and then come back to the Board, and then eventually to you guys, with a plan.

And we need to give him the wriggle room, I think was your phrase, to do that. And that's what today has been trying to do. We're trying to walk this fine line of not just reporting on last year, giving some sort of framework for the year ahead, but not tying his hands. And we hope we've got that balance right.

But it is very much his show, and we're very keen that he gets started and gets on with that. And we'll bring him back to meet you guys as soon as makes sense; he needs to get involved and start running the business, first.

In terms of the broader context, I think we are looking at a period of deflation for a while. I think it's going to be good news for customers.

I think it's obvious that all of the supermarkets, and when you say they're going back to the future, it's not literally going back. But I do think that fundamental to the analysis of the big four anyway in the industry in the last few years has been that they've drifted away from their core purpose, and returning to that core purpose is pretty key, I think.

I was always brought up to believe that supermarkets were discounters with a small d. The reason that Tesco never launched a discount chain was because we were the discount chain, and we always believe that quite fundamentally. And I think that has to be the case. All the way back to the origins of self service, these businesses were there to produce goods for customers at a great price, and that's what they have to return to. So I think that will be there.

I think all of the supermarkets will be looking to try and improve their price lists, hence, that will encourage deflation. And then, of course, you've got the big oil price move to work its way through the system. And in a competitive market, like the UK, most of those benefits will be passed on, one way or another, to customers.

So I think we're looking at a period of deflation. I think that will -- that's why we've been quite specific in saying that the improvement we would aspire to would be sequential. It will start with customers buying more, and, hence, volume.

Like for like, in terms of value sales, with deflation being faced [into] maybe a little behind that, but then that will come in time. And from that, you can then start to think about growing the profits, growing the margins, and so on, and so forth. But the most important thing is to restore the vitality to the business, of getting more customers in and choosing to shop with us.

Rob Joyce - *Goldman Sachs - Analyst*

Rob Joyce, Goldman Sachs. Three areas from me. Firstly, you talked about margin recovery. Do you have an opinion, at this stage, on what a long-term sustainable margin is for the Morrisons business? And I guess elaborating on Clive's, do we have go downward before we go back upwards in terms of growth you mention?

In terms of pricing, is it still the relevant price metric to consider your price versus the discounters? And where are you on that gap now, if it is? Or can you give us a relevant one, if there is a different one?

And then finally, just on the impairments, can you tell us which geographies and which size of stores these may have been more focused on, if that's possible? Thanks a lot.

© 2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Andy Higginson *- Wm Morrison Supermarkets PLC - Chairman*

I'll come back to Trevor on a couple of those points. The long-term margin is really let's wait for David. I think it will be more appropriate he sets out his aspirations when he's got in. But needless to say, we start from the presumption that we can improve shareholder value over time, and margin is a very important part of that.

Pricing versus the discounters, the most important thing is to look at how the customers see it, really, and so, that's, again, something we're very focused on.

It is appropriate to look at it in the wider context of the market, I think. And I think it's perhaps been one of the mistakes the last few years that the big four have focused on each other, rather than on that wider market. So we need to do that, which is not to say you have to go out and match every product price for price; that really is the road to ruin, and impossible to do. And you've got to have the confidence to set your own price basket out there and be Morrisons, as I say, and that's certainly what we're looking to do.

Impairments, geography --?

Trevor Strain *- Wm Morrison Supermarkets PLC - CFO*

A couple of slightly different points to the spirit of your question, I think the only distinctive feature in terms of store sizes is that pretty much 80% plus of the Netto and Co-op stores bought in 2010 and 2011 are impaired. Apart from that in terms of store sizes, it's a sort of spread.

I think the second feature would be much less about geography, more about age. I think the distinctive feature is the predominance of stores that were bought and acquired, post 2009.

Rob Joyce *- Goldman Sachs - Analyst*

Sorry, just to quickly follow up on the price point, is there any metrics you can point to on that? I understand that maybe the right one isn't just versus discounters, but anything you've got?

Trevor Strain *- Wm Morrison Supermarkets PLC - CFO*

No, we don't disclose -- we haven't disclosed our price metrics. As I said, when Dave asked earlier, we're quite comfortable with where our pricing position has got to. We do -- I say that in recognition that we have a long journey ahead of us in improving our competitiveness, but we don't disclose our absolute indices positions.

Rob Joyce *- Goldman Sachs - Analyst*

Thanks.

James Collins *- Stifel Nicolaus & Company Inc. - Analyst*

James Collins, Stifel. Three questions. First one is to Andy, really. What's changed since you've arrived? I think we've read about the misters, but what else have you stopped or started from the time you arrived?

Second question, on convenience and on online, what do the changes mean in the terms of progress for numbers? Obviously, you've put a number on what those have cost you this year, what does it mean for next year?

And then lastly, on leases, just on the lease terms you've taken on, are they typical of the leases that we've seen across the industry over the last few years, and so, i.e., inflation linked? This is something that will build over time? That's the three.

THOMSON REUTERS

© 2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

Trevor Strain - ***Wm Morrison Supermarkets PLC - CFO***

Yes, I think there are no new innovative distinctive lease structures we've put in, so I'd describe them as pretty standard. I think the one differentiation will be the quantum. So, our rents, it's well below 1% to sales and it needs to stay there, so that's quite different.

I think in terms of convenience and online, we've reported today a loss for GBP71 million -- of GBP71 million across the two channels. We've committed to getting Ocado -- sorry, food online business with Ocado to positive EBIT by 2017, 2018.

In terms of guidance, we're not going to break out new business development, going forwards. We said last year in the -- we gave a much broader set of disclosures last year to orientate everyone in the scale of the reset and the moving parts within it, but we'll update you retrospectively as we move forward.

Andy Higginson - ***Wm Morrison Supermarkets PLC - Chairman***

Yes, in terms of what's changed since I arrived, obviously, I started, I think it was January 24, as Chairman. I suppose what's changed, primarily, from my point of view, is I've seen a lot more of Yorkshire than I ever planned. And as a Lancastrian, I consider it missionary work, really (laughter). I presume you meant more about the business?

You mentioned the misters, what's changed in the businesses. I suppose probably more than the misters, I'd probably point to a change in CEO as being perhaps a more material change, although misters is a good point. And, yes, probably changing the CEO was probably sort of the highlight so far.

James Tracey - ***Redburn Partners - Analyst***

James Tracey, Redburn. Three questions from me. The first one is what is the net amount you plan to invest in the proposition this year? Do you need to do more than the GBP315 million, given that the market backdrop seems to be a little bit more competitive?

The second question is do you think capacity needs to come out of the market for industry profitability to improve?

And the third question is how do you intend to use your balance sheet advantage to put pressure on the competition? More CapEx was the old-fashioned way, but you don't seem to be doing that at the moment. So, they're the questions. Thanks.

Trevor Strain - ***Wm Morrison Supermarkets PLC - CFO***

In terms of proposition investment, James, we have said, in the outlook statement, we're going to invest more, but we haven't guided at all, and don't intend to guide, on what that is going to be. We'll obviously update you in September and March.

In terms of does capacity come out of the market, I think this is can be a debate we can have forever, probably, maybe, maybe not. I think it depends on what happens in terms of the competitiveness of propositions, which will drive how many people shop in individual assets, which will drive how much cash comes out of them.

I don't think it's we're on an absolute trajectory for capacity to come out of the market, but that doesn't mean it won't happen, either. I think you have to -- if you're going to run with thinner margins in a thin margin industry, you're going to have to drive the returns and the cash flows out of them even harder.

And I think that builds into your final point. I don't think the way through this, at least in terms of putting the balance sheet to work, is going to be more capital. More capital will probably lead to more impairments.

And when I think how we put our balance sheet to work is by doing what we've set out 12 months ago and continuing on today, which is about enabling the business to be more competitive because it's not encumbered by -- because we've got the strength of the freehold position, and the pension position, to enable us to drive the competitiveness of the core business.

Rickin Thakrar - ***Espirito Santo Investment Bank - Analyst***

THOMSON REUTERS

© 2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

Rickin, Espirito. Just two questions, please. The first is, is there a reason, Andrew, why you seem to have raised prices a little bit, by about 3.5%, in March, whereas your competitors have seem to have cut prices by about 1%? Is that just a seasonal thing? That's the first question.

The second question is on your net debt guidance. It seems a bit conservative. Do you think there's scope to see improvement on that net debt guidance, given the property disposals you're generating? Thanks.

Trevor Strain - ***Wm Morrison Supermarkets PLC - CFO***

On the debt guidance, I think it's appropriate for us to give guidance which is a fair range around what we think a sensible outturn is. If we change our view on that, as we did last November for the year that's just finished, we'll update you as we get through it.

I think it's important we have debt guidance for the year that we can sit here with absolute conviction and say we think we're going to hit. So we'll update you as we get on with progress through the year.

In terms of pricing, I don't really recognize that. I would just wonder if -- that you've picked up some products just coming off promotion on a different cycle when you've looked at it. But we've actually just taken 130-odd key lines down a couple of weeks ago, so maybe we'll pick that up in detail later.

Sreedhar Mahamkali - ***Macquarie Research - Analyst***

Sreedhar Mahamkali, Macquarie. Following up on John's point earlier on about inventories, you've taken four days down and you're now well within that eight to 11 days that you've talked about last year. So how much more scope there is from the 10 days that you've got in terms of depot cover, first one?

Second one, clearly, there's two big elements in that profit bridge; one you don't want to talk about, which is investment in the offer. But the second one, in terms of productivity, are you able to give us an idea, of the GBP800 million, how much should we be thinking about for 2015, 2016? If that's possible, that will be very helpful.

And finally, in terms of the self-help that you talked about, the GBP500 million split between the promotional investment and sourcing, that will be very helpful if you're able to just give us a broad idea how much is each of those two. Thank you.

Trevor Strain - ***Wm Morrison Supermarkets PLC - CFO***

I think, on depot stock, we're pleased with the work we've done there in terms of just bringing us up to industry best practice.

I think in terms of -- I think we'll say -- I'm probably sitting here thinking we're in good shape on depot stock now. As I look at working capital forward, we've obviously got sales-based ordering to come through, which is the whole supply chain. And obviously, we've got a lot of opportunities through debtors, and also through supply chain financing, still to roll through.

In terms of productivity and the COGS and promo split, I don't really want to get drawn into giving more guidance than we've given; and that is we're after the GBP500 million on COGS and promos, and we're after the GBP1 billion in total. We'll update you on our performance against that every time we meet on a rolling six-month cycle, I think. So it's a polite, I'll let you know in September, I think, Sreedhar.

Andy Higginson - ***Wm Morrison Supermarkets PLC - Chairman***

Okay, I think we're pretty much done. Thank you very much for your time this morning, and look forward to keeping in touch. More importantly, look forward to David starting on Monday (laughter).

THOMSON REUTERS

© 2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

© 2015 Thomson Reuters. All Rights Reserved.

THOMSON REUTERS

© 2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.