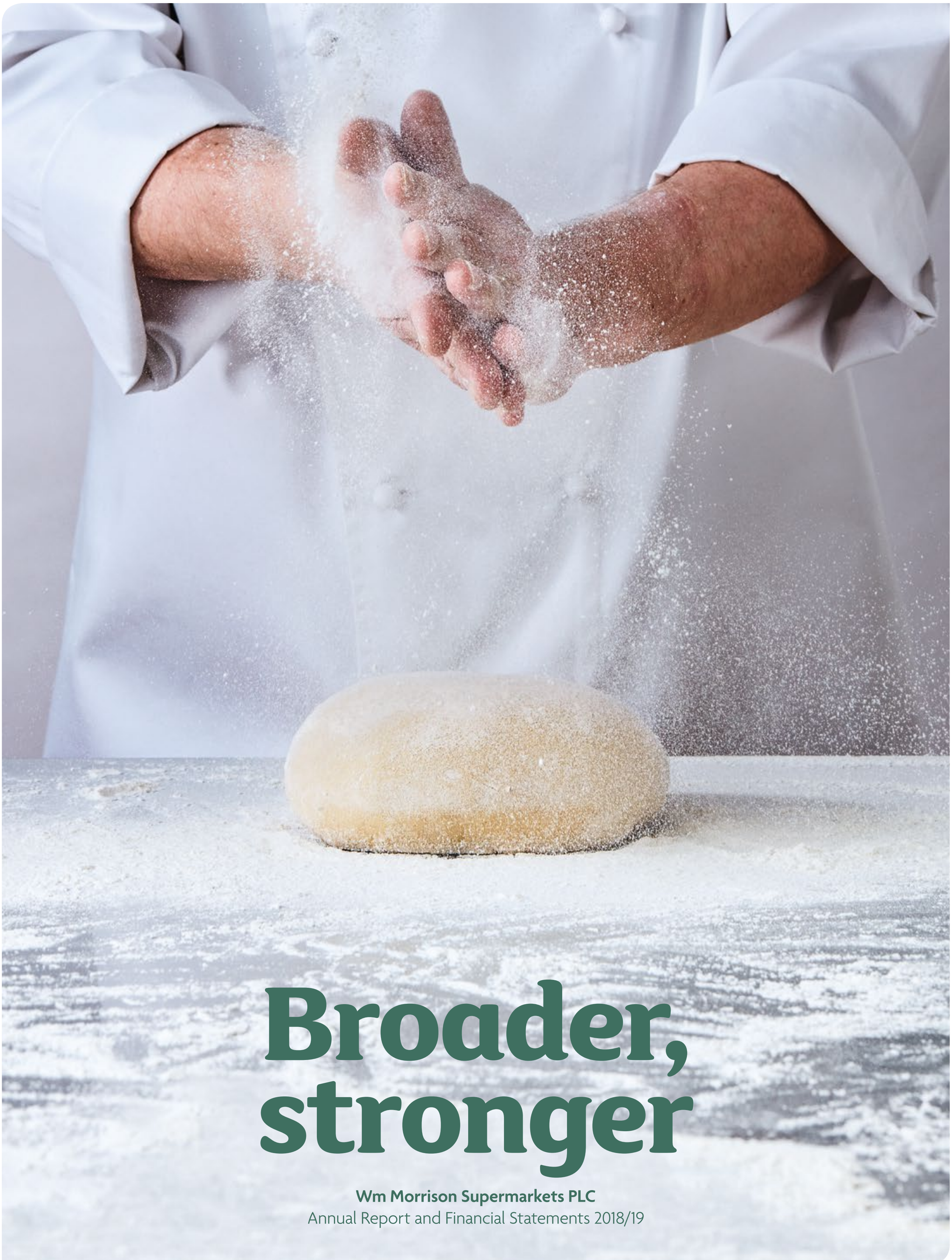
Morrisons
Since 1899



Broader, stronger

Wm Morrison Supermarkets PLC
Annual Report and Financial Statements 2018/19

p6

Morrisons unique team of food makers and shopkeepers are working together to achieve meaningful, sustainable growth

Chief Executive's statement

p8

The progress we have made on our six priorities

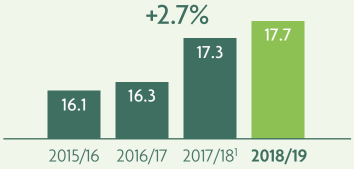
READ MORE AT
www.morrisons-corporate.com

FINANCIAL HIGHLIGHTS

Group revenue #

£17.7bn

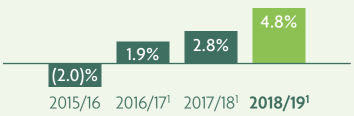
+2.7%



1 2017/18 Group revenue on a 53 week basis.

Group like-for-like (LFL) sales (exc. fuel)* #

+4.8%

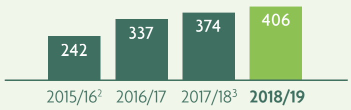


1 2016/17, 2017/18 and 2018/19 include wholesale contribution to LFL sales.

Profit before tax, exceptional items and net pension interest[1] #

£406m

+8.6%

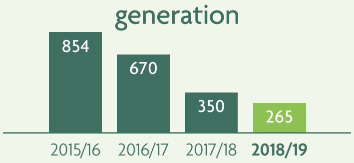


1 Referred to as 'profit before tax and exceptionals'.
2 2015/16 profit before tax and exceptionals excluding £60m one-offs was £302m.
3 £369m 52 week equivalent.

Free cash flow* SH

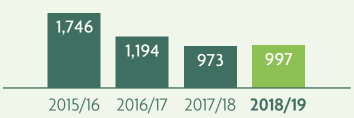
£265m

generation



Net debt* SH

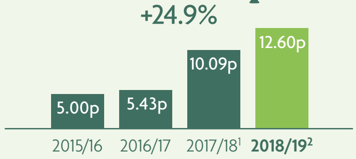
£997m



Total dividend SH

12.60p

+24.9%



1 Including 4.00p special dividend.
2 Including 6.00p special dividend.

Throughout the Directors' report and Strategic report: Unless otherwise stated, 2018/19 refers to the 52 week period ended 3 February 2019 and 2017/18 refers to the 53 week period ended 4 February 2018. 2018 and 2019 refer to calendar years.

p13
Our four stakeholder ambitions

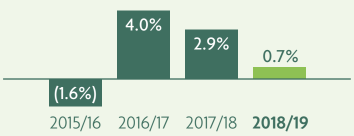
p21
Corporate responsibility

STRATEGIC REPORT

NON-FINANCIAL HIGHLIGHTS

Like-for-like (LFL) customer transaction numbers

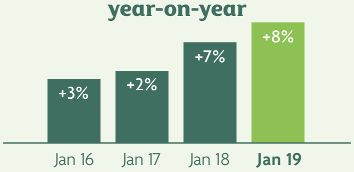
+0.7%



LFL customer transaction numbers, year-on-year change. Excludes online.

Customer satisfaction C

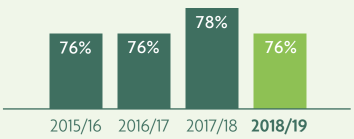
+8% pts
year-on-year



Customer satisfaction measured at January each year, year-on-year change.

Colleague engagement index CO

76%



Colleague engagement index as measured in the annual 'Your Say' survey.

Alignment of highlights to our stakeholder ambitions:

- C Customers
- SH Shareholders
- S Suppliers
- # All
- CO Colleagues

* Alternative Performance Measures as defined in the Glossary on pages 132 – 133.

BUSINESS HIGHLIGHTS

- Customer satisfaction scores now up 20% pts in the last four years
- Revenue growth of 4.7% on a 52-week basis, the best since 2009/10
- Total 2018/19 dividend paid to shareholders of £289m
- £700m annualised wholesale supply sales achieved ahead of end-2018 target
- Morrisons Daily convenience stores now in 115 locations
- Sales of local suppliers' products were up another 27% during the year and have now almost doubled over the last three years

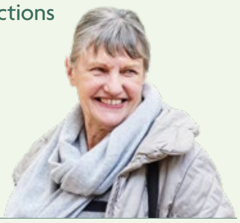
The core purpose

To make and provide food we're all proud of, where everyone's effort is worthwhile, so more and more people can afford to enjoy eating well.

Resources and relationships → Our business…

Customers

Around 12 million customer transactions every week



Colleagues

Over 100,000 friendly and skilled colleagues, supported by a high quality management team

Sites

494 conveniently located supermarkets
18 manufacturing sites
9 distribution centres
Increasing digital presence

Brand

A well-loved brand becoming more relevant and accessible to more customers

Financial strength

A strong balance sheet, with a largely freehold estate, low debt and a net pension surplus

Continued generation of significant and sustainable levels of free cash flow

Food maker

We are a diverse team, but united by our ways of working and our food maker and shopkeeper credentials

- Over half of the fresh food we sell we make ourselves
- Every day our skilled food makers on Market Street make fresh food for our customers
- We make fresh food in our manufacturing sites across the UK
- Our digital production lines increase productivity and efficiency, and reduce waste
- We work with our suppliers to carefully source the products we do not make ourselves

Distributor

We have a national distribution network that moves the food we make and buy

- Our stores are serviced by eight regional distribution centres and one national distribution centre
- This network supports our growth through other channels
- Technology simplifies the links between sites and stores

…is different in many ways…

Our food making skills provide products that are fresh, good quality, great value and unique to us

By controlling the whole supply chain, we know where our food comes from and can provide our customers with what they want, when they want it

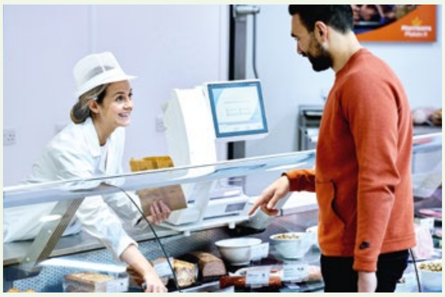
…delivering through our six priorities…

1. To be more competitive
2. To serve customers better
3. Find local solutions

…and supported by our five ways of working

1. Customers first
2. Teamwork
3. Freedom in the framework

Outcomes



Retailer

We sell the products we make and buy, in our stores and online

- Listening informs the improvements we make
- We have a Morrisons price list, providing good quality fresh food and great value
- Our shopkeepers care deeply about service
- Our More Card helps us to understand and serve our customers better, by tailoring offers
- Over 75% of British households now have access to our online offer, and we continue to expand our 'reach'

Wholesaler

We are a wholesaler, providing products to retail partners and wholesale customers

- We aim to make our brands more popular, accessible, and increase volume through our existing assets
- We leverage the strength of our brands and manufacturing capability to deliver good quality products at great value
- The Safeway brand has been revived for wholesale partners

Understanding our customers powers the decisions we make. Customers love our brand and see us as competitive and locally relevant

Through stores, manufacturing, online and our wholesale partners, we can leverage our brand to achieve **meaningful and sustainable capital light growth**

See page 8 for more detail

4 Develop popular and useful services

5 To simplify and speed up the organisation

6 To make the core supermarkets strong again

See page 15 for more detail

4 Listening and responding

5 Selling, controlling costs, growing profits, and removing waste

Customers

- An improving shopping trip informed by listening
- More customers, buying more from us, more often
- Customers can get what they want, when they want it

See pages 13 and 14 for more detail

Colleagues

- Engaged and motivated colleagues
- Colleagues sharing in the success of the business
- A fair day's pay for the work they do

See pages 15 and 16 for more detail

Suppliers

- Establishing lasting relationships
- Working together with simplified terms
- Ways of working that comply with the Groceries Supply Code of Practice

See page 17 for more detail

Shareholders

- A strong balance sheet
- A cash generative business with low levels of debt
- Sales, profit and dividend growth

See pages 18 to 20 for more detail

Environmental and social value

- Making a positive contribution to society
- Reducing plastic, minimising food waste, and taking care of the environment
- Respecting human rights and ethical trading practices

See pages 21 and 22 for more detail

Chairman's statement

Whatever the highs and lows of the ever-changing British retail environment, one constant has been the determined progress at Morrisons

Andrew Higginson
Chairman

24.9%

Total dividend growth year-on-year (including special dividends)

Sustainable growth for all stakeholders

The last year had many highs, notably during the glorious summer, and also some more challenging periods both for the economy and the consumer. Whatever the highs and lows of the ever-changing British retail environment, one constant has been the determined progress at Morrisons. David and the team have now completed four years of important work, building Morrisons as a broader, stronger business.

I am delighted that sales and profit grew strongly again, and that we were able to share that growth with our shareholders. Profit before exceptionals is up 34% in the last three years, debt down from near-£3bn at peak to less than £1bn, cash flow and the balance sheet are very strong, and total dividend of 12.60p per share (being the ordinary plus two special dividends) is up 24.9% on last year, and 152% higher than three years ago.

Progress is not just about the numbers though. As large sections of this Annual Report describe, progress is being made for all stakeholders simultaneously. We are seeking to grow Morrisons sustainably for the long term, while also rewarding our colleagues for their outstanding work, building stronger, mutually beneficial relationships with suppliers, and being the best corporate citizens we can. The way to achieve these complementary goals is by constantly improving the shopping trip for customers. If we can keep improving for customers, we will keep improving for all our other stakeholders.

There is plenty of good work still ahead. Much has been done in the Fix phase of our strategy already, but there is more to do, for example, in areas such as distribution and technology. We are also well on with Rebuild and Grow and, as David says in his statement, growth is coming from many sources.

There is still much opportunity within the core supermarkets, for example in areas such as range, productivity, and the ongoing Fresh Look programme. After three years without opening a supermarket, we are acutely aware that we need to earn the permission for even a modest amount of new space, and we are pleased to have got off to a good start with the new stores at St Ives in Cambridgeshire, Abergavenny, and Acocks Green in Birmingham, which are all performing well. In addition, Morrisons Daily convenience stores, our broader online coverage, Safeway and now other brands such as 'Naturally Wonky' and 'Nutmeg', and our many wholesale partners, are all exciting areas of growth. I am confident the team has plans for many years of growth ahead.

As I wrote last year, when devising the components of management remuneration policy, the Board has been mindful that those growth plans are sustainable and align with the best long-term interests of all stakeholders.

The Board

I am pleased with the development of the Board over the year. Tony van Kralingen and Kevin Havelock have completed their first full year, and are bringing a wealth of experience and knowledge from their multi-national, fast moving consumer goods industry backgrounds.

We were delighted to add the important role of Commercial Director to Trevor Strain's existing responsibilities, and have increased his remuneration to reflect his considerably broader remit. One important function of the Board is to prepare for long-term management development and plan for future progression, and we will assist Trevor all we can with his exciting and challenging new role.

Opportunity as a British business

At the time of writing, the outcome of Brexit is somewhat unknown. The prolonged process has at times caused uncertainty and confusion for customers.

That said, we believe we are well prepared to work with any Brexit outcome. As a British business, we source most of the fresh food we sell from British growers, farmers, fishermen and other suppliers. In our 18 manufacturing sites across Britain, we make most of the own-brand fresh food that we sell. This ensures our food is always fresh, and sold with unrivalled provenance and traceability, which is increasingly important for customers. So, while the Brexit process has thrown up some challenges, it is also an opportunity for our unique team of food makers and shopkeepers to both grow Morrisons and contribute to our economy.

The future

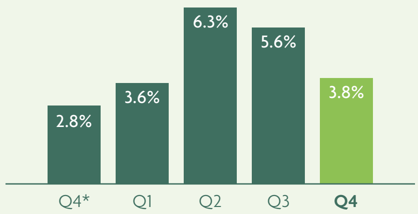
It is a very interesting time for the UK grocery sector. The list of relative winners and losers is being constantly re-cast in what is always a fast moving and dynamic industry. Recent strategies seem to be more divergent than in the past. Some of our competitors have sought a solution in scale, some are coming out of non-food online just as others are going in, and some are reducing emphasis on service counters at the same time we are investing more in our butchers, bakers, fishmongers and other skilled craftspeople. In addition, some 'premium' retailers have reported weaker sales, perhaps impacted by encroachment from more traditionally 'mainstream' retailers.

Where maybe some others are still looking for solutions, we are confident in our Fix, Rebuild and Grow strategy. We are making Morrisons a broader business, more popular and distinct for customers, with value and service at its heart.

Morrisons can thrive in all conditions. Whatever 2019/20 has in store, I am convinced David and the team can continue to grow the business for the benefit of all stakeholders. They will do so while remaining committed to the well-established principles of the capital allocation framework that has served Morrisons very well so far.

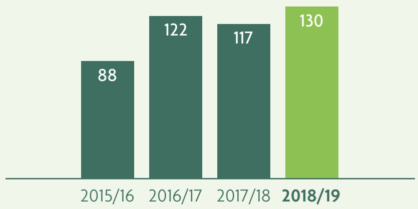
Andrew Higginson
Chairman

2018/19 quarterly Group LFL sales (exc. fuel)



Definition
See the Glossary on page 132 for a definition.
*2017/18

Total shareholder return



Definition
The value of a £100 shareholding in the Group (£).

GOVERNANCE HIGHLIGHTS

Board composition and membership

- The Board comprises of seven independent Non-Executive Directors and two Executive Directors
- There is an appropriate mixture of skills and experience on the Board
- There is a clear division of responsibilities between the roles of Chairman and the Chief Executive
- All Directors stand for re-election annually at the AGM
- Our Senior Independent Director is Rooney Anand
- Tony van Kralingen is the Non-Executive Director designated to engage with colleagues on behalf of the Board

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Board effectiveness

- An internal review of the Board's effectiveness found that the Board has a well balanced set of capabilities, and that governance and compliance is strong
- The Directors have all attended an appropriate number of Board and Committee meetings, and commit sufficient time to the Group

p28

External Auditor

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

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Accountability

- The Board is satisfied with the effectiveness of internal control and that risk is being managed effectively across the Group

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Chief Executive's statement

During a very busy 2018/19, Morrisons continued to become broader and stronger, and more relevant to more and more customers

David Potts
Chief Executive

Group like-for-like sales (exc. fuel)*

* Alternative Performance Measure as defined in the Glossary on pages 132 – 133.

Growing a more popular Morrisons for customers

Listening and responding

During a very busy 2018/19, Morrisons continued to become broader and stronger, and more relevant to more and more customers. The concurrent Fix, Rebuild and Grow phases of our strategy are in full flow, with several channels of growth now driving the turnaround, including supermarkets, wholesale, online and services.

The year started well, and the summer was especially strong, helped by some favourable weather and events such as the football World Cup. The Autumn was more testing, as uncertainty around Brexit became more personal and customers became more cautious, but our colleagues listened hard to customers, responded quickly. We continued to invest in the shopping trip, providing consistently great value and good quality just when it mattered most at the busiest time of year. Sales responded and improved towards the end of 2018.

Listening and responding is important in many other ways. We learn and act on all kinds of feedback: on the environment, from the local communities we serve, and from our suppliers and shareholders, and there are large sections of this Annual Report and Financial Statements rightly dedicated to our progress on important environmental initiatives such as reducing our use of plastic, and raising money for our charity partners, such as CLIC Sargent.

Supermarkets growth on growth

We are now into our third year of positive like-for-like sales growth. Over half our supermarkets have now been through the Fresh Look programme, improving and modernising their look and feel. We opened three new stores during the year, each getting off to a strong start, and we expect a handful more each year going forward. Applying all the latest ideas and learnings from this work is inspiring us to innovate, improve and grow the whole estate.

It was also a busy year for own-brand innovation. Always listening 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; 'Nutmeg' has been extended into womenswear; 'V Taste', our new vegan range, and; 'Little Kitchen', a new healthy range for children. In addition, we have increased the number of items we make ourselves or direct source, so cutting out the need for middle men and enabling both closer relationships with suppliers and lower prices for customers. Examples this year included: producing pitta bread and crumpets at our Rathbones bakery; and buying more bananas, nuts and fish direct from suppliers.

As we integrate manufacturing and retail, we are developing 'Morrisons Makes It' as a standalone brand: great value, authentically British fresh food, made by our skilled team of food makers on 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.

Wholesale, online and services growth

2018/19 was an important year for wholesale, growing substantially to exceed our target of £700m of annualised sales by year end and contributing over 3% to like-for-like sales. Wholesale growth channels now include Amazon, forecourt convenience and overseas.

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, with the service now available in parts of London, Leeds, Birmingham and Manchester.

We accelerated the roll-out of wholesale supply to our new partner, McColl's, more quickly than initially planned, and now supply around 1,300 of its stores with our Safeway range plus other branded items. As we develop our convenience offer, both on our own forecourts and with our partners, Rontec and Sandpiper in the Channel Islands, our 'Morrisons Daily' fascia is growing quickly, now in 115 locations. We also announced a new partnership with MPK Garages, and are in the process of converting many of its forecourt convenience stores to 'Morrisons Daily'. In addition, we have begun exporting a range of Morrisons own-brand items to Big C in Thailand.

Our online channel added substantial new growth capacity during the year, extending its coverage to over 75% of British households. Through the new customer fulfilment centre 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 Morrisons.com online delivery direct to their holiday lodges.

Services are growing too, with partners such as Amazon, Timpson and Doddle helping make Morrisons supermarkets more popular destinations for customers. Since the programme started, we have introduced over 1,000 of these new services at our sites.

All this growth is driven by capital light, but significant investment; particularly in digital capability, distribution infrastructure, online, wholesale, and, of course, Morrisons supermarkets. We expect investment in technology to be central to our future growth and, see specific opportunity next year to continue to reduce costs and benefit from our increased investment in wholesale and online distribution infrastructure.

Our colleagues

At the heart of our growth, and key to our continued success, will always be our colleagues. Once again this year, Morrisons team of expert food makers and shopkeepers showed how improving the shopping trip every day is the best possible way to make our customers more satisfied and grow our business. Thank you to the whole Morrisons team.

David Potts
Chief Executive

£700m

Annualised sales target exceeded for wholesale

OPERATING IN A WAY THAT IS RIGHT FOR ALL OF OUR STAKEHOLDERS

Reducing our use of plastic
We have introduced a number of initiatives to help our customers reduce and recycle the plastic they use. Examples include: trialling paper carrier bags; the roll-out of loose produce paper bags across all stores; increasing the number of loose fruit and vegetables we sell on Market Street; encouraging customers to take their own containers to the Butcher and Fish counters in store, and trialling reverse vending machines to incentivise customers to recycle plastic bottles.

Reducing food waste
We sell around 900 tonnes of 'Naturally Wonky' fruit and veg per week in our stores and online, helping farmers to reduce farm waste. We launched our 'Too Good to Waste' box in stores, selling fresh fruit and vegetables just past their 'Display Until' date, but still perfectly good to eat.

In addition, since 2016, we have donated 5.4 million edible unsold food products to over 420 local community groups. Our manufacturing sites have also been working with the national charity FareShare to donate food that cannot be sold in our stores. Since 2017, we have donated over two million meals to its network of charities.

Supporting British farming
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 'For Farmers' range, where part of the retail price of the products goes directly back to farmers, has generated an additional £12m for farmers since it launched in 2015. In addition, we received a 'Good Egg' award from Compassion in World Farming, following our acquisition of the Chippindale egg business and our commitment to sell only cage-free shell eggs by 2022 and ingredient eggs by 2025.

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Six priorities

We are making progress on our priorities as we continue to listen and learn from our colleagues and customers.

To be more competitive

We operate in a competitive and dynamic market and continue to invest in great prices and good quality for customers, ensuring we offer the best value we can

- We are a British business with a vertically integrated supply chain. We have increased the number of products we make ourselves
- We now directly source more items such as nuts, bananas and fish, cutting out the need for middle men and agents, which allows us to have closer relationships with producers and growers, to provide lower prices for customers
- We are developing 'Morrisons Makes It' as a standalone, authentically British brand
- We launched our new 'Naturally Wonky' brand of low priced good quality fruit and vegetables, a new look 'Savers' range, a vegan range called 'V Taste', 'Little Kitchen', a range of healthy products for children, and have extended 'Nutmeg' into womenswear
- We are showcasing our Market Street counters and food maker experts with in-store tastings and food maker demonstrations
- We acquired Chippindale Foods and invested in our factory at Flaxby, which is enabling us to become more competitive in some high volume, commodity items such as eggs, carrots and onions

To serve customers better

We are improving customer choice, emphasising Morrisons provenance, and looking to improve the shopping trip every day

- A key measure of turnaround progress is customer satisfaction in areas such as checkout queues, availability, and friendliness of colleagues. This measure has shown consistent improvement, and is up by 20% pts in four years
- We have introduced card only checkouts at more stores to give customers a choice and to increase efficiency
- Our new Morrisons More app allows customers to collect and redeem their loyalty points digitally
- We have extended the reach of Morrisons.com. Through a combination of store pick and additional space in Ocado's new Central Fulfilment Centre in Erith, we are able to provide online grocery home shopping to over 75% of British households
- We have recently started a trial to supply Center Parcs guests online through Morrisons.com
- We launched Eat Fresh, our new online recipe box meal kit service, during the year. Customers can order a wide variety of fresh meals to be delivered to their home

Find local solutions

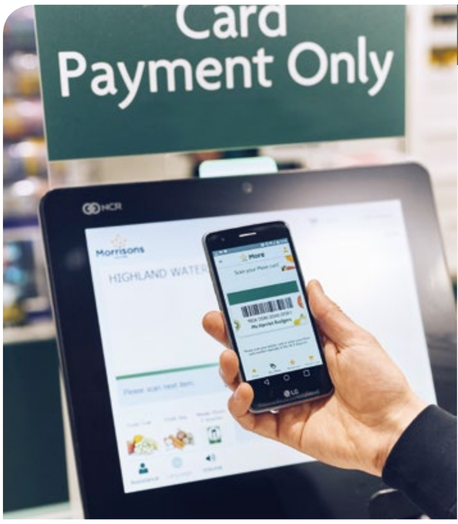
We are becoming renowned for 'local', and customers increasingly regard this as a distinguishing attribute of Morrisons

- We are improving regional events for customers such as Hogmanay in Scotland, St Davids Day in Wales and expanded our Ramadan offer. We are also better targeting important customer groups, for example through our 'More for Students' club and at stores popular with tourists
- We are becoming more integrated in our local communities. Every store has a dedicated Community Champion who supports local events, community groups and charities
- We hosted a further ten regional food maker events around Britain, as we continued to extend our range of local products from growers, farmers, fishermen and other food makers. Many of these products have been incorporated into our new stores and our Fresh Look programme
- We continue to support local farmers and suppliers nationwide. For example, in the year we started to sell individual local loose eggs in over 330 stores, and Yorkshire Squeaky Cheese, which was first seen at our food maker roadshow, is now in 75 stores

Develop popular and useful services

We are continually looking for ways to develop services which are popular and useful for customers

- Parcel pick up services are very popular with our customers. Amazon lockers have been rolled out across the estate and Doddle is expanding too with 130 in year, taking the total to almost 300
- Timpson at Morrisons continues to grow, and is now in over 200 stores
- We have been working with various partners to develop new food service units alongside our stores, for example, McDonald's and, more recently, KFC
- Our partnerships with McColl's, MPK Garages, Rontec and Sandpiper CI, plus our own petrol forecourt shops, means we now supply around 1,700 convenience stores
- Our modernised cafés provide a great value for money menu. We also have Barista bars in 65 stores, serving a quicker and more convenient offer for customers
- We opened more car and tyre change services in our car parks during the year, taking the total to more than 60
- We opened nine currency exchange kiosks with Travel Money and are trialling barber shops with different national operators



To simplify and speed up the organisation

There are many opportunities to simplify and speed up Morrisons, from one end of the supply chain to the other. We have made progress, but still have more opportunities ahead

- In-store automated ordering has been implemented and is enabling us to more accurately manage stock
- We are reducing the amount of administration in stores, enabling colleagues to spend more of their time serving customers
- We are improving the way we manage the flow of fresh commodities, improving delivery accuracy and product quality, while also reducing food waste
- We have increased the number of self scan checkouts
- We have invested in our logistics network, for example, at Bellshill and Swan Valley, creating new capacity
- We have simplified the way we work with suppliers, identifying mutually beneficial ways to grow together

To make core supermarkets strong again

We are improving our existing stores and adding new ones where it makes sense

- Three new stores opened during the year, which reflect our latest innovations and ideas, and have got off to a strong start
- Our new store at St Ives, Cambridgeshire, was shortlisted as one of the top five global stores of the year by the Institute of Grocery Distribution
- Our store in Wood Green, London is our first to be designed around a food market court and food to go
- We completed a further 59 Fresh Look refits during the year, with some of the learnings applied across the whole estate
- We now have almost 1,000 year-round 'Best' products
- We are utilising excess space better. For example, over the summer we opened a further 95 small garden centres
- We extended 'Nutmeg' womenswear into over 250 stores to complement the baby and children's range. The 'Nutmeg' brand has also been extended into accessories and some Health & Beauty products
- The Home & Leisure department, which was updated last year, is proving very popular with customers

Six priorities in action

Morrisons is becoming more popular and relevant to more people by building a broader, stronger business.

Reducing plastic

While we want our customers to enjoy our food in the best possible condition, we understand that customers are increasingly conscious of the impact plastic is having on the environment. We aim to ensure our packaging is only there to protect, preserve and display the product, and does not present an unnecessary environmental burden.

In recent years, we have made significant reductions in packaging without compromising product quality. Smart packaging, which protects food in transit and extends shelf life, is good for consumers and good for the environment.

We have removed over 60 million plastic straws and all single use 5p carrier bags from sale. We have also introduced a larger paper carrier bag, and we encourage customers to bring their own containers to purchase items from our meat and fish counters. Many of our loose fruit and vegetables are 'naked', which has removed 24 tonnes of plastic wrap in stores. Where bags are needed for loose fruit and vegetables, and in doing so have replaced 148 tonnes of plastic bags with recyclable paper bags.

In addition, some stores are trialling reverse plastic recycling stations where customers can earn 'More' points for recycling their used plastic bottles and cans. We also offer customers the option to refill their water bottles for free in our stores and have installed drinking fountains into our new stores to make this even easier.

2 4 CR

Key

These case studies illustrate the progress this year in building a broader, stronger Morrisons and delivering against our six priorities.

- 1 To be more competitive
- 2 To serve customers better
- 3 Find local solutions
- 4 Develop popular and useful services
- 5 To simplify and speed up the organisation
- 6 To make core supermarkets strong again
- CR Corporate Responsibility

'Nutmeg'

Our aim is to make the 'Nutmeg' brand more popular and accessible.

Almost every store offers the 'Nutmeg' brand, and our largest 268 stores have the full clothing range including womenswear, providing affordable fashion and a brand that customers trust.

The 'Nutmeg' brand has also been expanded into nappies, wipes, baby accessories and health and beauty products.

1 2 4 6

Local solutions

We are becoming renowned for 'local', and customers increasingly regard it as a distinguishing attribute of Morrisons.

There were a further ten regional food maker roadshows around Britain, as we continue to extend our range of local products from growers, farmers, fisherman and other food makers. Many local products are delivered direct to stores rather than through our distribution network, which means that quality products arrive in store faster and more simply.

During the year, we acquired Chippindale Foods Limited which has now been successfully integrated with the rest of our eggs business. We also started to sell local loose eggs, which helps local suppliers get their products to customers, gives customers the opportunity to buy the exact number of eggs they want and helps reduce food waste.

1 2 3 5 6 CR

Naturally Wonky

'Naturally Wonky' is our range of around 30 good quality, great value seasonal products with a focus on freshness and flavour.

As a British business with a vertically integrated supply chain, we are able to work closely with farmers and growers to buy whole crops and use our own sorting technology to wash, grade and pack the products into standard, premium and 'Naturally Wonky' packs.

Our 'Naturally Wonky' fruit and vegetables continue to be very popular with customers, and this year we have extended the range to include flowers, avocados and chillies.

'Naturally Wonky' is affordable for customers and reduces the amount of edible food waste sent to landfill. We are committed to reducing food waste and to improving the quality, consistency and price of fresh fruit and vegetables so that more and more customers can afford to enjoy eating well.

Customers tell us they love the range of 'Naturally Wonky' products.

1 2 3 4 5 6 CR

Digital

Being more relevant to more people is about online and digital too.

During the year we launched 'Eat Fresh', our new online nationwide recipe box service, which was developed by a small team of emerging talent from across the business.

Our 'More' card app has been launched, allowing customers to earn points by scanning their phone at the till, and receive vouchers digitally. We also now offer voice activated shopping through Amazon Alexa.

We use cloud based technology to simplify and speed up the links between sites and stores, removing wasted effort and increasing productivity.

Having a strong digital offer is an important part of being a broader, stronger business.

1 2 4 5

Our sites and our brand

"Our brand is more accessible, more popular, and we are broadening the markets we operate in to become more relevant to more people."

David Potts
Chief Executive

Our sites

We have 494 conveniently located supermarkets across the UK serving around 12 million customers on average every week.

86% of our stores are freehold meaning we own most of the assets with which we serve our customers.

During the year, we opened three new stores which are trading well and receiving good customer feedback. Our new store in St Ives, Cambridgeshire, was shortlisted as one of the top five stores globally by the Institute of Grocery Distribution.

We continue to invest in our Fresh Look programme, which aims to improve and update the estate. We completed 59 Fresh Look refits during the year. Around 300 stores have now been through the programme and, whilst some improvements are store specific, others have been rolled out across the estate.

We are becoming increasingly digital. Our online home delivery service, Morrisons.com, is now available to over 75% of British households. We share two customer fulfilment centres with Ocado, in Dordon and Erith, supported by a store pick operation in 20 of our stores.

We have eight regional distribution centres and one national distribution centre, which move the food we make and buy. This network supports our growth through our other channels, such as wholesale.

Our 18 manufacturing sites and skilled food makers in our stores help us produce over half of the fresh food we sell. We continue to invest in technology to increase capacity, add further ranges and improve efficiency.

We have 40 'Morrisons Daily' convenience stores on our own petrol forecourts and are benefiting from many learnings which we will apply as we develop the format, both at further Morrisons sites and with our wholesale partners.

Our brand

Our brand is becoming more accessible, more popular, and we are broadening the markets in which we operate, to become more relevant to more people.

We are a British brand, with strong heritage and provenance. Food makers and shopkeepers, making our own products in Market Street makes us unique.

By making fresh food in our own manufacturing sites, we control the whole supply chain and know where our own-brand comes from.

An integrated supply chain optimises the way we move the food we make and buy, and gives us closer relationships with farmers and growers to utilise whole crops and minimise waste.

Our manufacturing capability allows us to access different markets and leverage the brand, for example, through wholesale, or through our nationwide recipe box, 'Eat Fresh'. Customers also regard our strong links with local suppliers and the community as a distinguishing attribute of our brand.

There is something for everyone at Morrisons. In addition to our unique fresh food and Market Street offer, ranges such as 'Best', 'Naturally Wonky', 'Free From', 'Nutmeg', 'Home Cook', 'V Taste' and 'Little Kitchen' all make our brand more popular and relevant.

75%

Morrisons.com has extended its reach to over 75% of British households

494

conveniently located supermarkets

Our four stakeholder ambitions
Our customers

An improving shopping trip informed by listening

More customers, buying more from us, more often

Customers can get what they want, when they want it

Grocery market and consumer confidence

Grocery market forecasts from the Institute of Grocery Distribution (IGD) reflect cautious official projections for the economy and a high degree of uncertainty about how Brexit will unfold. The IGD expects only moderate market growth over the next five years, making it important for retailers to understand their opportunities by channel.

Supermarkets are expected to remain the largest grocery channel. The IGD anticipates an improving outlook as supermarkets develop unique reasons for customers to visit, by investing in price, range and the customer experience. Online is expected to be the fastest growing channel over the next five years, driven by more rapid and flexible fulfilment options and omnichannel development.

Time of uncertainty

A combination of increased average wage growth and stable inflation throughout much of 2018, means that 'real incomes' have returned to growth, although the benefit to customers has been limited.

Consumer confidence has remained broadly stable throughout 2018, with no significant increase in the summer months, despite the prolonged period of relatively warm weather. The uncertainty surrounding the UK's exit from the EU has raised consumers' concerns, particularly towards the end of 2018.

However customers have told us it is difficult to identify tangible impacts on their daily lives. Media coverage of potential delays to imports and Government contingency plans for food and medical shortages led to some anxiety, and added to existing fears for rising grocery inflation.

Our vertically integrated supply chain means we are less reliant on imported products than other retailers, so we are well placed to mitigate the potential impact of Brexit within the grocery market and we have plans in place to make sure we are well equipped for all outcomes.

In these times of uncertainty, value is even more important to customers, and it is important that we continue to find ways to be more competitive.

Listening and responding to our customers

Listening to our customers and responding quickly underpins what we do. With around 12 million transactions a week on average, and in a competitive market, it is essential we respond to our customers in order to grow our business.

More colleagues across the business have been spending more time with customers, understanding their views and behaviours and exploring ways in which we can improve the shopping trip.

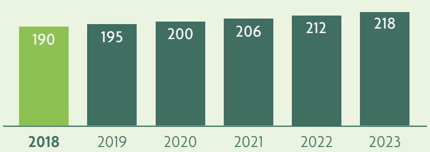
We listen to customers in different ways including listening groups, accompanied shopping trips with customers both in store and online, and spending time with customers in their homes to understand the challenges of their day-to-day lives. We have also introduced customer video diaries, and these are helping communicate messages to the business with more impact, direct from customers.

Through this programme of listening, we know that customers are seeking solutions which are healthy, good value and convenient. Our younger customers have told us that variety and new ideas are also important. This feedback has helped us to make improvements for all customers.

Our customer service contact centre team puts the customer at the heart of everything they do, and during 2018 have connected with 1.5 million customers by telephone, email, letter or social media.

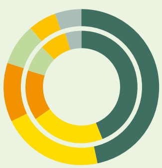
Having listened to customers, we launched 'Quieter Hour' in July 2018 as part of our commitment to making Morrisons a great place to shop, especially for people with enhanced needs such as autism. Every Saturday between 9am and 10am we carry out a number of in-store adaptations to make the store quieter and calmer; for example, by turning off our in-store radio, dimming the lights and limiting tannoy announcements.

UK grocery market size (£bn) forecasts



Source
Institute of Grocery Distribution (IGD).

Composition of UK grocery market size 2018 vs 2023 (% share)



	2018	2023
Supermarkets	46.8%	43.9%
Convenience	21.1%	21.6%
Discounters	12.1%	14.4%
Hypermarkets	8.6%	7.6%
Online	5.9%	7.9%
Other Retailers	5.4%	4.5%

Source
Institute of Grocery Distribution (IGD).

Around 12 million customer transactions per week on average

Our four stakeholder ambitions continued

Our customers

Serving customers better

We continue to make progress in the overall customer experience, improving in a number of areas which are most important to customers. These improvements helped customer satisfaction scores increase by 8% pts in 2018/19. Customers have told us that they continue to see improvements in staff friendliness, store cleanliness and queue times.

Customers rate us highly for our food maker credentials, recognising the skill and expertise of our in-store experts through our unique Market Street offer. The 'Morrisons Makes It' campaign showcases the unique fresh products made by our experts in-store and at our manufacturing sites, and is well received by customers. The introduction of a range of meal kits on Market Street also has strong appeal for customers, particularly those who are younger and time poor.

Customers also strongly associate us with buying from British suppliers and working closely with farmers and growers. Our 'Local Foodmakers' programme is working hard to build on this reputation at both regional and local level. Customers tell us how important 'local' is to them, particularly within Fruit & Veg, Meat and Dairy.

This year, we have identified a number of 'local flagship' stores, where there are particular opportunities for us to introduce larger local ranges due to their location and customer base. We have also introduced local loose eggs in all stores this year, helping customers support local farmers and reduce food waste.

Popular brands

Our own-brand plays an important role within our business and for our customers. Understanding our customers, and focusing on things that matter most, such as price, quality and range remains our focus, so that our brand continues to be relevant and attractive.

Customers told us they want more vegan choices at Morrisons and they want to be able to spot these easily in store. We launched our 'V Taste' range of vegan products this year and are improving the clarity of our labelling on more than 300 products throughout the store that are suitable for vegans.

To appeal to our most price-sensitive customers, we refined the 'Savers' range, strengthening our value offer.

> "I love the Wonky fruit and veg, and the paper bags in the fruit and veg aisles."
>
> Customer, Plymouth store

Customers with young families have told us they are looking for healthy convenient solutions to feed their families. In November 2018, we launched our new 'Little Kitchen' range, which includes tasty products that have been nutritionally developed specifically for, and approved by, children. Every time a customer purchases a product from the 'Little Kitchen' range, we make a financial contribution to our charity partner, CLIC Sargent. We hope to raise £300,000 through this initiative.

This year, we launched our biggest and best Food to Order brochure, which includes a number of new and exclusive lines. Customers tell us that they love the good quality food and great value that this range offers. We also launched 23 new Party Shops this year and expanded our range of balloons and seasonal products across our stores. Customers complimented the excellent range and value for money, and love the convenience of picking up party items along with their regular grocery shopping.

Helping customers reduce waste

Customers tell us that they are more concerned than ever about waste of all kinds, and that they love our 'Naturally Wonky' brand, as it reduces food waste and offers excellent value. The 'Naturally Wonky' range has expanded further this year to now include wonky varieties of around 30 Market Street products, including flowers, avocados and chillies.

Reducing plastic waste and plastic packaging has emerged as a key area of concern for customers this year, with almost all telling us that they are making an effort to reduce their usage. Customers expect retailers to help them in their efforts and are looking for convenient solutions which do not impact quality or price.

We have introduced numerous initiatives this year to reduce plastic waste. Customers have reacted positively to these changes, explaining that they demonstrate we are moving in the right direction. For more details, see the 'Reducing plastic' case study in the 'six priorities in action' section on page 10.

'More' Card

The Morrisons 'More' Card continues to grow in popularity with our customers. Customers tell us that they enjoy earning points every time they shop with us, and really appreciate earning money off of their next shopping trip.

We have been listening to customers about how we can use the 'More' Card to serve them better in an increasingly digital world. This year we launched our new 'More' Card app, featuring a digital 'More' Card which can be scanned at the checkout, an option to 'go paperless' and receive vouchers digitally, and personalised offers which can be activated via the app. This has proved popular with customers, with uptake growing rapidly over the year.

More accessible

We opened three new stores this year, located in St Ives (Cambridgeshire), Abergavenny and Acocks Green. Our new stores have been warmly received by customers, meeting their expectations and improving existing perceptions of the Morrisons brand. In particular, customers in our new stores have praised the look and feel of Market Street. They have also been impressed by our local ranges, which demonstrates our support for local producers. This strong customer response has been reflected in our trading, with the new stores performing well.

We are also serving more customers online through the expansion of our online store pick delivery service and the opening of a second customer fulfilment centre with Ocado.

Our wholesale business is helping to increase the size of the market in which we operate. Our existing partnerships with Amazon, Rontec and McColl's are making Morrisons more accessible to more customers, and this will further increase through new wholesale partnerships with MPK, Big C and Sandpiper CI. We see the growth of our wholesale business as a capital light and sustainable way of accessing the growing convenience sector.

+8%

Year-on-year increase in customer satisfaction

Our four stakeholder ambitions
Our colleagues

Engaged and motivated colleagues

Colleagues sharing in the success of the business

A fair day's pay for the work they do

Five ways of working

Our five ways of working underpin everything we do and how we operate. They provide a clear and consistent way of doing things and apply to every colleague in Morrisons across our stores, sites and central teams.

Customers first

Customers are at the heart of everything our colleagues do. We care about our customers and do all we can to always put them first.

Teamwork

Through teamwork, colleagues can help each other to get things done, knowing that we can achieve more together. Each colleague plays their part in the team, respecting and working with others to get better results. To ensure we serve our customers better, especially at the times of the year that mean the most to them, such as Christmas, all colleagues working in central roles help out in stores.

Freedom in the framework

Freedom in the framework means colleagues have the freedom, and are trusted, to make decisions to help achieve our priorities.

Listening and responding

Listening and responding quickly is at the heart of the turnaround. Taking the time to listen to all of our stakeholders is embedded in the way we work across the business.

Selling, controlling costs, growing profits and removing waste

All colleagues are food makers and shopkeepers and are encouraged to do everything they can to help sell more, manage our costs more effectively, and identify opportunities to improve how we do things.

Having a say on what matters

Giving our 100,000 colleagues the opportunity to have their say on what matters is critical to the turnaround and continues to drive better business outcomes. By listening hard to colleagues and responding, we are able to quickly address the things that make a real difference to both colleagues and customers.

This year we continued to work with colleagues through our 'Your Say' forums in every store and site, with local representatives getting directly involved in improving their place of work. At our national 'Your Say' forum, colleagues from across the business came together with members of the Board including Non-Executive Directors and some of the Leadership Team to discuss some of the opportunities to improve Morrisons.

In our annual 'Your Say' survey we heard from more than three-quarters of all our colleagues, achieving a strong overall engagement score of 76%. There were some particularly strong scores: on colleagues understanding how their role contributes to the success of Morrisons (89%); and feeling trusted to do their job in a way that puts customers first (89%). During the year, we have also trialled smaller 'Pulse' surveys, allowing us to track engagement levels throughout the year. The insight from this additional data will be something we will focus on in the year ahead.

We have also introduced further two-way communication channels between front-line colleagues and our central teams. These online 'Communities' allow teams working at every stage in our supply chain to talk immediately about products, packaging and quality, to quickly work together to improve the experience for our customers.

A fair day's pay

Our turnaround is colleague-led and it is important that everyone's contribution is fairly rewarded. During 2018, we listened hard to our colleagues' views on a fair day's work. In our 'Your Say' survey, 71% of colleagues told us they receive a fair day's pay for a fair day's work, 22% pts ahead of the retail industry benchmark provided by a third party survey.

During the year we again improved our market competitive rate of pay for our front-line store colleagues, increasing from £8.50 per hour to £8.70 per hour. We also took the opportunity to invest further in the 6,000 team managers who run our in-store departments, introducing a performance-driven pay award to replace the previous flat rate, and increasing their maximum bonus opportunity.

We recognise the importance of helping our colleagues manage both their time at work and their wellbeing, and are developing a comprehensive plan for 2019.

£8.70

Minimum rate of hourly pay for front-line store colleagues

76%

Colleague engagement index

Our four stakeholder ambitions continued
Our colleagues

New operational structures

We introduced our new store management structure early in the year. The structure is simpler, with broader team manager roles which are designed to provide better support and guidance to our front-line colleagues. By changing the structure we removed around 1,500 management roles and reinvested in front-line colleague hours. Of those affected by the structure change, we retained the skills and experience of over 800 colleagues in other roles. Towards the end of the year we invested in technical and behavioural training, to further raise the capability of our store management teams.

Tools and training to do the job

We have continued to add modern tools to 'MyMorri', our digital platform for colleagues. This platform allows instant electronic contact with all our colleagues for the first time. During the year, this platform was used to launch new applications, for example, allowing store colleagues to request their holiday dates and check their work schedule online, at any time, from any device.

'MyMorri' has also benefited from additional investment, including the launch of a news desk feature that brings all the latest news about the business directly to colleagues. In addition, we have trialled a new system to give colleagues greater control of their schedules, allowing them to better manage their availability, swap shifts with others and ask for additional shifts. We will introduce this system for all store colleagues from next year.

Mastercraft

We continue to recognise the food maker and shopkeeper craft skills of our specialist colleagues, through our national Mastercraft competition.

This year, from the hundreds of colleagues in craft skilled roles who competed in the initial rounds, 44 finalists demonstrated the expertise with which we make and provide food we are all proud of. The 11 categories included traditional areas such as Butchery, Fishmongery and Bakery, as well as Floristry and Fruit & Veg. The competition also looks to recognise and award our 'Craft Apprentices of the Year'.

Creating opportunities to develop, progress and grow

During the year, over 500 colleagues started one of our 'Pathways' programmes, which prepare them for further internal progression.

At the same time, we recruited over 250 colleagues onto our skilled apprenticeship programmes in areas ranging from Butchery and Bakery to Engineering and Floristry. We also prioritised the expansion of our market leading Degree Apprentice programme, bringing the total on this scheme to 110. In addition, we continued to operate our more traditional graduate programmes, with a further 80 colleagues starting in September 2018.

A real strength of our young talent programmes is the way in which they attract friends and family. This year almost 40% of our combined Degree Apprentice and Graduate programmes offers were made to the friends and families of existing colleagues. Our Generations campaign, which identifies colleagues and their family members who have started one of our young talent programmes proved particularly effective, doubling the number of applications received last year.

We also started our new 'Morrisons in schools' programme during the year, which enables our stores, sites and offices to work closely with local schools to build a strong pipeline of talent. This activity supports our social mobility work, especially in those areas where our stores are in social mobility 'cold spots'. We were delighted to again be ranked highly in the 'Top 50 Social Mobility Employer Index', and to win the 'Top Retailer' Award for School Leavers from All About School Leavers in 2018.

Highly valued and treated with respect

As we continue our turnaround, it is important to ensure that our culture fully reflects our core purpose, ways of working and ambitions for all our stakeholders. During the year we launched our 'Leading with Respect' training, to better equip line managers with the skills to create the right environment.

We also reviewed our recognition tools, and created more opportunities for managers to recognise their colleagues and reward them in the moment, whether for excellent service, great teamwork, or being great examples of one of our five ways of working.

In addition, we have continued to work on improving our talent and gender balance. During the year, we employed 57,611 females and 46,019 males, increased the overall proportion of female store managers to c.20% and maintained the proportion of female regional managers at over 26%.

We are particularly proud of the work we have done to increase female representation at senior levels. This has been recognised in the November 2018 Hampton Alexander report with Morrisons shown as the fifth best performer in the FTSE 100. At the end of the 2018/19 financial year, the Leadership Team included 16 female members, representing 28% of its total composition.

At the same time, we continue to celebrate and promote the diversity of our colleagues. This has included working with our new LGBT network to attend Pride events, running a new programme in stores for women in leadership, and starting a Black, Asian and Minority Ethnic (BAME) listening programme to understand how we can better create opportunities for these colleagues. This will continue to be an important area of focus in 2019.

Lynda Davies, Fishmonger apprentice finalist from Leigh

Our World Foods Senior Buying Manager, Noor Ali, won the 'Diversity Champion' award at the 'Forward Ladies, Yorkshire 2018 awards'

Our four stakeholder ambitions
Our suppliers

Establishing lasting relationships

Working together with simplified terms

Ways of workings that comply with the Groceries Supply Code of Practice

FOR FARMERS
YOU GIVE BACK TO FARMERS

Listening and responding

Strong supplier relationships, based on mutual respect and benefit, are key to Morrisons becoming broader and stronger – our growth means growth for our suppliers.

We have made good progress over recent years, focusing on improving relationships with suppliers and developing a consistent framework for our ways of working together. This progress is reflected in our scores in the industry survey carried out by the Groceries Code Adjudicator (GCA) where, for the second year running, we were the second most improved retailer.

Listening is at the heart of this progress. By regularly engaging with all suppliers at all levels, and understanding their concerns, we can simplify how we work, and improve the areas that matter most to our suppliers.

During the year, we continued to focus on ensuring clear, customer-focused planning and on paying suppliers on time. We also introduced our supplier portal, a free-to-use platform that enables suppliers to document and store agreements. This is an important step on our continued journey to simplify the way we work.

We work closely with all our suppliers to ensure we provide food and goods we are all proud of, and that we offer customers great quality, while removing unnecessary cost together to improve competitiveness. We also value innovation and work together with suppliers to bring new and exciting products to our customers.

Our supply chain

We are proud to be British farming's biggest supermarket customer, not only supporting farmers, but also the wider community throughout the British food supply chain.

We remain committed to sourcing all of our fresh beef, pork, lamb, chicken and turkey directly from British farmers, and continuing to strengthen our relationship by working directly with, for example, potato, onion and carrot growers. By working closely and collaboratively with our suppliers, we ensure all of our milk and cream is 100% British.

We continue to grow and expand our manufacturing division. During the year, we acquired a Yorkshire egg packing business, further strengthening our relationship with British farmers, whilst at the same time allowing us to supply customers with food we are proud of.

Our customers support the farming community by purchasing products in the 'For Farmers' range, where a clear part of the retail price of the products goes directly back to farmers.

Through our Local Foodmakers events, we continue to remain close to small British businesses, giving these smaller suppliers an opportunity to engage with us and to bring their products to our stores.

The Groceries Supply Code of Practice (GSCOP)

GSCOP applies to designated grocery retailers in the UK, adding specific regulations into the trading relationships between retailers and their suppliers. We actively engage with the relevant regulatory bodies, the Groceries Code Adjudicator (GCA) and the Competition and Markets Authority (CMA), to build best practice. We meet regularly with the GCA, and provide updates on our activity and details on specific areas of interest to the Adjudicator.

In addition to these regular update meetings, we invited the GCA to meet buyers and attend a Board meeting, provided a guest speaker for the GCA's annual conference and presented to new retailers being brought under the GCA's remit.

During the year, we focused on a number of matters raised by suppliers or the GCA, with the key developments including:

- reviewing our forecasting systems and processes to find ways to improve the information we share and the way we work with suppliers;
- introducing a supplier portal which is provided free for suppliers; and
- continuing to listen and improve initiatives such as our 'Good Faith Receiving' process and our dedicated supplier helpdesk.

We provide training and support on GSCOP to all colleagues in our trading teams, together with bespoke training in a range of formats for relevant colleagues in our supply chain and finance teams. We have further enhanced our training programme by developing an interactive online GSCOP training module which was completed by nearly 900 colleagues.

Governance in this area includes a group comprising of Leadership Team members from all relevant functions. Routine updates are provided to the Executive Committee and to the Corporate Compliance and Responsibility Committee, including developments relating to the operation of the Code. We formally report details of activity over the year, together with any specific concerns raised with our Code Compliance Officer (CCO), to the GCA and to the CMA at the financial year end.

GSCOP-related enquiries are dealt with in accordance with the regulations. Any matter not resolved directly with a buyer is escalated to the relevant Category Director and, if requested, to our CCO. During the year, we successfully resolved all direct Code-related complaints following conversation with the supplier concerned, with the exception of one raised in January 2019 which has subsequently been resolved. Contact details and further information can be found at morrisons.co.uk/gscop.

Our four stakeholder ambitions
Our shareholders

A strong balance sheet

A cash generative business with low levels of debt

Sales, profit and dividend growth

Trevor Strain
Chief Finance and Commercial Officer

Introduction

We have once again made good progress in becoming a broader, stronger business. 2018/19 sales growth was the strongest for nine years, profit was again up, cash flow was strong, debt remained low and return on capital employed (ROCE) improved.

We continue to invest for growth, and remain focused on that growth being cash generative, capital light and returns accretive.

We have a sustainable ordinary dividend policy and a capital allocation framework, against which we assess the uses of free cash flow.

Once again, adhering to the principles of this capital allocation framework, the Board is recommending a return of surplus capital to our shareholders through another special dividend in addition to the special dividend paid at the half year.

Summary income statement

	2018/19 £m	2017/18 £m
Revenue	17,735	17,262
Operating profit	394	458
Net finance costs	(75)	(80)
Share of profit of joint ventures (net of tax)	1	2
Profit before tax	320	380
Profit before tax and exceptionals*	406	374
Basic earnings per share before exceptionals*	13.17p	12.19p
Basic earnings per share	10.34p	13.30p

Revenue

Total revenue during the period was £17.7bn, up 2.7% year-on-year. Revenue excluding fuel was £14.0bn, up 3.2%. Adjusting for the 53rd week in 2017/18, total revenue including fuel was up 4.7%.

Group like-for-like (LFL) sales excluding fuel was up 4.8% over the year, including contributions from supermarkets of 1.2% and online through central fulfilment of 0.3%.

It was an important year for wholesale, which contributed 3.3% to LFL growth as we accelerated supply to McColl's and made good progress with our other wholesale partners, which enabled us to achieve our target of £700m of annualised wholesale sales ahead of our initial end-2018 guidance.

Operating profit

	2018/19 £m	2017/18 £m
Operating profit	394	458
Adjustments:		
– Impairment and provision for onerous contracts	5	(6)
– Profit/loss on disposal and exit of properties	(2)	(19)
– Pensions exceptional items	26	(13)
– Other exceptional items	42	25
Operating profit before exceptionals*	465	445

Operating profit was £394m (2017/18: £458m). Operating profit before exceptionals was £465m (2017/18: £445m), which was a margin of 2.6%, up four basis points year-on-year.

Profit before tax and exceptionals* (2018: £374m)

Profit before tax

	2018/19 £m	2017/18 £m
Profit before tax	320	380
Adjustments:		
– Impairment and provision for onerous contracts	5	(6)
– Profit/loss on disposal and exit of properties	(2)	(19)
– Costs associated with the repayment of borrowings	33	16
– Pensions exceptional items	26	(13)
– Net pension interest income	(18)	(9)
– Other exceptional items	42	25
Profit before tax and exceptionals*	406	374
Profit before tax and exceptionals margin	2.3%	2.2%

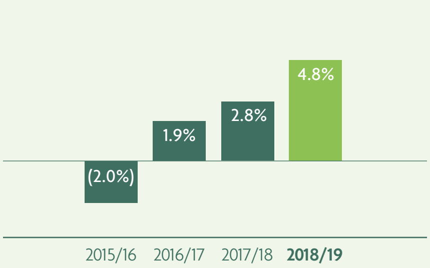
Reported profit before tax was £320m (2017/18: £380m). After a review of emerging practice around Alternative Performance Measures, 'profit before exceptionals' is now our key adjusted profit measure. It is defined as profit before tax, exceptional items, and net pension interest. In moving from 'underlying profit' to 'profit before exceptionals' there is no financial impact of the change on 2017/18 reported numbers.

Profit before tax and exceptionals was up 8.6% to £406m (2017/18 53 weeks: £374m). As previously reported, last year's 53rd week added £5m to profit, meaning 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.

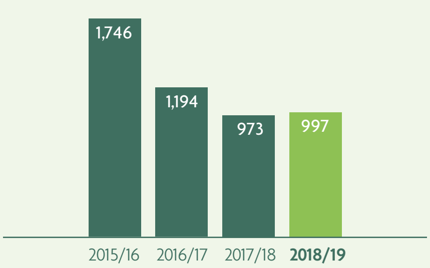
* Alternative Performance Measure as defined in the Glossary on pages 132 – 133.

Group LFL sales (exc. fuel)



Definition
See the Glossary on page 132 for a definition.

Net debt (£m)



Definition
See the Glossary on page 133 for a definition.

During the period we invested in both the start-up of our new store-pick capability and the new Erith customer fulfilment centre for Morrisons.com, and the accelerated roll-out of wholesale supply to McColl's. This enabled us to both significantly increase our online household coverage and achieve our target of £700m of annualised wholesale supply sales earlier than expected. This meant we incurred some additional online and wholesale supply start-up costs, which eased slightly in the second half. The net incremental profit before tax from wholesale, services, interest and online, was a further £12m during the year, bringing the cumulative total to £54m.

Within exceptional items (as fully detailed in note 1.4 of the financial statements), was a £33m one-off cost of completing a successful tender offer across £233m of bonds. In addition, other exceptional items included £28m 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 the methodology for estimating stock provisions.

Also 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.

For pensions, following a High Court judgement in October 2018, there was a £7m exceptional charge relating to the estimated cost of equalising the minimum pension benefits for men and women. In addition there was a £19m charge relating to the closure of a scheme to future accrual. Net pension interest income was £18m, up £9m year-on-year.

* Alternative Performance Measure as defined in the Glossary on pages 132 – 133.

Earnings per share

Basic earnings per share decreased to 10.34p (2017/18: 13.30p), and earnings per share before exceptionals* increased to 13.17p (2017/18: 12.19p), up 8.0%.

Debt, cash flow and working capital

Summary cash flow

	2018/19 £m	2017/18 £m
Cash generated from operations before onerous capital payments	854	926
Onerous capital payments	(12)	(42)
Cash generated from operations	842	884
Proceeds from sale of property, plant and equipment and investment property	22	108
Capital expenditure	(461)	(500)
Dividends paid	(289)	(129)
Dividends received	7	8
Purchase of own shares	(9)	(4)
Tax and interest	(130)	(136)
Costs incurred on repayment of borrowings	(30)	(17)
Proceeds on settlement of share options	15	26
Other non-cash movements	9	(19)
Movement in net debt*	(24)	221
Opening net debt*	(973)	(1,194)
Closing net debt*	(997)	(973)

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 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 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.

Net finance costs

Net finance costs were £75m (2017/18: £80m). We completed tender offers of £233m across three sterling bonds which incurred an exceptional cost of £33m. Before this exceptional cost and the £18m net interest pension income, net finance costs before exceptionals* were £60m (2017/18: £73m).

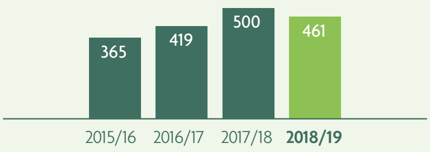
Tax

We understand the importance of the tax contribution we make, and we take our responsibility towards the communities in which we operate and towards our colleagues, customers, investors and suppliers seriously. We have a tax management framework which ensures the needs of all of our stakeholders are considered. The Group is committed to paying all of its taxes in full and on time. The Group consistently ranks as one of the largest contributors across a range of UK taxes. In 2018/19, Morrisons made net payments of £1,127m to the UK Government of which £561m was borne by Morrisons and the remaining £566m was collected on behalf of our colleagues, customers and suppliers. Corporation tax payments made during the year were £76m which was in line with the current tax charge of £83m in the income statement.

Our four stakeholder ambitions continued

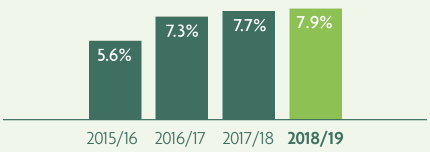
Our shareholders

Capital expenditure (£m)



Definition
Measured as additions to property, plant and equipment, investment properties, intangible assets, assets held-for-sale and investments as per the cash flow statement.

Return on capital employed (ROCE)



Definition
See the Glossary on page 133 for a definition.

Summary balance sheet

	2018/19 £m	2017/18 £m
Fixed assets and investments	7,828	7,761
Working capital	(2,025)	(2,045)
Provisions and tax	(863)	(792)
Net pension asset	688	594
Net debt*	(997)	(973)
Net assets	4,631	4,545

Pensions

The net pension asset as at 3 February 2019 was £688m, an increase of £94m since 2017/18. We continue to work with the pension trustees to identify further opportunities to de-risk the schemes and completed a further £413m buy in of part of the Safeway scheme liabilities during the year. During 2018/19 we also announced the closure of the Retirement Saver plan to new members and future accrual.

Capital expenditure

Cash capital expenditure was £461m, (2017/18: £500m). In the year a further 59 stores went through our Fresh Look programme, meaning we have now refitted over half the estate. We also invested in improving distribution, both to support our growing business, and as part of our longer term network planning.

Borrowings

We continue to apply our policy of maintaining a conservative debt maturity profile and continue to reduce the level of gross debt. In the year, we completed a tender offer across three of our sterling bonds – repaying £233m.

The maturity profile of our remaining debt facilities is strong.

Return on capital employed (ROCE)*

Return on capital employed increased to 7.9%. The growth opportunities we are focused on are capital light and accretive to profit and returns.

Key balance sheet metrics

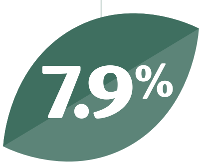
	2018/19	2017/18
Interest cover	6.8 times	6.1 times
Net debt*/EBITDA[1]	1.1	1.1
Gearing	22%	21%
ROCE*	7.9%	7.7%

1 EBITDA before exceptionals.

Financial strategy

Capital allocation framework

1 Invest in maintaining the estate and reducing cost
2 Maintain debt ratios to support investment grade rating
3 Invest for profitable growth
4 Pay dividends in line with stated policy
5 Return surplus capital to shareholders



Return on capital employed*

Our capital allocation framework remains unchanged. Our first priority is to invest in our stores and infrastructure, and to reduce costs. Second, we will seek to maintain debt ratios that support our target of an investment grade credit rating. Third, we will invest in profitable growth opportunities. Fourth, we will pay dividends in line with our stated policy, and then any surplus capital will be returned to shareholders.

Shareholder returns

Our policy is for the ordinary annual dividend to be sustainable and covered around two times by basic earnings per share before exceptionals. The final ordinary dividend will be 4.75p, bringing the ordinary dividend for the full year to 6.60p. In addition to the final ordinary dividend, the Board is proposing a final special dividend of 4.00p per share (in addition to the 2.00p special dividend paid at the half year). This takes the total dividend for the year to 12.60p, an increase of 24.9%.

The principles of our capital allocation framework have guided us in building a track record of capital discipline, and sustained improved total returns for shareholders. That framework has served us and our stakeholders very well for the last five years and remains unchanged.

We still have significant opportunities ahead. These opportunities span sales, costs, productivity and every aspect of improving the shopping trip. We are confident that the meaningful and sustainable turnaround remains in our own hands.

Trevor Strain
Chief Finance and Commercial Officer

* Alternative Performance Measure as defined in the Glossary on pages 132 – 133.

Corporate responsibility
Focusing on what matters

Making a positive contribution to society

Reducing plastic, minimising food waste and taking care of the environment

Respecting human rights and ethical trading practices

Non-financial information statement

In order to comply with the requirements of the Companies Act 2006, sections 414CA and CB, we have discussed the following information in the places referenced below:

- information on environmental matters is shown in this section on pages 21 and 22;
- information on our colleagues is shown in Our colleagues section on pages 15 and 16 and as part of the Director's report on page 56;
- information on social matters is shown in this section on pages 21 and 22;
- our respect for human rights is set out in our Corporate governance report on page 38;
- our approach to anti-corruption and anti-bribery matters is set out in our Corporate governance report on page 38;
- our business model is described on pages 2 and 3;
- our principal risks, and how we manage them, are described on pages 24 and 25; and
- other non-financial key performance indicators are shown on page 1.

Focusing on the issues that matter most

Our corporate responsibility programme ensures that 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.

Our programme is underpinned by ten key focus areas, many of which are described and summarised in this section. These areas reflect the issues that really matter to our customers and our wider stakeholders.

For further information, please see our 2018/19 Corporate Responsibility Report which can be found at www.morrisons-corporate.com/cr

This section is a summary of some of our activity during the year.

Alignment to the UN Sustainable Development Goals

The UN Sustainable Development Goals universally apply to all, and aim to end all forms of poverty, fight inequalities and tackle climate change on a global scale. These goals can only be realised with participation from all sectors including business. We recognise the importance of these goals and the true value of collaboration in order to create change.

At Morrisons, we want to address these global challenges in a meaningful way, that is relevant and aligned to our business strategy. We have reviewed our focus areas and ensured we are aligned to the UN Goals where possible. As the use of the goals develops, we will adapt and stay aligned to best practice where possible.

2018/19 highlights

Reducing, reusing and recycling plastic

Morrisons is a founder member of the UK Plastics PACT, a collaborative commitment which joins up all stakeholders in the plastics system – businesses, government, local authorities, environmental organisations, and the wider public.

As signatories to the Waste and Resources Action Programme (WRAP), and working in collaboration with other fellow signatories, our aim is by 2025 to:

- ensure that all Morrisons branded plastic packaging will be recyclable, reusable or compostable;
- ensure that we have 30% average recycled content across all plastic packaging; and
- eliminate problematic or unnecessary single-use packaging through redesign, innovation or alternative (re-use) delivery models.

In the short term, we have targeted problematic plastic materials for our own-brand and Market Street products.

We are working with our suppliers so that:

- the use of mixed polymers (multi-layers) will be avoided wherever possible unless necessary for food safety reasons; and
- problematic packaging materials that cannot be easily recycled through kerbside collections are avoided where suitable alternatives exist.

For more detail on how we are making it easier for our customers to reduce and recycle the plastic they use, see the 'Reducing plastic' case study on page 10.

Reducing our food waste

We are committed to providing food we are proud of and wasting as little of it as possible. We take an active approach to use more of what we buy. With a vertically integrated fresh UK food chain we are able to drive efficiency from farm gate, through our supply chain, to our customers.

As part of our work with WRAP and the Institute of Grocery Distribution, we are now aligned to UN Sustainable Development Goal 12.3 to reduce our operational food waste by 50% by 2030.

We continue to sell varieties of 'Naturally Wonky' produce in our stores and online. In addition, we have now introduced 'Naturally Wonky' veg boxes to our online customers, and these include carrots, onions, potatoes, and parsnips as well as a minimum of three additional seasonal produce items. These boxes offer great value and are designed to help feed a family of four for a week. For more details on our 'Naturally Wonky' range, see page 11.

Corporate responsibility continued
Focusing on what matters

In our stores, we have introduced 'Too Good to Waste' boxes, which contain a mixture of fresh fruit and vegetables that have just passed their Display Until dates but are still perfectly good to eat. These boxes are sold at a discounted rate.

We continue to run our unsold food programme, which enables stores to donate any edible surplus food to local community groups of their choice. Since the programme began in 2016, our stores have donated over five million unsold food items.

Within our manufacturing sites and distribution centres, we continue to work with Company Shop and the national charity FareShare to redistribute two million meals that would have otherwise been wasted.

Supporting British farmers

We support the British farming industry by maintaining our 100% British on fresh seasonal fruit and vegetables where possible as well as fresh beef, lamb, pork, chicken and turkey. Keeping supply chains short and efficient helps to improve environmental performance.

We work closely with our primary fresh producers helping them to be profitable, affordable and sustainable. We host dedicated primary supply chain working groups, inviting farmers across all key product groups to discuss current issues and challenges that we might address collaboratively.

In early 2018, we acquired Chippindale Foods Limited, a leading supplier of free range eggs, enabling us to work closely with egg farmers to support a sustainable supply chain, hen welfare and high quality eggs. As a result of this acquisition, we have now committed to selling only shell eggs from cage-free production systems by 2022 and using only cage-free ingredient eggs in all own-brand products by 2025.

Making a positive difference to local communities

Community champions across all our stores and sites continue to play an active role in their communities. In total, they have arranged donations of over £500,000 worth of our products to good causes in 2018. This year, we re-launched our school tour programme for primary school children and local community groups to help inspire the next generation of food makers and shopkeepers.

This year we have increased community champion hours in a number of stores which has enabled an expansion of community activity. We have also introduced a number of community rooms in our stores, which are dedicated spaces for local community members to use free of charge for meetings, events and get-togethers.

We have also completed the installation of defibrillators in all of our stores and sites, in partnership with St John Ambulance and the Morrisons Foundation. These devices can be the difference between life and death in the event of cardiac arrest.

Promoting charity work and colleague involvement

We understand the importance of supporting charities and good causes that are close to the hearts of our colleagues and customers. During the year, we have raised over £3m for our national charity partner CLIC Sargent. This money is being used to provide support for young cancer patients and their families, for example through financial grants, a place to stay for free close to cancer treatment centres, and specialist nursing teams.

Our colleagues and customers also raised over £600,000 for the Marie Curie Daffodil Appeal, over £2m for the Poppy Appeal and more than £100,000 for the Disasters Emergency Committee's Indonesian Tsunami Appeal. Furthermore, fundraising in our stores also generated over £5m for local charities and good causes.

Supporting the Morrisons Foundation

The Morrisons Foundation has now donated more than £25m to charities and good causes since its launch in February 2015. Grants have been awarded to 1,400 local charities supporting a wide range of causes across England, Scotland and Wales. In addition, more than 1,200 colleagues have received match funding for their chosen charities – a collective £1.2m boost to their fundraising.

Reducing our carbon emissions

In 2008, Morrisons became the first major supermarket to be awarded the Carbon Trust standard. The standard recognises a number of environmental initiatives, including our range of programmes that aim to deliver carbon savings throughout our supply chain.

Reducing our impact not only makes sense from an environmental perspective, it also ensures efficiency throughout our operations.

Our drive to reduce energy use across the estate has enabled us to reach our target of reducing operational carbon by 30% by 2020 – two years earlier than expected. In fact, we achieved an overall absolute reduction of 34% in 2017/18.

We are now developing a science-based carbon target for our operations, focusing on scope 1 and 2 emissions in the immediate term. For further details on our science-based target, please see our 2018/19 Corporate Responsibility Report which can be found at www.morrisons-corporate.com/cr

Group greenhouse gas emissions for year ending 31 December[1]

Emission source	2005/06 Baseline year	2017/18 Prior year	2018/19 Current year	Change vs baseline
Combustion of fuel and operation of facilities				
Natural gas	99,039	165,798	**163,152**	**65%**
Haulage	144,497	107,792	**114,499**	**(21%)**
Business miles	41,656	31,985	**31,823**	**(24%)**
Fugitive emissions				
Refrigerant	502,358	183,248[2]	**130,318**	**(74%)**
Energy purchased for own use				
Electricity	767,748	503,237	**392,805**	**(49%)**
Other				
Staff travel	1,680	1,300	**837**	**(50%)**
Waste	66,000	47,553	**43,633**	**(34%)**
Online deliveries	–	15,747[2]	**15,835**	**–**
Total	1,622,978	1,056,660	**892,902**	**(45%)**
Intensity ratio: kg CO_2e per sq ft gross internal area	53.9	28.7	**23.5**	**(56%)**

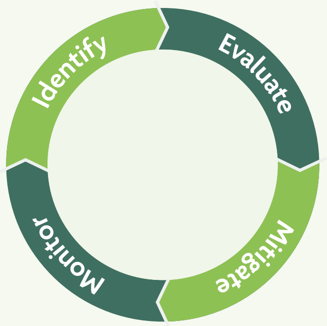
1 The information above is taken from our Group Carbon Footprint, prepared internally and independently verified by Jacobs. We have reported for the calendar year 1 January to 31 December in order to remain consistent with our historical footprint reports. We have used the Government's Environmental Reporting Guidelines (2013) to prepare these numbers, and the emissions factors from the UK Government GHG Conversion Factors for Company Reporting (2018). These guidelines state the baseline year should be recalculated if there have been structural changes that would significantly impact on the organisation's base year figures. For this year, we have revised our historical emissions figures given the acquisition and disposal of a number of sites and revisions to carbon conversions factors. The Group Carbon Footprint includes all major sources of carbon emissions from the operation of the Group's supermarkets, manufacturing and distribution sites and operation of its haulage fleet. Some minor exemptions include our Hong Kong office which deals with energy locally, a number of distribution sites operated by third parties who are responsible for the energy and carbon, and five sites which have fuel oil (less than 0.5% of the total footprint).

2 Prior year amendment of Refrigerant emissions was due to data duplication and Online Deliveries emissions due to reclassification of footprint boundaries.

Risk
Managing our risks

The achievement of our six priorities depends on our ability to make sound, risk-informed decisions. Managing risk and uncertainty is an integral part of the Board's strategic thinking.

The risk management process



The risk management framework

Top down

Board of Directors
Maintains sound risk management and control systems, assesses principal risks

Audit Committee
Sets risk management framework, assesses effectiveness of risk and control systems and maintains oversight of risk monitoring

Executive Committee
Assesses principal and operational risks and undertakes regular monitoring of risk

Risk and Internal Audit
Coordinates risk management activity through review of risk registers, agreement of risk mitigation plans and preparation of risk reporting

Operational Management
Reviews operational risks, operates controls and implements risk mitigation plans

Bottom up

Risk management approach

We manage uncertainty as we respond to changes in our industry and the wider political-economic climate by maintaining a business-wide understanding of our key risks and how to manage them. This assists in delivering our ambitions for all of our stakeholders and means that we are in a better position to achieve our objectives, respond to emerging risks and create opportunities.

The risk management process

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

At the core of the risk management process are the risk registers for each of the key business functions. These detail the main operating risks and are used to assess the gross level of risk (likelihood and impact), mitigating controls, and the resultant net level of risk and risk mitigation plans with dates and target level of risk. The impact assessment of a risk includes consideration of the reputational, financial and operational effect. Targets are assigned to each risk based on the risk appetite framework established and agreed with the Board.

The risk registers are owned and managed by operational management, with the head of each function certifying annually that these have been reviewed and action plans are in place where required. The risk registers are also formally reviewed and challenged by a sub-group of the Executive Committee each year.

The Group risk register is formally reviewed twice a year by the Executive Committee. The register details the Group's principal risks, key controls in place and the mitigating actions. The Executive Committee's assessment of the completeness of these risks takes into account the risks captured in the detailed functional risk registers, strategic risks, external factors and any emerging risks. The principal risks are monitored every month by the Executive Committee using key risk indicator reporting, supplemented by more detailed reviews as appropriate to identify any changes in the risk landscape.

The Risk and Internal Audit function facilitates the preparation of both the functional and Group risk registers. It supports the Audit Committee in reviewing the effectiveness of our risk management and internal control systems and has established a rotational monitoring process for key controls. Where potential weaknesses are identified, the Risk and Internal Audit teams work with the business to agree robust actions to mitigate these.

The Audit Committee supports the Board in maintaining a robust risk management framework by approving the risk management process and reviewing the Group's principal risks and key risk indicator reporting on a regular basis. Read more on risk governance in the Audit Committee report on pages 35 to 37. The key focus for 2019/20 is formalising the assessment of emerging risks in light of the new Corporate Governance Code.

Principal risks

The Directors have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, achievement of the six priorities, solvency or liquidity. The Directors consider these to be the most significant risks facing the business, they do not comprise all the risks that the business is facing. These principal risks are set out on the following page.

The uncertainty around Brexit and the negotiation process has impacted customer confidence in the latter part of the year, and has also impacted the availability of EU labour. This has led to an increase in the assessment of the net risk associated with three of the principal risks; competitiveness, customer and people.

As at 12 March 2019, the date of approval of this Annual Report and Financial Statements, all options are still possible. A 'no deal' outcome could increase the risk associated with Business Interruption given the potential for disruption in the supply chain with delays at the ports. The costs associated with a further impact on foreign exchange rates, changes to tariffs and duty on goods imported into the UK from the EU and other countries, would have an additional impact on the Competitiveness risk. The Group is focused on executing the plans aimed at mitigating the identified risks to minimise any impact.

Risk 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.

Risk	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.	• 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 ↑ 1	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 'Naturally Wonky' and relaunched the 'Savers' brands.
Customer ↑ 1 2 3 4 6	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.

Key

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

Link to our six priorities

- 1 To be more competitive
- 2 To serve customers better
- 3 Find local solutions
- 4 Develop popular and useful services
- 5 To simplify and speed up the organisation
- 6 To make the core supermarkets strong again
- # Underpins all six priorities

Risk	Description	Mitigation
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.
Food Safety and Product Integrity ↔ 1 2 3	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 ↔ 2 4 5	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.

Risk continued

Viability statement

The Group's business model and strategy, as outlined on pages 2 and 3, are central to an understanding of its future viability. The Group continues to progress against its turnaround strategy, focusing on strengthening the core supermarkets and delivering capital light growth whilst maintaining discipline and control in relation to costs and maintaining a strong balance sheet.

The Directors have assessed the viability of the Group over a three-year period to January 2022. The Group's business model is not dependent on any particular contract or resource with fixed end dates. The period selected is consistent with the Group's strategic and financial plans and therefore was considered to be the most robust means to support its viability statement.

The Board assesses the Group's prospects primarily through the strategic planning process. This considers the Group's current position, the business model (see pages 2 and 3), opportunities for growth, performance of its strategy (including the six priorities on pages 8 and 9), as well as the principal risks (see pages 24 and 25). The latest strategic planning update with the Board was held in November 2018 with involvement of all relevant functions across the business.

As part of the strategic planning process, the Directors make a number of assumptions about business performance and the ability of the Group to raise debt financing. The Group carefully plans and reviews the maturity profile of debt facilities to avoid coterminous maturity dates and liquidity forecasting gives visibility of headroom under committed facilities over the period of the financial plans. The Group's policy is to maintain sufficient headroom in committed facilities to mitigate the risk that supply chain finance facilities are not available.

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

The scenarios which have been modelled encompass the Group's principal risks. In the case of these scenarios arising, various options are available to the Group in order to maintain liquidity. These include; reducing non-essential capital expenditure, short-term cost reductions, or reduced returns to shareholders.

Scenario	Principal Risks	Description
Competitive pressure	Competitiveness, Customer	Failure to remain competitive (e.g. through price or keeping pace with the change in the market)
Business interruption or regulatory breach	Business Interruption, Compliance	A serious data security or regulatory breach results in a significant monetary penalty and a loss of reputation among customers
Banking crisis	Financial and Treasury	A banking crisis leading to one or more of the members of the Group's banking syndicate choosing not to, or being unable to, honour the facility agreement
Impact of Brexit	Competitiveness, Customer, regulation, Financial and Treasury	Increased inflation and import costs as a result of the UK's decision to leave the European Union, including the impact of reversion to World Trade Organisation rates in the case of a 'no deal' Brexit

Furthermore, reverse stress testing was performed to understand the level of performance decline that the Group could withstand.

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

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.

Approval of the Strategic report
Pages 1 to 26 of the Annual Report form the Strategic report.

The Strategic report was approved by the Board on 12 March 2019 and signed on its behalf by:

Jonathan Burke
Company Secretary
12 March 2019

Corporate governance report
Chairman's governance statement

On behalf of the Board, I am pleased to introduce Morrisons Corporate governance report for the financial year 2018/19

Andrew Higginson
Chairman

Dear Shareholder,

The Board and I are absolutely committed to maintaining robust and effective standards of corporate governance across Morrisons for the long-term benefit of all our stakeholders. Our governance framework ensures that our key stakeholders are at the heart of every decision we make, supporting long-term value creation for all.

Our customers, colleagues, suppliers and shareholders are telling us that there has never been a greater need for Morrisons to combine our obligations to society with our obligations to our shareholders.

Complying with the Corporate Governance Code

Throughout the year, the Board has fully complied with the 2016 UK Corporate Governance Code.

The Board has also comprehensively reviewed the requirements of the 2018 UK Corporate Governance Code (the 'Code') and we are pleased that our current governance framework already applies the main principles of the 2018 Code. Throughout the coming year, the Board will continue to ensure that our corporate governance standards and processes remain aligned to the updated regulations as well as the changing environment in which we work.

Colleague voice at the Board

Our colleagues are at the heart of everything we do. During the year, each member of the Board met hundreds of Morrisons colleagues through functional updates, store and site visits, and personal shopping experiences.

The Board also receives updates on the annual 'Your Say' survey in which three-quarters of colleagues across the business have shared their thoughts about the Group. The national 'Your Say' forum, which includes a representative from each store region, manufacturing site and distribution centre, gathers twice a year to discuss the issues that are most important to the colleagues they represent. This year, Tony van Kralingen, David Potts and other senior members of the Group's management teams, each attended at least one of these forums to hear colleague views for themselves.

Every day, our hands-on executive team works with hundreds of colleagues throughout the Group to ensure a clear focus regarding our objectives and culture, based around the six priorities, five ways of working and four stakeholder groups.

More information on how the Group listen to colleagues can be found in our Colleagues section on pages 15 and 16.

Engaging with all stakeholders

We seek and value the opinions of all our stakeholders seriously. For example, we again worked hard over the year to engage effectively with our shareholders.

Our culture of listening and responding extends across all our stakeholder groups. Our Corporate Responsibility Report outlines how we engage with all of our stakeholder groups to ensure that our responsibilities to wider society are understood and embedded in how we work.

The Board has also focused on ensuring that Morrisons continues to adhere to anti-bribery, anti-corruption, and human rights best practice. I am pleased with the improvements we have made this year to further embed these requirements into the processes, procedures and training across the Group.

In such a competitive industry, we have made and continue to make tough decisions every day. The Board and the Group will continue to listen hard to all our stakeholders and respond quickly wherever we can.

Andrew Higginson
Chairman

Corporate governance report continued

Compliance with the UK Corporate Governance Code

The Board considers that its corporate governance policies and procedures are appropriate and that the Group has applied the principles and complied with the detailed provisions of the 2016 UK Corporate Governance Code (the 'Code') throughout the financial year 2018/19 and to the date of this Annual Report.

Leadership

The role of the Board

The Board met eight times in the year which is considered sufficient to fulfil its duties. Details of attendance at each Board and Committee meeting is provided on page 31. The formal schedule of matters reserved for the Board remains largely unaltered from 2017/18 and is set out in the corporate governance compliance statement which can be found in the investor relations section of the Group's website, www.morrisons-corporate.com

Division of responsibilities

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

The Chairman

Andrew Higginson met the independence criteria detailed in the Code on appointment.

Senior Independent Director

Rooney Anand was appointed as the Senior Independent Director on 1 January 2016 when he joined the Board. Rooney has extensive knowledge of the retail and fast moving consumer goods industries.

The Senior Independent Director provides shareholders with an alternative contact to the Chairman, the Chief Executive and the Chief Financial Officer.

The Senior Independent Director also carried out the Chairman's performance review.

The Chairman arranges regular discussions between all the Non-Executive Directors (including himself) as a group without management present.

Effectiveness

The Board's composition

The majority of the Board comprises Non-Executive Directors. The Non-Executive Directors bring a varied range of skills and experience to the Group. Details of their experience outside the Group are set out in their respective biographies on page 30.

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

Directors' interests

The interests of the Executive and Non-Executive Directors of the Group, and their immediate families, in the shares of the Group, along with share options, are contained in the Directors' remuneration report set out on pages 39 to 54.

At no time during the year did any of the Directors have a material interest in any significant contract with the Group or any of its subsidiaries.

Board appointments

The Nomination Committee leads the process for Board appointments. More information on this Committee can be found on page 38.

The Nomination Committee considers that the Board and Executive Committee contain the skills and experience necessary in light of the Group's current activities and strategic direction.

Time commitments

The minimum time commitment expected of the Non-Executive Directors is 12 days per year, including attendance at the Annual General Meeting (AGM), Board meetings and site visits, plus adequate preparation time.

The Board is satisfied that each of the Non-Executive Directors commit sufficient time to the business of the Group and contribute to the governance and operations of the Group.

Training and development

Induction programmes are agreed by the Chairman for each new Non-Executive Director, following their appointment.

The Chairman assesses the developmental needs of members of the Board on an annual basis.

Provision of information and support

The Chairman, supported by the Company Secretary, ensures that the Board receives information on a timely basis.

Each Director has access to the advice and services of the Company Secretary. They may also take external advice at the Group's expense in relation to their duties.

Board and Committee performance and evaluation

An internal assessment of the Board was facilitated by the Chairman and Company Secretary during the year. The outcomes of this assessment can be found on page 34. The last external assessment was conducted in 2017/18 and the outcomes were summarised in the 2017/18 Annual Report and Financial Statements.

Re-election of Directors

All the current Directors submit themselves for re-election at the AGM to be held on 13 June 2019.

After reviewing the outcome of performance evaluations, the Board confirms that the contributions made by the Directors offering themselves for re-election at the AGM in June 2019, continue to be effective and that the Group supports their re-election.

The Code is available on the Financial Reporting Council's (FRC) website, www.frc.org.uk

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

Compliance with the remuneration areas of the Code are covered in the Directors' remuneration report which can be found on page 39.

Accountability

Financial and business reporting

The way the Group generates value and the Board's strategy for delivering the Group's objectives is described in the Business model on pages 2 to 3, and our six priorities section on pages 8 to 9.

The information regarding the Takeover Directive disclosures are on page 55. The consideration of going concern is described on page 55. The viability statement is disclosed on page 26.

Risk management and internal control systems

The Board is satisfied with the effectiveness of internal control and that risk is being managed effectively across the Group. More information can be found on page 36.

Role and responsibility of the Audit Committee

The role and responsibility of the Audit Committee is outlined in the Board structure on page 32.

The Board is satisfied that Belinda Richards has recent and relevant financial experience appropriate to her position as Chair of the Audit Committee. Belinda is considered to have sufficient financial experience, having been a corporate finance partner at Deloitte for over ten years. Additionally, she serves on the Advisory Group of the Audit Committee Chairmen at the FRC and is a member of the Governing Council of the Centre for the Study of Financial Innovation.

Relations with shareholders

Shareholder engagement

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

The Investor Relations programme includes:

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

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

Use of the AGM

The 2019 AGM will be held on 13 June 2019 at the Group's headquarters at Gain Lane, in Bradford.

The whole Board is expected to attend and be available to answer any questions shareholders may have.

Notice of the 2019 AGM of the Group is to be sent to shareholders with an accompanying letter from the Chairman.

The format of the meeting is:

- a summary presentation of results is provided before the Chairman deals with the formal business;
- all shareholders present can put questions to the Chairman, Chairs of the Committees, and the Board during the meeting and informally afterwards;
- the Board encourages participation of individual investors at the AGM; and
- following the meeting, details of the voting on the resolutions will be made available on the website www.morrisons-corporate.com/investor-centre/shareholder-information/general-meetings/

The Directors recommend that shareholders vote in favour of each resolution, believing them to be in the best interests of the Group.

Shareholders will be notified of the availability of the Annual Report and Financial Statements on the website unless they have elected to receive a printed version.

Corporate governance report continued

Board of Directors and Executive Committee

Composition of the Board

The Board is independent and contains an appropriate mixture of skills and experience. The Board is satisfied that all Non-Executive Directors, including the Non-Executive Chairman, remain independent according to the definition contained in the Code. The criteria used to determine independence are set out in the corporate governance compliance statement which can be found in the investor relations section of the Group's website, www.morrisons-corporate.com. Each of the Non-Executive Directors has committed and is able to commit an appropriate amount of time in order to effectively fulfil their role and responsibilities on the Board.

1. Andrew Higginson
Chairman
C R N

2. David Potts CBE
Chief Executive
C

3. Trevor Strain
Chief Finance and Commercial Officer

4. Rooney Anand
Senior Independent Non-Executive Director
A C R N

5. Neil Davidson CBE
Non-Executive Director
A C R N

6. Kevin Havelock
Non-Executive Director
A C R N

7. Belinda Richards
Non-Executive Director
A C R N

8. Tony van Kralingen
Non-Executive Director
A C R N

1. Andrew Higginson

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

Experience
Andrew brings significant Board, commercial, retail and leadership experience to the Board. Andrew is a former Executive Director of Tesco PLC having spent 15 years on the Main Board, first as Finance and Strategy Director, and latterly as Chief Executive of their Retailing Services business. His early career was with Unilever, Guinness, Laura Ashley and the Burton Group. Andrew was previously the Chairman of Poundland Group PLC, Senior Independent Director of BSkyB PLC and a Non-Executive Director of the Rugby Football Union.

External Roles
Non-Executive Director of Woolworths Holdings Limited

Chairman of Evergreen Garden Care

Chairman of the IGD

Non-Executive Director of Majid Al Futtaim Group

2. David Potts

Appointment
David joined the Group as Chief Executive in March 2015.

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

External Roles
None

3. Trevor Strain

Appointment
Trevor joined the Group in June 2009 as Commercial and Operations Finance Director. In June 2011, he became Finance Director Corporate and took responsibility for the Group's productivity programmes. Trevor joined the Board as Chief Financial Officer in April 2013 and assumed the additional responsibilities of Group Commercial Director in October 2018.

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

External Roles
None

4. Rooney Anand

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

Experience
Rooney is a highly experienced retail and fast moving consumer goods (FMCG) executive. Following a career with United Biscuits and then Sara Lee, he joined Greene King PLC in 2001 as Managing Director of its brewery company. He was appointed CEO in 2005 and will be stepping down from this role shortly. Rooney is also the Chairman of both the Casual Dining Group and WorldSkills UK.

External Roles
Chief Executive Officer of Greene King PLC

Chairman of Purity Soft Drinks (a Langholm Capital owned business)

5. Neil Davidson

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

Experience[1]
Neil's extensive career in manufacturing, started with Northern Foods PLC where he rose to become Managing Director of its milk division. He subsequently became CEO of Express Dairies PLC and then Arla PLC. He is currently Chair of the Youth Sport Trust and has also been a Non-Executive Director of Produce Investments PLC, Persimmon PLC and Northern Recruitment Group PLC.

External Roles
Chairman of OptiBiotix Health PLC

6. Kevin Havelock

Appointment
Kevin joined the Board as a Non-Executive Director in February 2018.

Experience
Kevin has significant fast moving consumer goods (FMCG) industry experience, most recently having been a member of the Executive Committee at Unilever and President of Global Refreshment, which comprises of Unilever's drinks and ice cream brands. Kevin is a Trustee of both the British Council and The Eden Project.

External Roles
Non-Executive Director of Fevertree PLC

7. Belinda Richards

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

Experience[1]
Belinda's career in professional services has spanned over 25 years, where she operated as a senior adviser in corporate finance and strategy. She was a corporate finance partner at Deloitte and Global Head of Merger and Separation Advisory Services until 2010. Belinda serves on the Advisory Group of Audit Committee Chairmen at the FRC, is a member of the Governing Council of the Centre for the Study of Financial Innovation and is a Trustee of the Youth Sport Trust.

External Roles
Non Executive Director of Avast PLC

Non Executive Director of Monks Investment Trust PLC

Non Executive Director of Phoenix Group Holdings ('PGH')

Non Executive Director of Schroder Japan Growth Fund PLC

8. Tony van Kralingen

Appointment
Tony joined the Board as a Non-Executive Director in September 2017.

Experience
Tony has a broad experience across a number of disciplines including marketing, supply, procurement, manufacturing, and human resources. Tony served 35 years at SABMiller PLC, 14 of them on the Executive Committee. He held a number of positions including Group Director: Integrated Supply, Chairman and Managing Director SAB, and Chairman and CEO: Plzensky Prazdroj. He is also currently an Honorary Professor of Global Corporate Strategy at Nottingham University.

External Roles
Chair of Crown Commercial Services

9. Paula Vennells CBE
Non-Executive Director
A C R N

9. Paula Vennells

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

Experience
Paula has significant experience in large scale business turnaround, digital transformation and in culture change. Paula is shortly stepping down as Group Chief Executive of the Post Office, a role she has held since April 2012 having joined the Post Office in 2007. Previously she was Group Commercial Director of Whitbread PLC after starting her career with Unilever and L'Oréal. Paula has held directorships in sales and marketing, commercial, and supply chain with a number of major retailers including Dixons Stores Group and Argos. Paula is a Non-Executive Director of the Cabinet Office and Chair Designate of Imperial College Healthcare NHS Trust.

External Roles
Chief Executive of the Post Office

Non-Executive Chair of First Rate Exchange Services Limited

Jonathan Burke
Company Secretary

Appointment
Jonathan was appointed as the Group's Company Secretary in February 2017.

Experience
As a qualified accountant and Company Secretary, Jonathan has worked at Morrisons for over 25 years holding various finance, compliance and project roles. Jonathan was also previously Company Secretary between 2001 and 2009.

Attendance at meetings

	Board	Nomination	Remuneration	Audit	CCR
Andrew Higginson	9/9	5/5	5/5	–	4/4
David Potts	9/9	–	–	–	4/4
Trevor Strain	9/9	–	–	–	4/4
Rooney Anand[2]	9/9	5/5	5/5	1/1	4/4
Neil Davidson	9/9	5/5	5/5	5/5	4/4
Kevin Havelock	9/9	5/5	5/5	5/5	4/4
Tony van Kralingen	9/9	5/5	5/5	5/5	4/4
Belinda Richards	9/9	5/5	5/5	5/5	4/4
Paula Vennells	8/9	4/5	4/5	4/5	3/4

On the rare occasions that a Director is unavoidably unable to attend a meeting, the Director will still receive and consider the relevant papers allowing them to share and discuss any comments or input with the other members of the Board before the meeting.

Committee key

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

1 On 6 February 2018, Belinda Richards was appointed Trustee of the Youth Sport Trust, a national charity, of which Neil Davidson is Chairman. The Board has considered this cross-directorship and is satisfied that it does not compromise the independence of Belinda or Neil.
2 Rooney was appointed to the Audit Committee on 17 January 2019.

Executive Committee

The Executive Committee is driving a culture of listening to all of our key stakeholders within the business.

1. David Potts CBE
Chief Executive
C

4. Clare Grainger
Group People Director

2. Trevor Strain
Chief Finance and Commercial Officer

5. Gary Mills
Group Retail Director

3. Andy Atkinson
Group Customer and Marketing Director

1. David Potts
See Board of Directors on page 30.

2. Trevor Strain
See Board of Directors on page 30.

3. Andy Atkinson

Appointment
Andy joined Morrisons in 2011 and was appointed as Group Customer and Marketing Director in January 2016 having held the interim position for over five months.

Experience
Andy previously held a number of senior commercial and trading roles within the organisation. Prior to joining the Group, Andy worked in a variety of senior commercial positions within Boots, progressing to Commercial Director. Andy started his career at Coca-Cola before moving to Walt Disney and then L'Oréal.

4. Clare Grainger

Appointment
Clare joined Morrisons in February 2009 and was appointed Group People Director in September 2015.

Experience
Clare began her career at Asda where she held a number of roles at Head Office and in the Retail division. She progressed through a variety of senior human resources (HR) positions including Head of HR at HBOS/Lloyds Banking Group, where she led a number of programmes to drive differentiation in both sales and services.

5. Gary Mills

Appointment
Gary joined Morrisons in August 2015 as Group Retail Director.

Experience
Gary has more than 30 years' retail experience, with Stewarts Supermarkets in Northern Ireland and then with Tesco PLC where he held a variety of senior positions, including Retail Director for Convenience and Retail Director for the North and Northern Ireland. Gary's experience covers all areas of retail and all formats, including supermarkets and convenience stores.

Corporate governance report continued

Structure of the Board and its Committees

The decisions delegated by the Board to its Committees during the financial year 2018/19 are shown in the table below and on the following page. See pages 34 to 38 for details of activities.

Structure of the Board and its Committees

Chairman **Key objective:** Governance of the Board

Function	Main Board	Executive Committee	Audit Committee
Members	Andrew Higginson (Chair) David Potts Trevor Strain Rooney Anand Neil Davidson Kevin Havelock Tony van Kralingen Belinda Richards Paula Vennells 	David Potts (Chair) Trevor Strain Andy Atkinson Darren Blackhurst[1] Clare Grainger Gary Mills 	Belinda Richards (Chair) Rooney Anand[2] Neil Davidson Kevin Havelock Tony van Kralingen Paula Vennells 
Key objectives	Overall conduct of the business and setting strategy.	Implementation of strategy and actions in respect of financial planning and performance; day-to-day management of operations.	Effective governance of financial reporting, internal controls and risk management systems; review of significant accounting judgements, assumptions and estimates; management of the relationship and appointment of the external auditor; monitoring and review of the effectiveness of the Group's Risk and Internal Audit function.
Responsibilities	• Understanding, reviewing and responding to the views of all stakeholders; • Developing and approving the strategy and key policies of the Group; • Managing culture and values; • Monitoring progress towards achieving all Board objectives; • Monitoring of financial performance, critical operational issues and risks by reviewing performance against strategy, objectives, business plans and budgets; • Approving communications to shareholders, including the Annual Report and Financial Statements, half-yearly financial report and interim management statements; • Approving changes to the Group's capital structure, external financial reports, major expenditure; and • Approving membership of the Board on recommendation of the Nomination Committee.	• Developing and implementing the strategy; • Understanding, reviewing and responding to the feedback from stakeholders including customers and colleagues; • Maintaining oversight of: – financial performance, reporting and control; – risk management; – operational improvement programmes; and – review and supervision of operational activities; • Making recommendations to the Board in respect of: – budgets and long-term plans; – dividend levels; – Group risk register; and – ad-hoc events; • Managing succession planning for all colleagues including senior management; and • Organising Sub-Committees which are responsible for key operational oversight and decision making including: – management of capital expenditure; – departmental performance reviews; – oversight of improvements to process for suppliers; and – Compliance with The Groceries Supply Code of Practice (GSCOP). 1 Darren Blackhurst stepped down from the Executive Committee on 17 October 2018.	• Reviewing and making recommendations to the Board on: – the integrity of financial reports, including reviewing significant financial reporting issues and considering how these issues have been addressed; – whether the Annual Report and Financial Statements are fair, balanced and understandable; – the effectiveness of the Group's internal control and risk management system; – the effectiveness of the Risk and Internal Audit function; – the independence, effectiveness and appointment of the external auditor, approval of their fees; and monitoring of the Group's policy on non-audit services; – approval of Tax and Treasury policies; and – pensions. 2 Rooney Anand was appointed to the Audit Committee on 17 January 2019.

Corporate Compliance and Responsibility Committee

Neil Davidson (Chair)
Andrew Higginson
David Potts
Rooney Anand
Darren Blackhurst[1]
Andrew Clappen[2]
Kevin Havelock
Tony van Kralingen
Belinda Richards
Paula Vennells

Developing and implementing the Group's policies on corporate compliance and corporate responsibility; reviewing and ensuring compliance with those policies and with ethical and governance standards.

- Maintaining oversight of strategy and process in areas of corporate responsibility, including:
  - Groceries Supply Code of Practice (GSCOP);
  - food safety and food integrity;
  - health and safety;
  - gender pay;
  - cyber security;
  - ethical trading;
  - modern slavery;
  - environmental and competition compliance;
  - governance and reputation;
  - General Data Protection Regulation (GDPR); and
  - The Morrisons Foundation and charitable giving.

Remuneration Committee

Tony van Kralingen (Chair)
Andrew Higginson
Rooney Anand
Neil Davidson
Kevin Havelock
Belinda Richards
Paula Vennells

Developing and implementing the Group's remuneration framework and policies for Directors and colleagues including all long-term incentive plans, bonuses and pensions.

- Setting the remuneration policy for the Group's Chief Executive, Chairman, Executive Directors and Executive Committee;
- Agreeing remuneration of the Executive Directors and Executive Committee;
- Engaging with shareholders in respect of remuneration policies;
- Reviewing the terms and operation of the Share Ownership Guidelines; and
- Reviewing the Chief Executive and Chairman's expenses.

Nomination Committee

Andrew Higginson (Chair)
Rooney Anand
Neil Davidson
Kevin Havelock
Tony van Kralingen
Belinda Richards
Paula Vennells

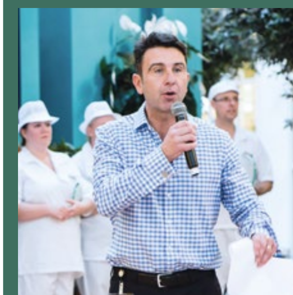
Advising the Board on Board and senior management appointments and succession planning; monitoring of the composition of the Board and its Committees.

- Evaluating the current and required mixture of skills and experience on the Board;
- Reviewing succession planning for the Board;
- Sourcing and selecting Board candidates (more information can be found on page 38);
- Maintaining general oversight of people and capability within the business, and their diversity (more information can be found on page 38);
- Reviewing the talent pool for the Executive Committee and levels below Executive Committee; and
- Reviewing and setting policy on diversity.

Leadership around the business

David Potts
Chief Executive

Clare Grainger
Group People Director



Gary Mills
Group Retail Director

Andy Atkinson
Group Customer and Marketing Director

1 Darren Blackhurst stepped down from the Corporate Compliance and Responsibility Committee in November 2018.
2 Andrew Clappen is the Group Corporate Services Director. Andrew joined Morrisons in 2012 and is responsible for the Corporate Affairs and Policy, Corporate Social Responsibility (CSR) & Ethical Trading, Agriculture and Technical Services (Food and General Merchandise Technology, Safety, Quality, Compliance and Health & Safety) of the Group. Prior to Morrisons, Andrew was the Senior Vice President responsible for Food Safety, Quality Assurance & Regulatory Affairs at Loblaw Companies Ltd in Canada.

Corporate governance report continued
Board and Committee activities

Main board

Activities in 2018/19

During the year, the Board has:

- set the strategy and plans for the Group;
- reviewed the results and forecasts and approved the regulatory announcements;
- reviewed the annual business plan and received regular updates from the Executive Committee regarding its delivery;
- ensured the conduct of the business in accordance with its values;
- reviewed the performance of the Chief Executive;
- approved the 2018/19 budget and commercial plans, including productivity savings required to invest in the customer offer;
- approved the plan for the Group's balance sheet and capital structure strategy;
- approved the proposed dividends including special dividends;
- considered feedback received from customers, colleagues, suppliers and shareholders;
- reviewed the culture of the Group through 'Your Say' survey responses and feedback provided from the 'Your Say' forums;
- discussed compliance to regulations with the Grocery Code Adjudicator (GCA);
- approved the Group's continued operations and growth opportunities in online, wholesale and manufacturing;
- reviewed the governance structure and activities of the sub-committees of the Board; and
- approved early repayment of bonds.

Board evaluation

A review is undertaken on an annual basis to evaluate the performance of the Board. For the 2017/18 review, an external evaluation was carried out by Concilium Board Review, who have no connection to the Group.

This year the review was facilitated internally by the Company Secretary, reporting to the Chairman. The review continued to explore the themes considered in last year's external review, including structure, composition and dynamics of the Board.

The review was conducted in October 2018, using a carefully constructed questionnaire, with the opportunity provided for follow-up interviews. The Company Secretary discussed the findings of the review with the Chairman and then presented them to the Board in November.

Having considered the findings of the review, the Directors concluded that the Board and its various Board sub-committees continue to perform effectively, with high scores achieved across the broad range of performance criteria.

A number of related actions were agreed for implementation during 2019/20. These included, for example, further increasing opportunities for the Non-Executive Directors to meet to discuss Group matters on an informal basis and setting aside more time at Board meetings to further consider food retail sector related matters of a longer-term nature.

During the year, the Group also reviewed and considered the effectiveness of its principal advisers to ensure they remain appropriate and relevant to the Group's needs.

Executive Committee

Activities in 2018/19

During the year, the Executive Committee has:

- driven trading performance and reviewed financial performance;
- reduced the cost base of the organisation;
- considered regular updates on customer views including attending customer listening sessions and shopping trips with customers;
- continued to implement the Group's six priorities;
- overseen the Group's compliance with its obligations under the GSCOP;
- overseen the Group's commitment to corporate social responsibility in particular in minimising food waste, in supporting the Group's charity partner CLIC Sargent and in supporting the charitable Morrisons Foundation;
- continued to review the Group's reduction programme in energy and plastic;
- overseen the Group's continued development of its wholesale, online and manufacturing operations;
- approved capital budgets;
- determined the draft budget and long-term plan;
- reviewed the talent, capability and capacity within the Group;
- listened to views of colleagues including reviewing the 'Your Say' survey results and agreement of improvement actions;
- periodically reviewed performance against strategic objectives;
- determined principal risks for the Group;
- reviewed the GDPR compliance plans;
- reviewed changes to speed up and simplify the business;
- agreed improvements to the Group's technology infrastructure; and
- recommended the dividend to the Board.

Audit Committee

Belinda Richards
Chair of the Audit Committee

Dear Shareholder,

I am pleased to present the Audit Committee Report for the 52 weeks ended 3 February 2019, my fourth as Chair of the Committee. The report provides an overview of the matters considered by the Committee during the year, and summarises how the Committee has fulfilled its duties to represent the interests of shareholders in respect of financial reporting, risk management and internal controls.

Each year the Committee considers the Group's internal control and risk management processes, the key risks facing the business, the effectiveness of the Internal Audit function, any material matters arising from Internal Audits, and the independence and effectiveness of the external auditor, along with supporting the Board in respect of financial reporting matters.

The Committee's effectiveness was reviewed during the year as part of the internal review of the Board (see page 37 for further details), and I am pleased to report that the review concluded that the Committee continued to discharge its duties effectively.

The Committee is responsible for reviewing and making recommendations to the Board on the integrity of the financial statements, and assessing the appropriateness of key judgements and estimates as defined in this section. This year the Committee has spent significant time reviewing key judgements in relation to property assets and provisions, stock and Alternative Performance Measures (APMs). The Committee has also considered the impact of new accounting standards, with the Group's preparations for the adoption of IFRS 16 'Leases' in 2019/20 a particular area of focus.

During the year, Rooney Anand was appointed to the Committee and I look forward to his contribution to the Committee's activities going forward.

This report sets out further details on the key activities of the Committee and covers the risks and controls that were reviewed and the core areas of judgement that were considered during the year.

Belinda Richards

Activities in 2018/19

During the year, the Committee has:

- considered the appropriateness of the Group's Annual Report and Financial Statements and Half-yearly report;
- understood key judgements made by management in respect of the Group's financial statements;
- assessed the outcomes/findings of work performed by the external auditor;
- considered the effectiveness of the internal controls and the work of Risk and Internal Audit and discussed key risks (described in more detail on page 36);
- considered reports produced by Internal Audit covering topics including regulatory compliance and the control environment;
- reviewed key policies including those governing tax and treasury;
- reviewed the recognition of commercial income and the controls in place over compliance with GSCOP;
- understood the new Corporate Governance Code and reporting requirements;
- assessed the proposed viability statement, reviewed and challenged the scenarios modelled;
- considered the requirements and impact of new accounting standards during the year, and received regular updates on the Group's preparation for adoption of IFRS 16 'Leases' in 2019/20; and
- reviewed and understood pensions matters during the year and their impacts on the Group's financial statements.

Financial reporting matters

The Audit Committee has considered whether suitable accounting policies have been applied, and has reviewed key accounting judgements and estimates made by management. This section outlines the key judgements and financial reporting matters considered by the Committee during the year.

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

Impairment and onerous property contracts continue to be a focus area for the Committee on the basis of their materiality and level of inherent judgement and estimation.

The Group's policy to assess impairment on an annual basis, or where changes in circumstances indicate impairment (or impairment reversal), is disclosed in note 3.1 of the financial statements. The impairment review is comprehensive, covering non-financial assets, principally the Group's property portfolio, technology assets and goodwill.

Management estimates the recoverable amount of assets to determine the extent of any impairment charge or whether a reversal of a previous impairment charge is required. This assessment led to a reversal of previous impairment of assets in certain cash generating units and an impairment charge being recognised on others, resulting in a net impairment reversal of £55m recognised in 2018/19, as disclosed in note 1.4 of the financial statements.

The Committee reviewed reports produced by management detailing the outcomes of the impairment testing. This review focused on understanding the methodology, the basis of key assumptions (discount rate and long-term growth rate) and a review of the outcomes of the impairment assessment performed by management. The Committee challenged how management had reflected expected future performance, changes in market conditions and the potential impact of Brexit in the impairment work. The Committee has also reviewed management's key assumptions around the market valuation of the store portfolio.

In addition, for property contracts where the expected future cash flows are less than the future contract commitment, an onerous contract provision is recognised. This work resulted in a net £74m charge in relation to provisions for onerous contracts being recognised along with £7m provisions for dilapidations, which has been partially offset by a reduction in accruals of £21m. The key judgements are around the discount and growth rate applied to future cash flows.

Having reviewed all key assumptions in respect of impairment and onerous contract provisions and the impact on the value of the Group's assets and provisions, the Committee is satisfied that the assumptions applied by management are appropriate.

Commercial income

The Group's definition of commercial income is disclosed in note 1.1 of the financial statements and is consistent with the definition in the prior year.

Corporate governance report continued
Board and Committee activities

Commercial income is accounted for as a deduction from the cost of purchase, and it is recognised in accordance with signed supplier agreements, with most income subject to little or no subjectivity or judgement.

Commercial income continues to be an area of focus for the Committee, despite reducing complexity and size, as this continues to be an area of focus in the industry. In considering the appropriateness of commercial income recognised in the year and the financial position at the year end, the Committee has reviewed reports from management and Internal Audit outlining the accounting judgements and the control environment. The Committee understood the key judgements in this area and considers them to be appropriate.

Stock

Stock is a material balance in the Group's financial statements, with stock held across a large number of locations. As such, this remains an area of focus for the Committee. Stock count procedures have remained consistent with the prior year. Store stock counts are a key control of the Group's stock balance and the Committee has reviewed outcomes of third party store stock counts conducted during the year and discussed trends of stock loss experienced over the year.

Judgement is required in determining provisions for shrinkage and valuation and the Committee reviews these judgements as part of the twice-yearly review of judgements and estimates.

During the year, the Group continued to automate its ordering systems. This led to operational changes and additional information regarding stock levels resulting in changes to the estimation methodology applied to making provisions for stock loss, and the Group recognised an exceptional charge. The Committee reviewed and understood shrinkage and the proposed methodology, and discussed the treatment as an exceptional item. Having discussed the matter with management and the auditors, the Committee is satisfied with the new methodology, and accepts that the accounting treatment and disclosure is appropriate.

Pensions

The Group operates a number of defined benefit pension schemes. Accounting for defined benefit pension schemes requires the application of a number of assumptions which have an impact on the valuation of the schemes' assets and liabilities. The IAS 19 valuations are performed by an independent actuary.

The Committee has reviewed the assumptions used in the schemes' valuations. The Committee has considered the appropriateness and sensitivity of the assumptions used by the independent actuaries in the valuation, including the discount rate. During the year, the Committee discussed the key assumptions (including the methodology for assessing discount rates over long durations) with the independent actuary. The Committee is satisfied that the assumptions are appropriate.

The Committee considered the legal advice the Group has obtained with regard to the recognition of a pension surplus for the Group's defined benefit pension schemes, as disclosed in note 8.5 of the financial statements and considered the treatment appropriate.

The Committee reviewed the accounting treatment resulting from the closure of the Group's Retirement Saver Plan (a defined benefit scheme) and provisions made in respect of guaranteed minimum pensions during the year. This resulted in exceptional charges of £19m and £7m respectively recognised in the year (as disclosed in notes 1.4, 8.6 and 8.7). The Committee concluded that this treatment was appropriate.

Presentation of financial statements

The Committee has considered the Guidelines on Alternative Performance Measures (APMs), issued by the European Securities and Markets Authority (ESMA) in 2016. The Group now includes additional disclosure on the APMs used by the Group in a Glossary on pages 132 and 133.

In addition, the Committee has considered the use of APMs, in particular the items presented as adjustments to profit presented in the financial statements. The Committee is satisfied the classification of these items is appropriate and consistent and that the level of disclosure provided in note 1.4 is appropriate.

The Committee also reviewed the changes to the Group's key adjusted profit measure, where 'profit before exceptional items and net pension interest' has replaced 'underlying profit'. The Committee agreed that this change is appropriate, reflects how management assess the performance and is satisfied the Group's disclosure in this area is effective.

Internal control and risk management

The Board has overall accountability for ensuring that risk is effectively managed across the Group. Risks are reviewed by the Executive Committee twice a year and results are brought to the Board. The Group's principal risks are set out on pages 24 and 25.

On behalf of the Board, the Audit Committee has responsibility for reviewing the effectiveness of internal control including financial, operational and compliance controls.

In order to do this, as a matter of course in any one year, the focus of Committee includes:

- receiving and agreeing appropriate actions in response to regular reports from the Risk and Internal Audit function on:
  - the status of internal control and risk management systems across the Group; and
  - the department's findings, annual plan and the resources available to perform the work;
- reviewing financial whistleblowing reports from colleagues;
- reviewing the external auditor's report on internal financial control;
- seeking reports from senior management on the effectiveness of the management of key risk areas; and
- monitoring the adequacy and timeliness of management's response to identified audit issues.

These systems and processes have been in place throughout the period and up to the date of approval of this Annual Report.

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

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

The Committee regularly reviews the Group's process for risk management and internal control and annually conducts a formal review of these processes. No significant failings or weaknesses of internal control were identified during these reviews. Limited weaknesses and areas where controls could be further automated were identified. Clear action plans are in place to address these weaknesses and are captured as part of functional risk registers with defined management responsibility.

The Committee understands the importance of a robust risk management process and control environment and looks to progressively strengthen it over time.

Internal Audit

The Committee is regularly updated on the work and findings of Internal Audit throughout the year, including:

- approval of the terms of reference of the Internal Audit function;
- approval of the Internal Audit plan for the year;
- review of findings from work of Internal Audit completed during the year; and
- review of the effectiveness of the Internal Audit function.

Each year a review of the effectiveness of Internal Audit is completed and reviewed by the Audit Committee. In most years this is an internal review taking the form of a survey of the Executive Directors, members of the Executive Committee, key members of management and other stakeholders.

During the year, an external review of the effectiveness of the Internal Audit function was conducted in line with the Group's policy to perform an external assessment every five years. The external review was conducted by KPMG and included an assessment against Internal Audit Standards and best practice. KPMG considered key documentation, reviewed a sample of audit files and met with members of the Internal Audit team, management and the Board, and performed benchmarking against other Internal Audit functions.

The review considered the function's positioning (organisation and structure), people and processes. The work concluded that the function compares favourably to others and noted no significant issues, with a small number of minor improvement opportunities suggested, which the Committee reviewed.

External audit tenure

The Board appointed PricewaterhouseCoopers LLP (PwC) as external auditor in June 2014. The lead audit partner, Andrew Paynter, has held the position for four years.

The Group confirms that it has complied with the provisions of the Competition and Markets Authority's Order in respect of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

Each year the Audit Committee considers the effectiveness and independence of the external auditors in making the decision regarding the proposal of re-appointment of the auditors, which is tabled each year at the AGM.

Independence of the external auditor

The independence and objectivity of the Group's external auditors is a fundamental safeguard which the Committee keeps under review. In order to ensure the independence of PwC during the year, the Committee has:

- considered the terms, areas of responsibility, duties and scope of work of the external auditor as set out in the engagement letter;
- considered the Group's policy for provision of non-audit services;
- reviewed details of the non-audit services provided in the year;
- considered the letter from the external auditor confirming its independence and objectivity; and
- understood and approved the basis for the audit fee.

The policy on the engagement of the external auditor to supply non-audit services is set out in the investor relations section of the Group's website (see www.morrisons-corporate.com). PwC has provided certain non-audit services throughout the year. This was in line with the policy and the ratio of audit to non-audit services, which was within the 1:0.7 limit set in the policy. Details of the external auditor's remuneration is disclosed in note 1.6 of the financial statements. The Committee is satisfied that this non-audit activity carried out by the statutory auditors is subject to safeguards to avoid a threat to the auditor's independence or objectivity. These safeguards include separate teams for audit versus non-audit work.

Effectiveness of the external auditor

The Committee considered the effectiveness of PwC as auditor during the year. The Committee and the Committee Chair hold meetings with the auditor without management present. The purpose of these meetings is to understand the auditor's views on the control and governance environment and management's effectiveness within it.

When assessing the effectiveness of the external auditor, the Committee considered:

- the content and quality of the audit work plan for the Group;
- the detailed findings of the audit, including a discussion of any major issues that arose during the audit;
- management's responses to the auditor's findings;
- the quality and knowledge of the audit team;
- the level of professional scepticism and independence applied; and
- the output of an effectiveness survey completed by the Directors and management.

An independent assessment of the effectiveness of the external auditors is conducted annually by Internal Audit. The assessment takes the form of a questionnaire gathering feedback from key stakeholders including Non-Executive Directors, Executive Committee members and other key members of the management team. The survey covers the robustness of audit approach, quality of reporting and quality of people and services.

Financial Reporting Council (FRC) review of PwC's audit of the Group

In February 2019, the Group received a letter on the conclusion of the FRC's Audit Quality Review of PwC's audit of the Group, for the 53 weeks ended 4 February 2018. The scope of the review was to assess the work performed by PwC as part of their audit, rather than to review the Group's reporting and accounting practices. The findings of the review have been discussed with PwC at the Audit Committee. Whilst there were no significant findings, some areas of PwC's audit work were identified as requiring improvement. We have considered PwC's responses to the review and are satisfied they are looking to address the points raised.

FRC's thematic review

In September 2018, the FRC published on their website names of all companies whose Report and Accounts had been subjected to a review which has been completed. The Group was included on that published list. This related to the FRC's thematic review of pension disclosures – in the Group's 2016/17 Annual Report and Financial Statements, which had been included in the sample selected for review. The outcome of the review was that no substantive issues were raised, with only minor improvement opportunities noted, which were reflected in our 2017/18 disclosures. The review was concluded in September 2017.

Corporate governance report continued
Board and Committee activities

Corporate Compliance and Responsibility Committee

Neil Davidson CBE
Chair of the Corporate Compliance and Responsibility (CCR) Committee

Dear Shareholder,

The CCR Committee acts as a custodian of the policies and practices that define and safeguard the reputation of Morrisons. The Committee members bring experience, insight and perspectives to help guide the work of this Committee.

The Committee pays close attention to the evolving views and expectations of the Group's broad range of key stakeholders, and receives regular information and reports on stakeholder developments. Maintaining compliance to GSCOP and GDPR have remained areas of significant prioritisation for the Committee.

I am satisfied the Group makes decisions in a very thoughtful and informed manner and the Group is well positioned to ensure that its role and reputation with all our stakeholders remains strong during the upcoming year.

Activities in 2018/19

During the year, the Committee has reviewed:

- GSCOP compliance including training and results of internal reviews;
- cyber and technology security risk;
- health and safety incidents and actions taken and progress of health and safety initiatives;
- energy strategy and carbon reduction measures;
- ethical trading;
- redistribution of food waste;
- food safety and improvements;
- Market Abuse Regulation compliance;
- food integrity and testing;
- plastic waste;
- GDPR compliance;
- supply chain human rights;
- modern slavery; and
- non-financial whistleblowing reports.

Further details on the Group's corporate responsibility activities can be found on pages 21 and 22. We also publish a Corporate Responsibility Report that provides more details on these areas (see www.morrisons-corporate.com/cr).

For more detail on the Group's work to ensure compliance with GSCOP, see page 17.

Morrisons respect for fundamental human rights is consistent with the United Nations Universal Declaration of Human Rights, and we ensure all of our internal policies are consistent with this. The Committee has concluded the Group does not currently have any human rights issues.

The Committee has reviewed the Group's anti-bribery and anti-corruption policy, which sets out our zero tolerance approach to bribery and corruption and the conduct expected of all of our colleagues and contractors. The Committee has also considered the gifts and hospitality policy which defines the process which must be followed before any gifts or hospitality are offered or accepted. Regular training is provided to all colleagues to maintain awareness of these policies and processes.

Nomination Committee

Andrew Higginson
Chair of the Nomination Committee

Dear Shareholder,

Shareholders and other stakeholders are increasingly recognising the importance of the Nomination Committee's role within the Group. This year, we have taken a fresh look at diversity and succession planning within the Board itself and throughout the Group to ensure that we have the right balance of skills and experience from a suitable diverse internal talent pool.

During the year, we updated our Board, Executive Committee and Leadership Team Diversity Policy, and committed to several objectives which are key to succession planning within Morrisons.

Looking ahead, long-term succession planning at Board and Executive level will remain a key priority of the Committee.

Activities in 2018/19

During the year, the Nomination Committee has:

- reviewed colleagues throughout the organisation including diversity, succession planning, capability and capacity. More information on this can be found on pages 15 and 16;
- reviewed and recommended the expansion of Trevor Strain's role to include commercial responsibilities;
- recommended the appointment of Rooney Anand to the Audit Committee;
- considered the Board's structure; and
- reviewed and approved the Board Diversity Policy.

Diversity

This year, the Committee updated the Board, Executive Committee and Leadership Team Diversity Policy. This policy fully supports the Hampton-Alexander recommendations that the Board should be made up of at least one-third females by 2025. It also supports the Parker recommendations that the Board should also be comprised of at least one Black, Asian and Minority Ethnic (BAME) Director. For more details on the full Board, Executive Committee and Leadership Team Diversity Policy, see www.morrisons-corporate.com

At the end of the 2018/19 financial year, the Board included two female members, representing 22% of its total composition and one BAME Director.

The diversity of the Leadership Team and a review of the diversity of the general population of Morrisons colleagues is outlined on page 16 of this report.

Other areas of focus

The Committee spent time reviewing succession planning for both the Board and Executive Committee, as well as reviewing the talent pool for levels below Executive Committee.

Directors' remuneration report
Annual statement by the Chairman of the Remuneration Committee

Tony van Kralingen
Remuneration Committee Chair

Dear Shareholder

As Committee Chair I enjoyed the interaction with a variety of shareholders during the course of last year, and at the 2018 Annual General Meeting (AGM). The Committee was satisfied with the 85% vote in favour of our 2017/18 Directors' remuneration report, and remains conscious of the views of our shareholders, through regular engagement.

2018/19 was another year of pleasing performance with profit before tax and exceptional items growth of 8.6% (10% on a comparable 52 week basis) and positive Group like-for-like sales (LFL) (excluding fuel) growth of 4.8%. The business continues to make progress against the six priorities, which are summarised on pages 8 and 9.

2018/19 marked the thirteenth consecutive quarter of positive LFL sales growth under David Potts' leadership, and the business continues to generate significant levels of free cash flow, a measure which shareholders continue to tell me is very important to them.

In October, we announced that Trevor Strain has accepted the additional responsibilities of Commercial Director, and is now the Chief Finance and Commercial Officer. Consequently, the Committee approved an increase of 6% to his base salary effective from the date of his appointment.

How our Directors' remuneration report is structured

Governance developments

2019 sees the introduction of the new UK Corporate Governance Code (the 'Code'), along with updated remuneration reporting requirements. Supporting our strategy, promoting long-term sustainable success, transparency and independent judgement are already at the core of our remuneration policy. Alongside the Board review of the new Code requirements, the Committee is already well placed for the application of these new requirements for 2019/20, including:

- the Committee being regularly briefed on employee pay and conditions, which in 2018/19 saw a further increase in the hourly rate to £8.70 for front-line store colleagues;
- the Committee already being responsible for setting the remuneration of the Executive Committee; and
- my nomination as the designated Non-Executive Director responsible for engagement with our colleagues.

Finally, the Committee has decided that for Long Term Incentive Plan (LTIP) awards made from 2019 onwards, a holding period will apply to vested shares for two years, resulting in a total vesting and holding period of five years. I look forward to reporting more fully next year on how the Committee has complied with the new Code obligations at the same time as presenting our new Directors' remuneration policy for renewal in advance of the 2020 AGM.

Pay for performance

Outcomes in 2018/19

The Committee continues to be of the view that superior performance and reward are linked, and that the UK's food retail industry remains very competitive, providing great value for customers and good opportunities for talent.

Financial performance

Over the last 12 months, despite challenges around some start-up costs, the in-year contribution from wholesale and online, and a highly competitive UK retail environment, management has delivered:

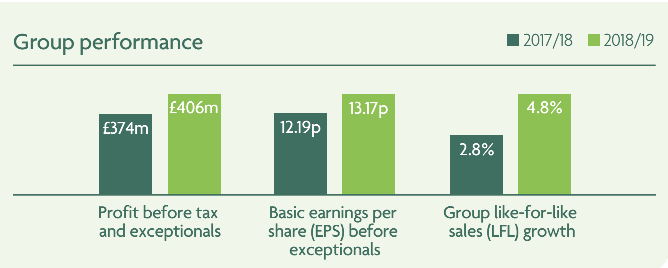
- Group LFL sales (excluding fuel) growth of 4.8%;
- profit before tax and exceptional items of £406m, an increase of 8.6% on last year (10% on a comparable 52 week basis);
- further strong free cash flow and a final 4.00p special dividend, bringing the total special dividend to 6.00p, and total dividend of 12.60p, up 24.9%; and
- further progress in cost and productivity savings, resulting in cost reduction/productivity improvement of £145m.

Annual Bonus Plan

The Annual Bonus Plan is based on both business and personal performance. Performance against the targets for sales, profit, and productivity, and procurement cost savings have been substantially met, resulting in a formulaic outcome of 76.2% of maximum for these elements. However, management has recommended a downwards adjustment of 20% for these elements, to 61%. This adjustment takes into account some important aspects of overall performance, such as a lower in-year increase in incremental profit from wholesale, services, interest and online. The Committee has considered the annual bonus outcome in view of overall Group performance and believes this represents a fair assessment.

Directors' remuneration report continued

Annual statement by the Chairman of the Remuneration Committee



Taking into account performance against personal objectives, the Committee has decided to award David Potts and Trevor Strain each the full 20% of this element. Taking into consideration the overall performance of the Group, they have taken the decision to waive all of this element of their bonus. This takes the total bonus achieved to a payout of 61% of maximum, half of which will be deferred into shares which must be held for three years under the deferred share bonus plan.

LTIP 2016-19

The 2016-19 LTIP outcome reflects the continued turnaround in Morrisons' performance since David Potts was appointed, and started the Fix, Rebuild and Grow strategy. At the time David assumed the role of Chief Executive, Morrisons reported full year LFL sales of (5.9)% and had net debt of £2.3bn. The team has strengthened the balance sheet, grown LFL sales, whilst reducing debt and generating significant free cash flow. The performance over the period is summarised below:

Measure[1,2]	Min (25%)	Max (100%)	Weighting	Actual performance
Total sales (excluding fuel)	£12.7bn	£13.2bn	20%	£14.0bn
Adjusted free cash flow	£620m	£1,340m	60%	£1,466m
Basic earnings per share (EPS) before exceptionals growth p.a.	6%	13%	20%	10.8%

1 See the definitions on page 46.
2 Additional detail on each of the measures on page 51.

It is also important to note that during this period, management increased external guidance for working capital improvement. Notwithstanding this increase, management exceeded the targets significantly on free cash flow – a measure that investors have told me is extremely important to them, as well as on sales, which is a key measure of the health of a food retailer.

As a consequence of the strong performance over the period as outlined above, the 2016-19 LTIP is vesting at 94.6% of maximum. The Committee believe the formulaic outcome is reflective of the value created for shareholders over the period.

Sharing in success

As part of the philosophy of a colleague-led turnaround, and our commitment to a fair day's pay, the Group has continued to invest in total reward for colleagues. In the last three years, colleague hourly rate has increased 27%, with a further increase planned in April 2019. Colleague bonus payout has increased again this year, and as part of a package of improvements for team managers, working hours are being reduced and bonus opportunity increased.

Key Committee activities during the year

- Considered investor feedback from the 2018 AGM and through ongoing dialogue;
- Reviewed and considered consequences of the changing investor, governance and reporting landscape following the 2018 AGM season and issuance of the Code and updated Directors' remuneration reporting regulations;
- Reviewed base salaries, including the appropriate level of increase for the new Chief Finance and Commercial Officer;
- Introduced a two year post-vest holding period for future LTIPs;
- Assessed performance against target sets for the 2018/19 annual bonus and 2016-19 LTIP and considered whether any discretion should be used to adjust formulaic outcomes;
- Reviewed and approved targets for the 2019/20 annual bonus and 2019-22 LTIP; and
- Reviewed the performance of the Committee.

Looking forward

I reported last year on the positive engagement I have had with our shareholders since my appointment and the steps the Committee has taken to address the feedback received at our 2017 AGM. The Committee remains committed to transparency, providing its rationale for decisions taken and embedding rigour into the target setting process and wider decisions on executive pay. I intend to continue this constructive dialogue with our shareholders during 2019 and in the context of presenting a new Directors' remuneration policy for renewal at the 2020 AGM.

Implementation in 2019/20

Base salary

The Committee awarded David Potts an increase of 2% in line with the wider workforce, which David has waived for the fourth consecutive year. As noted, Trevor Strain was appointed Chief Finance and Commercial Officer effective 17 October 2018. As a consequence of this and his strong performance, the Committee approved an increase of 6% effective from appointment.

Chairman and Non-Executive Director fees

The Chairman's fees have not been reviewed since his appointment in 2014. The Committee therefore awarded him a 5% increase effective from 4 February 2019. Fees for the Chairman will be next reviewed in 2022. There is no change in Non-Executive Director fees.

Annual Bonus

The performance measures of the Annual Bonus Plan and their weightings remain unchanged from 2018/19 and are summarised on page 45. Subject to no longer being commercially sensitive, the performance against targets will be disclosed in next year's report. The Group has changed the headline measure for adjusted profit to be 'profit before tax and exceptional items and net pension interest' (referred to as 'profit before tax and exceptionals'), from 'underlying profit before tax' as previously reported. Therefore future targets will be with reference to this new measure. There is no difference in values between the previously reported results and targets under the new or previous measure.

LTIP

In line with the policy approved by shareholders, awards will be 300% of salary. Performance measures and weightings are unchanged from 2017/18 other than the earnings per share measure being with reference to basic earnings per share before exceptionals rather than underlying earnings per share as previously reported. Further detail on the targets can be found on page 45. This grant will be subject to a two year holding period at vest. I look forward to your support at the 2019 AGM.

Tony van Kralingen
Remuneration Committee Chair

Directors' remuneration report continued

At a glance

Looking at performance from the perspective of shareholders, customers and colleagues

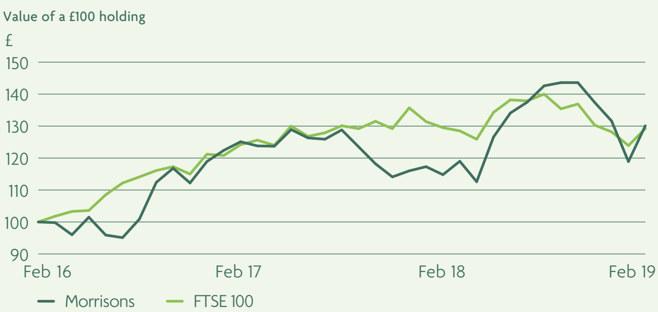
Three year summary of financial measures

Measure[1]	2018/19	2017/18[2]	2016/17
Profit before tax and exceptionals	£406m	£374m[3]	£337m[3]
Basic earnings per share (EPS) before exceptionals	13.17p	12.19p	10.86p
Group like-for-like sales (excluding fuel) (%)	4.8%	2.8%	1.9%
Cumulative adjusted free cash flow (2015/16 onwards)	£2,339m	£2,053m	£1,656m

1 Definitions of these measures are set out on page 46.
2 2017/18 was a 53 week year. Profit before tax and exceptionals and basic earnings per share before exceptionals are with reference to the 53 week period. Group LFL was on a 53 week versus 53 week basis.
3 For 2017/18 and 2016/17 the adjusted profit measure was underlying profit before tax. There is no change in the reported numbers under the previous and current definition.

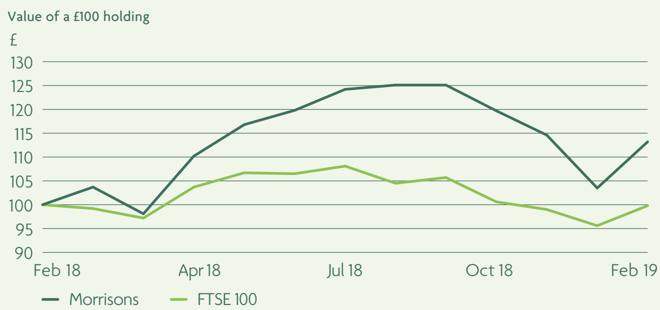
Key shareholder performance indicators

Three year total shareholder return (TSR)



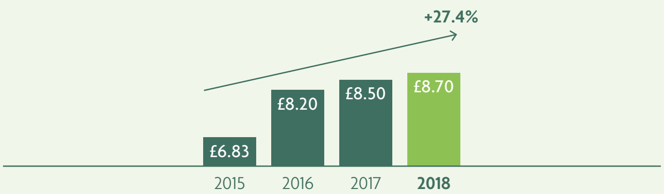
The graph above shows the Group's total shareholder return (TSR) compared with the TSR of the FTSE 100 indices over the three year period to 1 February 2019 (the last trading day before the year end).

12 month total shareholder return (TSR)



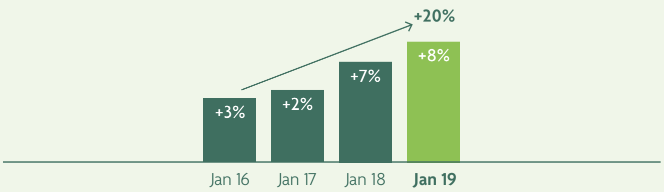
The graph above shows the Group's total shareholder return (TSR) compared with the TSR of the FTSE 100 indices over the 12 month period to 1 February 2019 (the last trading day before the year end).

Investment in colleague pay



Since 2016, we have continued to invest in colleague pay. In 2018/19, we increased the hourly rate for front-line store colleagues to £8.70 an hour – at the time, the highest of the 'big 4' grocery retailers.

Customer satisfaction



Customer satisfaction measured at January each year, year-on-year change (% pts)

The above graph demonstrates the continued progress the Group has made in terms of customer satisfaction over the last three years.

Directors' remuneration report continued
Directors' remuneration policy
Approved 15 June 2017

This part of the report sets out a summary of the Group's policy for the remuneration of Executive and Non-Executive Directors as approved by shareholders on 15 June 2017 at the AGM. The full policy can be found on page 37 in the 2016/17 Annual Report and Financial Statements (www.morrisons-corporate.com/annual-report-2017). The policy took effect from this date and may operate for up to three years.

The principles that underpin our Directors' remuneration policy are:

- **Doing what is right for the business in the long term**
- **Continuing to deliver sector superior returns to shareholders**
- **Providing clear alignment of Directors and shareholders**
- **Ensuring competitive pay in a talent hungry market**
- **Ensuring lock in of Directors as we deliver Fix, Rebuild and Grow**

Executive Directors – policy table

Element	Operation	Opportunity	Performance measures and period
Base salary	The Committee's policy is to set base salaries competitively to attract and retain the best talent, which is critical to the Group's success and delivery of the strategy. Base salary is part of a total remuneration package which rewards stretching performance aligned to the Group's strategy. Base salaries are set by the Committee on appointment and then normally reviewed annually. In setting and reviewing salary levels, the Committee considers the responsibilities of the role, progression in the role, individual performance (including any change in responsibilities), skills, experience, and pay levels and structure throughout the Group. The Committee also has regard to rates for similar roles in comparator companies, both in FTSE 100 retailers and UK-based companies of a similar size and complexity, but seeks to avoid the automatic ratcheting effects of following benchmark levels of salary.	Salary increases will ordinarily be in line with salary increases across the Group. The Committee may award increases above this level where this is warranted due to a change in the scope or responsibilities of the role, to reflect progression in the role (for example, staged increases for a recent appointment) or to remain competitive in the market. Current base salary levels are disclosed on page 45.	Not applicable.
Benefits	The Group provides a market competitive benefits package for Executive Directors to support in the ability to recruit and retain the best talent. Executive Directors are entitled to a car allowance (or other car benefit), transport costs, private health provision, life assurance and normal colleague discount entitlement. Executive Directors are also entitled to participate in the all colleague Sharesave schemes (and any other all colleague share plans which the Group may operate) on the same terms as all other UK-based colleagues. The Committee reviews benefit provision from time-to-time and retains flexibility to add or remove benefits if necessary to ensure that benefit provision remains market competitive or to meet the operational needs of the business (for example, through the payment of relocation expenses).	The maximum car allowance is currently £24,000. The cost to the Group of providing other benefits depends on the nature of the benefit and can vary from year-to-year. Benefit provision will be maintained at a level which is competitive.	Not applicable.
Pension[1]	The Group provides a market competitive retirement provision for Executive Directors which is aligned with retirement benefits available throughout the Group. Executive Directors are entitled to membership of the Group's cash balance pension arrangement known as the Morrisons Retirement Saver Plan (RSP). Individuals contribute 5% of capped base salary in return for a guaranteed cash balance. A 10% cash salary supplement in lieu of Group pension contributions applies on base salary above the capped amount. A cash alternative to pension provision is provided where the Group's standard pension provision is not appropriate, for example, where an Executive Director has reached the Lifetime Allowance. Executive Directors may elect to receive this cash salary supplement in lieu of pension of broadly the same value as would accrue on an annual basis in the pension plan.	The RSP guarantees a value of the cash balance in the plan of 24% of pensionable pay (assuming retirement at age 65 years) adjusted for inflation capped at 2% p.a. A maximum 10% cash salary supplement applies above capped base salary. Where an Executive Director receives a cash salary supplement only, the maximum supplement payable is 25% of salary.	Not applicable.

1 Until 23 September 2018, Executive Directors were entitled to membership of the RSP. From 24 September 2018, the Executive Directors became entitled to participate in the Morrisons Personal Retirement Scheme. Colleagues contribute 5% of salary and the Group also makes a contribution. A 10% cash salary supplement in lieu of Group pension contributions continues to apply on base salary above the capped amount with a cash alternative to pension provision continuing to be provided where the Group's standard pension provision is not appropriate. The maximum supplement payable remains 25% of salary.

Executive Directors – policy table

Element	Operation	Opportunity	Performance measures and period
Annual bonus	Annual bonus awards are designed to incentivise and reward achievement of the Group's short-term financial and strategic objectives and personal performance objectives. Compulsory deferral is designed to encourage retention and further align the interests of the Executive Directors with shareholders. Bonus awards are made annually subject to a mix of financial and non-financial performance measures. Achievement of each performance element is assessed independently and the level of payout is determined by the Committee after the end of the relevant financial year. 50% of any bonus payable is paid in cash with the other 50% deferred in shares under the deferred share bonus plan, normally for a period of three years. The Committee has discretion to allow a higher level of deferral. Dividend equivalents accrue over the vesting period and are paid at the time of vesting on the number of shares that vest.	The maximum bonus potential for Executive Directors is 200% of base salary. The number of shares subject to the deferred award is determined by reference to the bonus and the share price on the date of award.	Annual bonus awards are subject to the following performance measures: • 50% is based on profit before tax and exceptionals; • 30% is linked to achievement of a number of strategic scorecard measures; and • 20% is linked to achievement of personal objectives. The measures and weightings are set by the Committee on an annual basis, and may be changed if the Committee decides this is appropriate to support delivery of the Group's strategy. Each element is assessed independently at the end of each year. Achievement of threshold performance will result in a payout of 20% of the adjusted profit element (i.e. 10% of the maximum bonus potential). Achievement of one of the strategic scorecard measures or one of the personal objectives is regarded as threshold performance for that element. Deferred share awards are not subject to any further performance conditions. Awards will normally vest three years after the date of award but may be forfeited if the individual leaves employment before the vesting date. The Committee has discretion to award 'good leaver' status.
LTIP	Awards under the LTIP are designed to incentivise and reward achievement of the Group's long-term strategic objectives and creation of sustainable value for shareholders through execution of the strategy. Awards are made annually subject to performance measures set by the Committee, which are aligned with business strategy and the Group's financial plan. The Committee has the discretion to change the weightings of measures, remove measures or introduce new measures to support delivery of the Group's objectives and strategy. Achievement of each element is assessed independently. Awards will normally vest three years after the award is made. The Committee retains discretion to introduce a holding period which would apply after the award has vested. Dividend equivalents accrue over the performance period and are paid at the time of vesting on the number of shares that vest.	The maximum annual individual award level under the plan is 300% of salary. The annual award level for Executive Directors is 300% of salary.	LTIP awards are subject to the following performance measures: • 40% is based on cumulative adjusted free cash flow; • 40% is based on total sales growth (excluding fuel); and • 20% is based on growth in basic earnings per share (EPS) before exceptionals. Achievement of threshold performance will ordinarily result in vesting of 25% of each element with 100% vesting for maximum performance. However, the Committee has discretion to reduce the level of vesting at threshold. There is a ROCE underpin which allows the Committee to adjust vesting of awards if ROCE is below the weighted average cost of capital (WACC). For all awards, the Committee has the discretion to adjust the vesting calculations as set out in the 'Implementation of the remuneration policy in 2018/19' section. The Committee has the discretion to amend the weightings, introduce new measures and exclude measures in order to best align to long-term shareholder interests. Malus and clawback policies apply.

Directors' remuneration report continued
Directors' remuneration policy
Approved 15 June 2017 continued

Other key features of policy:

Service contracts

Our policy is for Executive Directors to have rolling service contracts with a notice period of 12 months. On an exceptional basis, to complete external recruitment, a longer initial period reducing to 12 months might be used. At its discretion, the Group may pay in lieu of notice. Payment in lieu of notice could potentially include up to 12 months' base salary, benefits and pension, but is payable in instalments and subject to mitigation.

Under the Annual Bonus and LTIP scheme rules, the Committee has discretion in relation to termination of employment.

Termination payments summary

Circumstances of termination	Salary and contractual benefits	Annual bonus plan	Unvested deferred shares	Unvested LTIP awards
Resignation or gross misconduct	Paid to date of termination	No bonus paid for year of termination	Award lapses when employment ends	Award lapses when employment ends
Injury/ill health, disability, death, retirement (with agreement of the Group)	Paid to date of termination	Eligible to be considered for a bonus, calculated on a time pro-rata basis	Deferred shares are retained and will typically vest on the normal three year cycle. The Committee has discretion to bring forward vesting in exceptional circumstances	Eligible to be considered for good leaver status, which gives entitlement to retain the award granted calculated on a time pro-rata basis
Negotiated termination at the discretion of the Committee	Paid to date of termination	As above	As above	At the Committee's discretion, may be eligible to be considered for good leaver status, which gives entitlement to retain the award granted calculated on a time pro-rata basis

Approach to new hires

Prior to appointment, the Committee will apply the following principles in agreeing the remuneration of Executive Directors:

- the overall package will be sufficient to attract and retain the best talent to effectively deliver the Group's strategy, taking into account similar positions in the market, experience of the candidate and current remuneration;
- the Committee will look to align the base salary, benefits, pension benefits, Annual Bonus and LTIP, in line with the remuneration policy whilst taking into account the individual circumstances (including compensation for loss of remuneration from a previous employer) of candidates and existing Executive Directors; and
- the maximum variable pay opportunity will be 500% of salary. Up to 200% may be earned under the Annual Bonus Plan, and up to 300% may be granted under the LTIP. This would be separate to arrangements required to recruit the preferred candidate.

Chairman and Non-Executive Director fees

Fees for the Non-Executive Directors are determined by the Chairman and the Executive Directors, and are reviewed from time-to-time with regard to the necessary time commitment, and the level of fees in comparable companies. The Chairman's fee is determined by the Remuneration Committee and the Board, and is reviewed on the same basis. Fees for the Non-Executive Directors are made up of a base fee, plus additional fees for Committee chairmanship, Committee membership and for the appointed Senior Independent Director. The Chairman receives a single fee only with no additional fees for other duties to the Group.

Current Non-Executive Director fees are as follows:

Fee type	2019/20 £	2018/19 £
Chairman	420,000	400,000
Senior Independent Director	20,000	20,000
Non-Executive Director base fee	61,200	61,200
Committee chair fee	20,000	20,000
Committee membership fee (per Committee)	7,000	7,000

Benefits and other items in the nature of remuneration

The Chairman has use of a car and driver and receives private health provision. The Chairman and Non-Executive Directors are entitled to normal colleague discount. Neither the Chairman nor any of the Non-Executive Directors participate in any Group incentive scheme.

Directors' remuneration report continued
Implementation of remuneration policy in 2018/19

Base salary

The Committee awarded David Potts an increase of 2% in line with the wider workforce, which David has waived for the fourth consecutive year, and therefore remains unchanged at £850,000. As noted, Trevor Strain was appointed Chief Finance and Commercial Officer effective 17 October 2018. As a consequence, the Committee approved an increase of 6% effective from appointment, taking his salary to £650,000.

Benefits and pension

David Potts and Trevor Strain receive a pension supplement of 25% and 24% of base salary respectively.

Annual Bonus

The structure of the bonus, including maximum potential (200% of salary) and the requirement to defer 50% of any bonus in shares under the deferred share bonus plan (DSBP) is in line with the Directors' remuneration policy (summary on pages 42 and 43).

Measure[1]	Weightings (% of maximum bonus opportunity)
Profit before tax and exceptionals	50%
Strategic scorecard	30%
Personal objectives	20%

1 Performance measures are defined on page 46.

Scorecard measures for 2019/20 will continue to focus on strategic objectives in the areas of Group LFL sales (exc. fuel) growth (20%) and productivity improvement/cost reduction (10%). Personal objectives will be linked to strategy, and the areas under each executives' responsibility.

Detail on the performance targets is regarded as commercially sensitive at this time and cannot be disclosed here. Subject to no longer being regarded as commercially sensitive, targets will be disclosed in next year's remuneration report.

LTIP

2019-22 LTIP target setting

In setting this year's targets, the Committee reviewed past LTIP targets and performance, the Group's strategic plan, current market performance, and available analysts' estimates. The Committee also analysed the targets through a variety of lenses to assess the level of stretch. Unattainable or inappropriate targets, such as an exaggerated focus on short-term margin expansion, are not in the best long-term interests of any stakeholders. Instead, the Committee is striving to set targets that achieve the right balance between continuing to drive the turnaround, maximising shareholder returns and incentivising management to prioritise consistent and sustainable growth over short-term profit. The Committee noted that while historic performance has been strong, it is the opinion of many analysts and the Board that trading conditions are likely to remain challenging.

In line with the policy approved by shareholders, the LTIP awards for David Potts and Trevor Strain for 2019/20 will be 300% of salary. This grant will be subject to a two year post-vest holding period.

LTIP targets 2019-22

The targets for the 2019-22 LTIP are in the table below:

Measure[1,2,3]	Weighting	Threshold	Mid point	Maximum
Total sales growth (excluding fuel)	40%	£650m	£935m	£1.5bn
Adjusted free cash flow	40%	£800m	£850m	£950m
Basic EPS before exceptionals growth	20%	5%	7%	10%

1 Performance measures are defined on page 46.
2 Vesting is on a straight-line basis between points.
3 These targets have been set based on accounting standards in place for the financial year ended 3 February 2019. As disclosed in the financial statements IFRS 16 'Leases' is effective for the Group from the period beginning 4 February 2019 and represents a significant change in accounting for and reporting of leases. The impact of the standard is currently being fully quantified, but will affect the income statement and balance sheet as well as the Group's alternative performance measures, including basic EPS before exceptionals; however, as the EPS LTIP target is based on percentage growth, any adjustments to prior year reported numbers will not affect the achievability or stretch of the target. IFRS 16 will have no impact on cash measures.

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

Given the pending changes on lease accounting (IFRS 16, 'Leases'), which impact all companies reporting under IFRS, for the purposes of the LTIP reporting, standards in place at the time of grant will be used in calculation of vesting. As such, 2019-22 LTIP targets will be set on a pre-IFRS 16 basis. There is a ROCE underpin which allows the Committee to adjust vesting options if ROCE is below weighted average cost of capital.

Sales growth

The previous sales growth targets (2018-21) reflected the impact of wholesale supply including the commencement of the McColl's agreement. Due to external circumstances, the roll out was significantly accelerated and as a result sales growth was 'front loaded' in the first year of that LTIP. The 2019-22 targets therefore reflects the shape of the McColl's roll out. Consensus sales growth for near years is significantly below the maximum, which requires growth of c.3.5% p.a. The Committee are therefore confident that the maximum represents a very stretching target.

As permitted by Directors' remuneration policy, the Committee will retain the discretion to adjust the targets in the event of material disposals or store closures during the performance period which were not taken into account at target setting.

Adjusted free cash flow

In consultation, shareholders consistently said that free cash flow remains a key measure for them. This year's target follows a successful four year programme of property disposals and working capital which is now mostly complete, with around £2bn of improvements delivered. For the four year period since 2015/16, delivery adjusted for property disposals, working capital and onerous capital payments was c.£1bn. Notwithstanding this strong progress, and the high level of property disposals and working capital generation already achieved, management remain focused on this key measure for shareholders. While the tighter range for this LTIP reflects the reduced remaining opportunity, from listening to feedback, the Committee have increased the threshold and mid points significantly from the last year.

Directors' remuneration report continued
Implementation of remuneration policy in 2018/19
continued

Basic EPS before exceptionals growth

In setting the target in January 2019, the Committee took into account analyst estimates available at the time, which are mostly for near years only and anticipate consistently challenging trading conditions. The Committee remains very mindful of the need to balance profitable growth with remaining competitive and relevant for customers in increasingly uncertain times. EPS growth cannot be disconnected from shopping trip improvements. The Committee does not want to incentivise management to over reach on a level of EPS growth that may not be sustainable in the long term, and believes that given recent and anticipated trading conditions, competitor performance and predicted performance, this range is very stretching.

Chairman and Non-Executive Director fees

Fees for the Non-Executive Directors remain unchanged from those payable in 2018/19 and as set out in the summary of the remuneration policy on page 44. Having not increased since his appointment in 2014, the fees for the Chairman have been reviewed and increased by 5% to £420,000 p.a. for 2019/20. The fees will next be reviewed in 2022.

Directors' remuneration report performance measure definitions

Annual Bonus Performance Measures

Measure		Definition
Group financial	Profit before tax and exceptionals	As defined in the Glossary on page 132
Strategic scorecard	Group like-for-like sales growth (exc. fuel)	As defined in the Glossary on page 132
	Productivity improvement/cost reduction	Cost savings from productivity and cost reduction delivered in the year
Other measures	Personal objectives	Personal objectives are linked to delivery of the strategy

Long Term Incentive Plan (LTIP) Performance Measures

Measure	Definition
Total sales growth (exc. fuel)	The change in total sales (excluding fuel and VAT) over the performance period of the award Total sales (excluding fuel and VAT) is defined in the Glossary on page 132
Adjusted free cash flow	The cumulative adjusted free cash flow over the performance period of the award Adjusted free cash flow is defined as: • Cash generated from operations • Less: interest and tax • Plus: property disposal proceeds (excluding sale and leaseback) • Less: capital expenditure • Plus: onerous payments
Basic earnings per share before exceptionals (EPS) growth	The percentage change in basic EPS before exceptionals p.a. over the performance period of the award Basic EPS before exceptionals is defined in the Glossary on page 133

Pay and conditions in the wider group – investing in a colleague-led turnaround

One of our people ambitions for colleagues is 'a fair day's pay for a fair day's work'. The Board receive regular updates on progress against this ambition, and take this into account when setting Executive Director pay.

- In 2016, the colleague hourly rate in stores was increased from £6.83 to £8.20. In 2018 we increased the hourly rate for all store colleagues to £8.70 – at the time the highest of the 'big 4' grocery retailers and will increase again in 2019. Our total package including colleague bonus and annual long service award (for those employed prior to 2013) remains market leading as additional cash benefits such as bonus are equivalent to a further 38p an hour.
- Colleagues are sharing in the value they create, with one in five of our people now in a Sharesave scheme.
- Colleague bonus levels continue to increase, from an average payment for applicable colleagues of £164 in March 2016, £276 in March 2017, £350 in March 2018 and £379 in March 2019.
- We invested in increasing the maximum bonus opportunity for our team managers in stores, and have increased this again this year.
- The working week for store managers has been reduced.
- By April 2019, we will have delivered management development training to the whole manager population – a significant investment in our ambition for colleagues to have 'a manager who helps and supports me', which in turn will help deliver our service ambition.
- Our colleague discount portal continues to grow in popularity, offering a range of discounts to colleagues such as discounted cinema tickets, meals out and savings at high street retailers. This has proved extremely popular, with average savings of nearly £50 per year per user.
- As part of our Fresh Look programme, we have underlined our commitment to a colleague-led turnaround by refurbishing colleague areas.
- In June 2016, we launched a Group-wide listening and responding forum for colleagues called 'Your Say'. Stores and sites each have a monthly meeting, regional quarterly meetings and a national meeting twice a year. As the Chair of the Remuneration Committee, Tony van Kralingen attends the national 'Your Say' forum, to hear views from colleagues on a range of issues, not just remuneration.

Successes from the Your Say forums in the last year include the initiative to enable customers to bring their own plastic containers to use at our counters, as well as improvements to first aid training, provision of protective equipment, reducing waste, improving processes, ways to better celebrate diversity in our workforce, improving our birthday gift to 'More' Card customers, the signage in our trolley bays to remind customers to bring their bags from their car, removal of plastic cups and cutlery at head office, and our participation in the 2019 Royal Cheshire County show.

Our colleagues are passionate about our business, and engage with energy on how we can help them to simplify and speed up their roles, to enable them to put customers first.

Directors' remuneration report continued

Annual report on remuneration

Audited information

Single total figure of remuneration

The table below sets out the single total figure of remuneration and breakdown for each Director for 2018/19 and the comparative figure for 2017/18.

	2018/19						2017/18					
	Salary/fees £000	Benefits[1] £000	Annual bonus[2] £000	LTIP[3] £000	Pension benefits[4] £000	Total £000	Salary/fees £000	Benefits[1] £000	Annual bonus[2] £000	LTIP[5] £000	Pension benefits[4] £000	Total £000
Executive Directors												
D Potts	850	27	1,037	2,482	213	4,609	850	27	1,678	3,189	213	5,957
T Strain	622	35	759	1,679	149	3,244	596	35	1,177	1,576	143	3,527
Non-Executive Directors												
A Higginson	400	38	–	–	–	438	400	24	–	–	–	424
R Anand	103	–	–	–	–	103	102	–	–	–	–	102
N Davidson	102	–	–	–	–	102	102	–	–	–	–	102
K Havelock[6]	89	–	–	–	–	89	–	–	–	–	–	–
CA van Kralingen	102	–	–	–	–	102	35	–	–	–	–	35
B Richards	102	–	–	–	–	102	102	–	–	–	–	102
P Vennells	89	–	–	–	–	89	89	–	–	–	–	89

1 Taxable benefits for the Executive Directors include a car allowance (or other car benefit), transport costs, private health provision. The Chairman previously had use of a car and driver. In 2018/19, he moved to company car only. Due to the relevant tax treatment and disclosure, it appears his benefits have increased; however, the total cost to the Company is reduced. All Directors receive the Group's normal staff discount entitlement which is not taxable. Applicable Sharesave plans granted in given financial years are also included in this figure (for Executive Directors).
2 50% of the annual bonus is deferred in shares for a period of three years. There are no performance conditions attached to this deferred element.
3 Awards granted under the LTIP in April 2016 are scheduled to vest in April 2019. The performance conditions relating to the 2016-19 LTIP award ended on 3 February 2019 and the vest value of the 2016-19 LTIP award is therefore calculated on the closing share price as at 1 February 2019 (the last trading day before year end). The 2018/19 figures also include the value of dividends accrued on the 2016-19 LTIP award at the time of vesting. Further detail on the 2016-19 LTIP is provided in the table on page 51.
4 D Potts received a salary supplement equal to 25% of base salary. T Strain received a salary supplement of 24% of base salary. None of the Executive Directors have a prospective entitlement to a defined benefit pension by reason of qualifying service.
5 The value of the 2015-18 LTIP vest that was disclosed in the 2017/18 Directors' remuneration report was based on an indicative price at 2 February 2018. The value of the 2015-18 LTIP vest has been restated to reflect the actual April 2018 vest value.
6 K Havelock was appointed to the Board on 1 February 2018.

Directors' remuneration report continued
Annual report on remuneration
Audited information continued

Annual Bonus Plan

Annual bonus achieved 2018/19

Director	Maximum bonus opportunity (% of salary)	Actual bonus (% of salary)	Actual bonus (£000)	Bonus deferred into shares (% of award)	Cash bonus paid in respect of 2018/19 (£000)
D Potts	200%	122%	1,037	50%	519
T Strain	200%	122%	759	50%	379

Group financial and strategic scorecard

Performance measure[1]	Weighting (as a % of total annual bonus opportunity)	Achieved as a % of maximum: Threshold	Target	Maximum	Actual achievement	Payout (as a % of total annual bonus opportunity – unadjusted)
Group financial		20% payout	60% payout	100% payout		
Profit before tax and exceptionals	50%	£370m		£406m	£406m	50.0%
Strategic scorecard		20% payout	50% payout	100% payout		
Productivity improvement/cost reduction	10%	£130m		£150m	£145m	8.1%
Group LFL sales growth (exc. fuel)[2]	20%	0%		2%	1.75%	18.1%
Other measures						
Personal objectives	20%					20%

1 Performance measures are defined on page 46.
2 For the 2018/19 Annual Bonus Plan, the strategic scorecard measure relating to sales growth was with reference to Group LFL sales (exc. fuel) excluding sales to McColl's. Further detail is provided below.

Profit before tax and exceptionals

In 2018/19, profit before tax and exceptionals increased by 10% on a comparable 52 week basis, delivering £406m (maximum £406m). At the time the target setting process started (end of 2017), the grocery market was facing falling consumer confidence and growing inflationary/cost pressures. The growth target challenged management to balance competing demands of growing profit while investing in the offer to be more competitive for customers, and in customer service and colleague pay (in line with our six priorities). The UK Retail industry had a particularly challenging second half of 2018 and performance is strong in that context.

Productivity improvement/cost reduction

Following two years of strong delivery against stretching targets, the maximum was set slightly lower than 2017/18, given the performance in accelerating benefits since 2016/17 (delivered £269m vs maximum of £190m in 2016/17, and £195m against a maximum of £200m in 2017/18). The maximum of £150m continued to be a very stretching target as a percentage of the remaining cost base.

Management have performed well against this stretching target, resulting in £145m being delivered meaning 8.1% of this element was achieved.

Group LFL sales growth (excluding fuel)

Group LFL sales growth (excluding fuel and McColl's sales) was 1.75%. When the targets were set, the Group had achieved nine quarters of LFL sales growth, following 16 quarters of decline. Therefore, this was the third time since 2011 that management were required to grow sales on top of prior year growth in order to achieve the target. A target range of 0% to 2% therefore represented significant stretch given prior year performance and the ongoing intensely competitive market. Due to the uncertain timing of the roll out of supply to McColl's, these sales were excluded from LFL sales performance targets for 2018/19. Achieving growth on top of prior year growth in the highly competitive core supermarkets business continues to be stretching and challenging.

Financial and Strategic scorecard performance summary

Performance against the targets for sales, profit, and productivity and procurement cost savings have been substantially met, resulting in a formulaic outcome of 76.2% of maximum for these elements. However, management has recommended a downwards adjustment of 20% for these elements, to 61%. This adjustment takes into account some important aspects of overall performance, such as a lower in-year increase in incremental profit from wholesale, services, interest and online. The Committee has considered the annual bonus outcome in view of overall Group performance and believes this represents a fair assessment.

Personal objectives

Stretching and measurable objectives are set by the Committee at the start of the financial year, taking into account our six priorities, and the ambitions for our four stakeholders: customers, colleagues, suppliers and shareholders.

D Potts

Objective	Summary of Performance	Weighting
Deliver key actions against the improvement plan – i.e. the six priorities, five ways of working and four sets of ambitions	• Opened three new stores and completed 59 Fresh Look refits. • Morrisons home delivery reaches over 75% of British households due to second fulfilment centre and successful 'store pick' solution roll out. • Around 3,000 local products from 400 suppliers with over 350 stores selling local fruit & veg and 334 stores selling local eggs. • Launched new 'Savers' and 'Naturally Wonky' ranges and new 'Best' products. • Customer satisfaction increased again, driven by queue wait times and friendliness of our colleagues. • Increased direct sourcing and manufacturing of key products including eggs, nuts, bananas, pittas and crumpets. • Extended Popular and Useful Services, including Doddle and Timpsons, and trialled partnerships with new food service partners. • Won 'Supermarket of the year' at Retail industry awards, amongst many others. • Delivered best quarterly sales performance for nine years.	4%
Develop capability: • Continue to develop leadership team capability through development and talent hires • Maintain succession plans for the Executive Committee and leadership team • Build on 2017/18 investment in store and senior manager capability and deliver team manager up-skilling, finalise and re-set store operational structure	• Reorganised Executive Committee to be fit for the future and made five leadership team appointments. • Continued investment in leadership development through our 'My Job' programme. • Improved store structure delivered with no compulsory redundancies. • More than 500 colleagues through Pathways development programmes, now have over 400 craft apprentices. • Biggest craft apprenticeship provider in the UK. • Won 'Top Employer in Retail' and 'Best Training' in the School Leaver Awards.	4%
Strengthen the Group's Grocery Supply Code of Conduct (GSCOP) compliance, processes and culture: • adhering to the GSCOP Codes and Regulations; • strengthen internal control processes; and • improve culture around GSCOP compliance, including supplier feedback	• New GSCOP training launched in the year and will be carried out annually. • Significant investment in a new supplier portal, providing suppliers with a more efficient way of working with Morrisons. • We were the second most improved retailer in the Grocery Code Adjudicator's 2018 supplier survey, for the second year running.	4%
Continue to drive understanding of the core purpose, communicate it and build understanding widely	• 'Leading with Purpose' training delivered to over 1,000 leaders. • Expansion of 'Naturally Wonky', vegan, children's and 'Best' ranges as well as local all aligned to core purpose. • Reduced plastic waste through many initiatives, including 'naked vegetables'. • Introduced paper bags for fruit and veg and replaced black plastic on a number of 'Best' lines.	4%
Lead the business through the challenges of any instability driven through Brexit	A senior internal working group, set up immediately after the referendum in 2016, has continued to plan our readiness for Brexit throughout the year. Given the ongoing political uncertainty our focus has been on how we serve customers through a potential 'no deal' outcome. Work has included ensuring we have the right resource plans, customs capabilities and processes in place, supply chain and site resilience, and preparedness for changing legal requirements.	4%

Directors' remuneration report continued

Annual report on remuneration

Audited information continued

T Strain

Objective	Summary of Performance	Weighting
Continue to build the shareholder narrative, and extend engagement	• As a result of the sustained engagement plan, the share register is increasingly aligned with narrative.	3.33%
Take lead role on cost reduction and simplification programmes	• Cost reduction plan identified and being delivered through automation, simplification, reduced administration and improved procurement of goods not for resale.	3.33%
Execute plans for non-core/ non-strategic assets	• Proceeds from disposals of assets were £22m in the year, with proceeds from the start of the programme now over £1bn.	3.33%
Driving a performance and talent culture in all functions led by Trevor Strain, with the specific objective of identifying individuals with potential to develop +2 or +3 work levels and implement development plans	• Reorganisation of the Leadership Team enabled Trevor to take on the Group Commercial Director role. • Rigorous talent identification and development in place, resulting in promotions, increased role scope and future leaders identified. • All succession plans reviewed with actions in place.	3.33%
Develop our wholesale business	• Significant contribution to Group sales growth and target of £700m annualised sales achieved ahead of schedule. • Completed initial McColl's roll out at twice the rate initially planned. • Wholesale supply chain set up with five dedicated distribution centres. • 115 Morrisons daily stores now operating. • Delivery to new export customers commenced. • Safeway brand launched with around 400 products.	3.33%
Continue to develop/execute broad-based strategy for profitable growth	• Three new stores opened in the year with new stores in development for 2019/20. • Online coverage expanded to over 75% of British households. • Continued strong progress with Popular and Useful Services – over 1,000 now in place.	3.33%

Personal objectives performance summary

The Committee carefully assessed performance against objectives at the end of the financial year. In determining the final level of bonus payable, the Committee took into account both the performance against objectives and the performance of the wider business. As well as individual objectives being delivered in full, management continues to make significant progress against our six priorities, in particular being more competitive which is improving LFL sales and volumes, and thereby rebuilding profitability.

Taking into account performance against personal objectives, the Committee has decided to award David Potts and Trevor Strain each the full 20% of this element. Taking into consideration the overall performance of the Group, they have taken the decision to waive all of this element of their bonus. This takes the total bonus achieved to a payout of 61% of maximum for Executive Directors, half of which will be deferred into shares under the deferred share bonus plan.

Deferred bonus

50% of any bonus payable is deferred in shares under the deferred share bonus plan, which vest three years after the date of award.
Dividend equivalents will accrue and be paid on the shares that vest. Deferred shares are normally forfeited if the individual leaves the Group before they vest.

LTIP awards

2016-19 LTIP awards

Awards granted under the LTIP in April 2016 are scheduled to vest in April 2019. The performance period relating to these awards ended on 3 February 2019.

Details of the performance conditions and the extent to which they have been satisfied are set out below:

Measure[1,2]	Weighting	(25%) Threshold performance required	(100%) Maximum performance required	Actual outcome	Actual LTIP vesting (% of maximum)
Total sales (excluding fuel)[3]	20%	£12.7bn	£13.2bn	£14.0bn	20.0%
Adjusted cumulative free cash flow[4]	60%	£620m	£1,340m	£1,466m	60.0%
Basic earnings per share (EPS) before exceptionals growth p.a.[5]	20%	6% p.a.	13% p.a.	10.8% p.a.	14.6%

1 Performance measures are defined on page 46.
2 The 2016-19 LTIP awards were subject to certain 'guardrails' relating to the free cash flow measure. The Committee has minimum and maximum guardrails for maintenance capital expenditure and cumulative net proceeds from property sales over the performance period. When considering vesting against the free cash flow measure, the Committee can review and adjust as appropriate in the event of operation outside the agreed parameters. The 2016-19 vesting for free cash flow was within the agreed parameters and as such no adjustment was required.
3 Total sales (excluding fuel) as at the end of the vesting period. In line with the policy, the maximum target was reduced in 2016/17 to adjust for the impact of store closures during the year.
4 Cumulative adjusted free cash flow over the vesting period. Adjusted free cash flow as defined on page 46.
5 Basic earnings per share (EPS) before exceptionals growth rate p.a. over the vesting period. Baseline basic EPS before exceptionals of 9.67p based on 2015/16 profit before exceptionals and one-offs of £302m.

Share awards granted in 2018/19

The table below sets out the share awards made to the Executive Directors during 2018/19 under the Group's LTIP:

Director	Grant date	Award type	Basis on which award made	Face value of award (£000)	Percentage of award vesting at threshold performance	Performance period end date	Performance conditions
D Potts	22 March 2018	Conditional award	300% of salary	2,550	25%	31 January 2021	see table below
T Strain	22 March 2018	Conditional award	300% of salary	1,832	25%	31 January 2021	see table below

The table below sets out the performance conditions attached to the awards made during the year. These awards were granted in March 2018.

Measure[1,2]	Period over which the measure applies	Weighting (% of maximum award)	Threshold (25%)	Maximum (100%)
Total sales growth (excluding fuel)	Three year performance period (2018/19 – 2020/21)	40%	£1.1bn	£2bn
Adjusted free cash flow	Three year performance period (2018/19 – 2020/21)	40%	£730m	£1bn
Basic earnings per share (EPS) before exceptionals growth p.a.	Three year performance period (2018/19 – 2020/21)	20%	5%	10%

1 Performance measures are defined on page 46.
2 Vesting is on a straight-line basis between threshold and maximum.

Given the pending changes on lease accounting (IFRS 16, 'Leases'), which impact all companies reporting under IFRS, for the purposes of the LTIP reporting, standards in place at the time of grant will be used in calculation of vesting. As such, 2018-21 LTIP targets were set on a pre-IFRS 16 basis. There is a ROCE underpin which allows the Committee to adjust vesting options if ROCE is below weighted average cost of capital.

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

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

Directors' remuneration report continued

Annual report on remuneration

Audited information continued

Payments to past Directors and loss of office payments

There were no payments made to past Directors of the Group or loss of office payments made during the year.

Statement of Directors' shareholdings (Executive and Non-Executive Directors)

The Group has share ownership guidelines for Executive Directors of 250% of salary. Shares held under the deferred share bonus plan (calculated on a post-tax basis) which are subject only to a continuing service requirement, will be included in assessing the level of shareholding. The shareholding guideline should be reached within five years of appointment to the Board. The Group has share ownership guidelines for Non-Executive Directors of 50% of base fees. This guideline should be reached within three years of appointment to the Board or three years after the date of adoption of the policy for incumbent Directors.

David Potts has met his shareholding requirement. Trevor Strain has exceeded the 200% shareholding guidance set at the time of his appointment, but has yet to meet the increased 250% requirement. In March 2018, Trevor exercised 615,428 shares. He is within the five year period permitted to build up his shareholding and a further 688,622 shares will vest in April 2019, as a consequence of the 2016-19 LTIP.

Executive Director	Shareholding requirement (% salary)	Shareholding as at February 2019 (% salary)[1,2]	Shares owned outright	Deferred shares not subject to performance	Share save options not subject to performance	LTIP shares subject to performance[3]	Total interests in shares
D Potts	250%	567%	1,663,001	1,032,414	7,411	3,309,969	6,012,795
T Strain	250%	237%	284,927	714,299	–	2,316,923	3,316,149

1 Includes shares held under the deferred share bonus plan (DSBP) on an after tax basis.
2 For the purpose of calculating the shareholding as a percentage of salary, the three month average share price of £2.3244 up to 1 February 2019 (the last trading day of the financial year ended 3 February 2019) has been used.
3 1,017,964 shares and 688,622 shares represent LTIP awards granted to D Potts and T Strain respectively in April 2016 which are due to vest in April 2019. Performance targets for these awards and associated outcomes are provided in the section headed '2016-19 LTIP awards' on page 51. 1,074,589 and 753,824 shares granted to D Potts and T Strain respectively represent LTIP awards made in March 2017 which are due to vest in March 2020. 40% of the award is linked to a total sales growth target. 25% of this element vests for achieving £400m over the performance period, and 100% vests for achieving £750m over the period. 40% of the award is linked to a free cash flow target. 25% of this element will vest for achieving £600m against this measure, and 100% will vest for achieving £800m against the adjusted free cash flow target. 20% of the award is linked to basic EPS before exceptionals growth. 25% of this element will vest for achieving 5% growth per annum over the performance period. 100% will vest for achieving 10% growth per annum over the performance period. 1,217,416 and 874,477 shares granted to D Potts and T Strain respectively represent LTIP awards made in March 2018 which are due to vest in March 2021. Performance targets for these awards are disclosed in the section headed 'Share awards granted in 2018/19' on page 51.

Shareholdings as at 1 February 2019 (the last trading day of the financial year ended 3 February 2019) are set out in the table below.

Non-Executive Directors	3 February 2019 Total (owned outright)
A Higginson	63,560[1]
R Anand	22,500
N Davidson	12,800
K Havelock	100,000
C A van Kralingen	13,000
B Richards	13,721
P Vennells	12,745

1 A Higginson acquired 63,560 shares on 31 January 2019. The shareholding of 266,209 shares, disclosed in the 2017/18 Annual Report and Financial Statements, was transferred to his former wife.

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

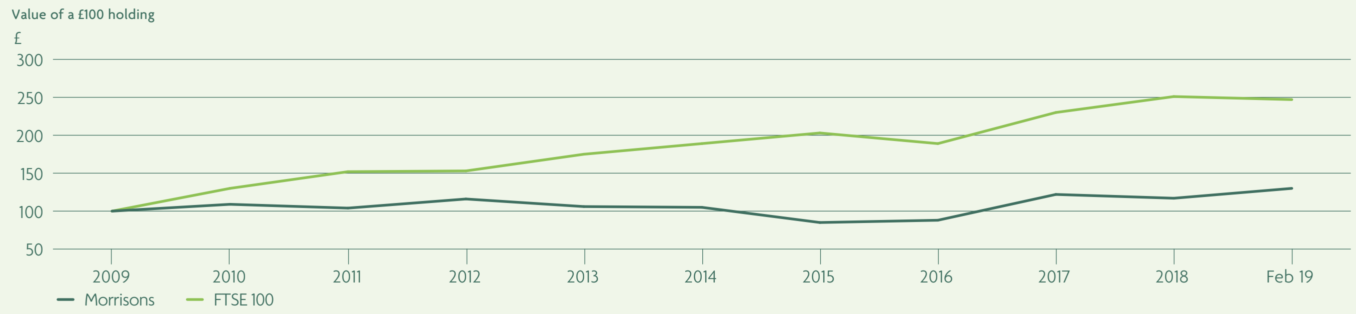
Directors' remuneration report continued

Annual report on remuneration

Unaudited information

Total shareholder return (TSR)

Performance graph and table



The graph above shows the Group's total shareholder return (TSR) compared with the TSR of the FTSE 100 index over the ten year period to 1 February 2019 (last trading day before year end). This index has been selected as being appropriate in giving a broad equity view and given that the Group has been constituent of the index over the period.

TSR is a measure of the returns that a company has provided for its shareholders, reflecting share price movements and assuming reinvestment of dividends.

Remuneration of Chief Executive

The table below sets out the total remuneration figure for the Chief Executive over the previous ten years, valued using the methodology applied to the single total figure of remuneration.

	Chief Executive	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16[4]	2016/17	2017/18[5]	2018/19
Total remuneration (£000)	D Potts	–	–	–	–	–	–	2,252	2,794	5,957	4,609
	D Philips	–	3,328[3]	2,502	1,089	1,089	2,101	50	366	–	–
	M Bolland	1,159	304	–	–	–	–	–	–	–	–
Annual bonus payment (% of maximum opportunity)	D Potts	–	–	–	–	–	–	73%	100%	98.7%	61%
	D Philips	–	70%	90%	0%	0%	60%	–	–	–	–
	M Bolland	0%[1]	–	–	–	–	–	–	–	–	–
LTIP vesting level achieved (% of maximum opportunity)	D Potts	–	–	–	–	–	–	–	–	96.3%	94.6%
	D Philips	–	–	–	0%	0%	0%	0%	50%	–	–
	M Bolland[2]	–	–	–	–	–	–	–	–	–	–

1 M Bolland was not treated as a good leaver and therefore did not receive a bonus in 2009/10.
2 M Bolland was not treated as a good leaver and therefore lost any eligibility to shares that may have otherwise vested following his departure.
3 Total remuneration includes value of unrestricted share award over 319,401 shares and restricted share award over 120,965 shares granted on recruitment.
4 D Potts was appointed on 16 March 2015 and D Philips stepped down from the Board on 16 February 2015.
5 2017/18 total remuneration has been updated. The value of the 2015-18 LTIP vest that was disclosed in the 2017/18 Directors' remuneration report was based on an indicative price at 2 February 2018. The value of the 2015-18 LTIP vest has been restated to reflect the actual April 2018 vest value.

Change in remuneration of Chief Executive compared to Group employees

The table below sets out the change in total remuneration paid to the Chief Executive from 2017/18 to 2018/19 and the average percentage change from 2017/18 to 2018/19 for employees of the Group as a whole.

	% increase in element between 2017/18 and 2018/19		
	Salary and fees	Taxable benefits	Annual bonus
D Potts	0%	0%	(38)%
All Group employees[1]	2.4%	0%	(8)%[2]

1 Reflects the change in average pay for all Group employees employed in both the financial year 2017/18 and the financial year 2018/19.
2 Reflects the increase in the average bonus payout for eligible employees.

Directors' remuneration report continued

Annual report on remuneration

Unaudited information continued

Relative importance of spend on pay

The table below sets out the total spend on remuneration in the 2017/18 and 2018/19 financial years compared with distributions to shareholders.

	2018/19 £m	2017/18 £m	Difference £m
Total cost of remuneration for all Group employees	1,900	1,938	(38)
Profit distributed by way of dividends	289	129	160

The Committee and its advisers

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

C A van Kralingen (Chair since 1 September 2017)	1 September 2017	To date
R Anand	21 January 2016	To date
N Davidson	3 November 2015	To date
K Havelock	1 February 2018	To date
A Higginson	22 January 2015	To date
B Richards	2 September 2015	To date
P Vennells	21 January 2016	To date

The Chief Executive, the Chief Finance and Commercial Officer, the Group People Director and other Human Resources (HR) representatives also attend meetings by invitation (other than where their own remuneration is being discussed). The Company Secretary acts as secretary to the Committee. Willis Towers Watson were appointed by the Committee in August 2016, following a competitive tender process, to provide independent external advice on market practice and Executive and Non-Executive remuneration. Willis Towers Watson do not provide any other services to the Group. The Committee is satisfied that the advice provided by Willis Towers Watson is objective and independent. Fees are agreed by the Committee according to services provided. Total fees paid for assistance in relation to Remuneration Committee matters were £143,000 on a time and expense basis.

Statement of voting at the 2017 AGM on the remuneration policy

	Votes for	For as a % of votes cast	Votes against	Votes against as a % of votes cast	Abstentions	Total
Remuneration policy	1,639,088,405	92.35%	135,826,285	7.65%	575,379	1,775,490,069

Statement of voting at the 2018 AGM on the remuneration report

	Votes for	For as a % of votes cast	Votes against	Votes against as a % of votes cast	Abstentions	Total
Remuneration report	1,552,589,664	84.66%	281,400,948	15.34%	27,309,332	1,861,299,944

Tony van Kralingen
Remuneration Committee Chair
12 March 2019

Directors' report
Statutory disclosures

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

Disclosure	Page
Financial instruments	99 to 101
Financial risk management	99
Future developments	1 to 26
Dividends	80
Greenhouse gas emissions	22
Corporate governance report	27 to 38
Directors of the Group	30 and 31
Employee involvement	15 and 16

Disclosures required pursuant to Listing Rule 9.8.4R can be found on the following pages:

Disclosure	Page
Interest capitalised	84 to 89
Long Term Incentive Plans	109
Waiver of Directors' emoluments	45

Political donations

No political donations were made in the financial year, which is Group policy.

Going concern

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

The Group remains able to borrow at competitive rates. The Group has negotiated, and has available to it, committed, competitive facilities that will meet the Group's needs in the short and medium term.

Having assessed the principal risks as set out on pages 24 and 25 and the other matters discussed in connection with the viability statement on page 26, the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements.

Forward-looking statements

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

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

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

Borrowing powers

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

Relating to beneficial owners of shares with 'information rights'

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

Directors' and Officers' liability insurance

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

Substantial shareholdings

As at 3 February and 12 March 2019, the following information has been received, in accordance with DTR 5, from holders of notifiable interest in the Company's issued share capital.

The information provided below was correct at the date of notification, however the date received may not have been within the current financial year. As notification is not required until the next notifiable threshold is crossed, it should be noted that these holdings are likely to have changed since the Group was last notified.

	As at 3 February 2019		As at 12 March 2019	
	Number of shares	% of share capital	Number of shares	% of share capital
Schroders PLC	258,299,431	10.96	258,299,431	10.96
Amerprise Financial Inc	177,970,287	7.62	177,970,287	7.62
BlackRock Inc	162,136,599	6.84	162,136,599	6.84
Silchester International Investors LLP	118,601,810	5.01	118,601,810	5.01
Majedie Asset Management Limited	116,805,074	5.00	116,805,074	5.00
Deutsche Bank AG	117,399,109	4.96	117,399,109	4.96
Brandes Investment Partners, LP	115,902,280	4.96	115,902,280	4.96

Additional shareholder information

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

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

Directors' report continued
Statutory disclosures

Appointment and powers of Directors

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

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

Articles of Association

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

Share capital

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

At the AGM held in June 2018, a special resolution was passed to renew the authority given at the AGM held in June 2017 for the purchase by the Group of up to 235,587,340 ordinary shares, representing approximately 10% of the issued ordinary share capital at that time.

During the period, 12,440,132 (2018: 20,279,315) ordinary shares were issued to employees exercising share options and 1,721,480 (2018: 2,584,182) awards were settled out of the trust shares.

Share capital and rights attaching to the Company's shares

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

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

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

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

Other disclosures

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

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

Equal opportunities for all

Integral to a high performing culture is the concept of equal opportunity and inclusion for all colleagues, which is promoted through an environment free from discrimination, harassment and victimisation. The Group looks to ensure that everyone's efforts are worthwhile and all colleagues regardless of race, colour, nationality, ethnic origin, gender (including gender reassignment), marital or civil partnership status, disability, religion or belief, sexual orientation, age or trade union membership are offered the opportunity to be their best, using their individual talents and abilities.

This includes applications for employment made by people with disabilities, which are given full and fair consideration. Respect underpins behaviour towards all disabled candidates, as well as colleagues who have a disability or become disabled in any way during the course of their employment. A full assessment of the individual's needs is undertaken and the Group will make reasonable adjustments to the selection process, work environment or practices in order to help people with disabilities. With a heightened awareness of the impact of mental health on society the Group is more mindful than ever that not all disabilities can be seen and therefore ensure the same respect and support is provided to those candidates or colleagues whose disabilities are not visible.

All candidates and colleagues are treated equally in respect of recruitment, promotion, training, pay and other employment policies and conditions. Decisions are made based on relevant merits and abilities, with decisions made free from bias.

Remaining receptive to the needs of customers and the wider communities is a priority – operating in an inclusive and respective manner.

Health and safety policy

It is the Group's intention, so far as is reasonably practicable, to ensure the health, safety and welfare of all its employees, customers and visitors to its premises. In order to achieve this, a comprehensive health and safety manual is in place for each division of the Group and subsidiary companies within the Group. Each health and safety manual contains the policy and procedures for complying with the Health and Safety at Work Act 1974, including the provision, based on risk assessment, of safe working practices for all work activities across the Group. The Group's health and safety policy is approved by the Executive Committee.

Health and safety improvement plans are in place for each division which are monitored to ensure continuous improvement in performance and practice.

By order of the Board

Jonathan Burke
Company Secretary
12 March 2019

Directors' report continued

Statement of Directors' responsibilities in respect of the Annual Report and Financial Statements

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial period. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 'Reduced Disclosure Framework', and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 101, have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements and the Directors' remuneration report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The Directors are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Group and Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors consider that the Annual Report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group and Company's position and performance, business model and strategy.

Each of the Directors, whose names and functions are listed in the Corporate governance report confirm that, to the best of their knowledge:

- the Company financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Policies (United Kingdom Accounting Standards, comprising of FRS 101 'Reduced Disclosure Framework', and applicable law), give a true and fair view of the assets, liabilities, financial position and result of the Company;
- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Annual Report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces.

In the case of each Director in office at the date the Directors' report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Group and Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group and Company's auditors are aware of that information.

Disclosure of information to auditors

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

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

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

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

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

Responsibility statement

We confirm that to the best of our knowledge:

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

By order of the Board

Jonathan Burke
Company Secretary
12 March 2019

Independent auditors' report

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

Report on the audit of the financial statements

Opinion

In our opinion:

- Wm Morrison Supermarkets PLC's Group financial statements and Company financial statements (the 'financial statements') give a true and fair view of the state of the Group's and of the Company's affairs as at 3 February 2019 and of the Group's profit and cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 'Reduced Disclosure Framework', and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report and Financial Statements (the 'Annual Report'), which comprise: the consolidated balance sheet and Company balance sheet as at 3 February 2019; the consolidated income statement and the consolidated statement of comprehensive income; the consolidated cash flow statement; the consolidated statement of changes in equity; the Company statement of changes in equity for the 52 week period then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Company.

Other than those disclosed in note 1.6 to the financial statements, we have provided no non-audit services to the Group or the Company in the period from 5 February 2018 to 3 February 2019.

Our audit approach

Overview

Materiality

- Overall Group materiality: £20.0m (2018: £18.7m), based on 5% of profit before exceptional items and net pension interest.
- Overall Company materiality: £18.0m (2018: £16.8m), allocated to the Company as part of the Group audit.

Audit scope

- We identified two reporting units, Wm Morrison Supermarkets PLC and Safeway Stores Limited, which in our view, required a full scope audit based on their size and risk.
- The Group engagement team performed the audit procedures for each reporting unit in the scope of our Group audit, which accounted for 99% of total Group revenue and 95% of profit before tax. Our audit scope provided sufficient appropriate audit evidence as a basis for our opinion on the Group financial statements as a whole.

Areas of focus (Group and Company)

- Impairment of property, plant and equipment.
- Onerous lease provisions and onerous property contracts.
- Commercial income and manual promotional funding.
- Impairment of intangible assets.
- Stock existence and valuation.
- Pension accounting.

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to the Listing Rules, Pensions legislation, UK tax legislation and Grocery Supply Code of Conduct, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to forgery or intentional misrepresentations, or through collusion. Our tests included, but were not limited to, review of the financial statement disclosures to underlying supporting documentation, review of correspondence with, and reports to, the regulators, review of correspondence with legal advisers, enquiries of management and review of internal audit reports in so far as they related to the financial statements. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement. We did not identify any key audit matters relating to irregularities, including fraud.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Impairment of property, plant and equipment Refer to page 73 (sources of estimation uncertainty), note 3.1 (accounting policies) and note 3.3 (property, plant and equipment). The Group has a large freehold store estate (£5,741m at 3 February 2019). Given the challenging trading conditions in the UK grocery retail market in recent years and the subsequent adverse impact on the market value of traditional supermarket freehold stores, the possibility of impairment of these assets and the related trading assets is an area of focus for management, as is the possibility that previously charged impairments may need reversing where store trading conditions have improved. We focused on this area because of the judgemental factors involved in testing for impairment and impairment reversals and the significant carrying value of freehold property. Management considers each store to be a cash generating unit (CGU) and has calculated the recoverable amount of each CGU as the higher of value in use and fair value less costs of disposal. **Value in use** Value in use is based on discounted future cash flow forecasts, requiring management to make judgements on certain key inputs including, for example, discount rates and long-term growth rates. **Fair value less costs of disposal** Fair value less costs of disposal is estimated by management based on its market knowledge of individual stores and likely demand from grocers or other retailers in the event those stores were for sale. The key judgements made by the Directors in this fair value calculation relate to the estimated rental values and the yields of the stores. Management has calculated that an impairment charge of £97m is required as at 3 February 2019. A reversal of impairment charged in previous years of £163m has also been calculated following an improvement in the performance of certain stores.	**Value in use** We have obtained the Group's Board approved FY20 budget and medium-term financial plans (upon which the forecasts underpinning the value in use calculations are based). Our audit procedures included an assessment of management's discounted cash flow model. We tested the mathematical accuracy of the calculations included within the forecast model and assessed key inputs in the calculations, such as the discount rate of 9% and expected future EBITDA growth rates, by reference to management's forecasts, industry reports and our valuation experts. We focused on these key assumptions because small changes can have a material impact on the value in use assessment and any resultant impairment charge or reversal. We found, based on our audit work, that the key assumptions used by management were supportable and appropriate in light of the current environment. **Fair value less costs of disposal** Management has determined its own view of estimated rental values and yields for each store used in their calculation of market values. Management derived these assumptions having considered available information such as industry data on market conditions and purchase offers recently received for properties. We evaluated management's supporting information, and assessed this using our own internal experts, with a particular focus on the assumptions and methodology used, obtaining third party evidence and market data to corroborate the assumptions. We determined that the valuations performed by management were reasonable. **Disclosures** In addition, we evaluated the adequacy of the disclosures made in note 3.3 of the financial statements, including those regarding the key assumptions and sensitivities to changes in such assumptions by comparing the disclosures against the requirements of IAS 36 'Impairment of assets' and found them to be consistent.

Independent auditors' report continued

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

Key audit matter	How our audit addressed the key audit matter
Onerous lease provisions and onerous property contracts Refer to page 73 (sources of estimation uncertainty), note 5.1 (accounting policies) and note 5.5 (provisions). The Group has onerous lease provisions and onerous property contracts totalling £331m as at 3 February 2019. **Onerous lease provisions** Accounting standards require management to assess the Group's leasehold properties to identify where the expected future benefits from a property are less than the future lease commitments which would indicate that an onerous lease provision is required. Under IAS 37 'Provisions, contingent liabilities and contingent assets,' such a provision is made for the unavoidable costs of the contract, defined in the standard as the 'least net cost of exit'. We focused on this area because of the judgements required to be made by management in identifying those stores requiring an onerous lease provision and the assumptions used in calculating the required level of provision, such as the discount rate and forecast store performance. **Onerous property contracts** The Group recognises a provision in respect of onerous property contracts, for example, where the Group has a commitment to develop a site but management believes that no economic benefit would result from proceeding with the development. There are judgements involved in determining the expected realisable value of these sites and associated contract exit costs, therefore this has been an area of focus during our audit.	**Onerous lease provisions** Having considered the possibility of impairment in the value of freehold properties (see above), we also tested management's calculations in respect of leasehold stores where the estimated future benefits are not expected to exceed the future lease commitments, resulting in an onerous lease. We obtained management's onerous lease model, which includes all leased stores, and tested the accuracy and completeness of key data by agreeing inputs such as individual store cash flows. We agreed lease expiry dates for a sample of stores to the original signed lease agreements, noting no issues. We obtained the Group's Board approved FY20 budget and medium-term financial plans (upon which the forecasts are based) and assessed the methodology of the discounted cash flow model, noting no exceptions. We tested the mathematical accuracy of the calculations included in the model and assessed key assumptions such as the discount rate and forecast store performance, by reference to management's forecasts, industry reports and our own valuation experts. We performed sensitivities over key assumptions including discount rate, expected cash flows and the potential impact of lease break clauses. We found, based on our audit work, that the key assumptions used by management were supportable and appropriate in light of the current environment. **Onerous property contracts** In respect of onerous property contracts, we obtained original contracts and management's calculations and considered the accuracy of these provisions by reperforming calculations and testing key inputs such as estimates of contract exit costs, contractual payments due and by reviewing evidence of the status of any negotiations with landlords. We considered the completeness of these provisions by reviewing documentation in relation to these contracts. We found no issues in this area. **Disclosures** We read the disclosures within the Annual Report in respect of onerous lease provisions and onerous property contracts, and, based on our work, determined that they are consistent with accounting standards.

Key audit matter	How our audit addressed the key audit matter
Commercial income and manual promotional funding Refer to page 73 (sources of estimation uncertainty), note 1.1 (accounting policies) and note 1.6 (operating profit). **Commercial income** The Group has two categories of commercial income: marketing and advertising funding, and volume-based rebates on purchases. Commercial income is recognised as a deduction from cost of sales and is earned over the period of the contractual agreements with individual suppliers, as disclosed in the Group's accounting policy on page 74. The total income recognised in the income statement in a year is based on the expected entitlement earned up to the balance sheet date under each supplier agreement. It requires management to apply judgement based on the contractual terms in place with each of its suppliers, together with estimates of amounts the Group is entitled to where transactions span the financial period end. The relative level of judgement in each category of commercial income is considered below: **Commercial income – marketing and advertising funding** This income is varied depending on the nature and timing of the activity to which it relates, and is recognised in accordance with written agreements with suppliers. This income is based on specific agreements, and its recognition requires limited judgement or estimation by management in determining the amount that the Group is entitled to. Our focus was on assessing whether a written agreement for the marketing and advertising funding existed, whether the relevant marketing or advertising had taken place and whether the income recognised was recorded in the appropriate period. **Commercial income – volume-based rebates** Volume-based rebates are driven by the Group achieving purchase volume targets set by individual suppliers for specific products over a predetermined period. There is therefore judgement involved in estimating the volume of purchases, particularly where rebate agreements span a financial period end. In order to narrow this judgement, management endeavours to structure agreements to coincide with the Group's financial period end, thereby reducing or eliminating the degree of estimation. In instances where the rebate agreement does not fully coincide with the period end, the key judgement that we focused on was the estimate of commercial income to be accrued at the period end. **Promotional funding** The Group separately recognises promotional funding on promotions that are partially funded by suppliers. The majority of promotional funding is an automated deduction from cost of sales, triggered when a sale is recognised. The funding is recognised when the transaction occurs in accordance with the terms of supplier agreements. The amount receivable is wholly based on sales volumes achieved, multiplied by rates agreed with each supplier in advance. There are some elements of promotional funding which include a manual element to the invoicing. We focused on the manual elements of promotional funding because of the significance of the amounts to the Group's gross profit, the significant number of transactions and agreements in place with suppliers covering a range of periods, the manual nature of the invoicing process and the industry-wide focus on this area of accounting.	Our audit work in respect of commercial income and the manual elements of promotional funding comprised a combination of controls testing, substantive testing of a sample of income and funding recognised during the period, testing of amounts recognised in the balance sheet and an assessment of the Group's disclosures in this area. Each element of our work is considered in more detail below. **Controls testing** Our controls work encompassed understanding, evaluating and testing management's key controls in respect of the recognition of both commercial income and manual promotional funding. These key controls included the monitoring of invoices raised and the accuracy of confirmations from suppliers. We found no significant deficiencies in these key controls, and our testing of management's key controls contributed to our evidence in determining whether commercial income and manual promotional funding had been recorded appropriately and in the correct period. **Income statement testing** We tested a sample of commercial income and the manual elements of promotional funding to supporting documentation including supplier agreements. We requested confirmations directly from suppliers in respect of a sample of transactions for commercial income and the manual elements of promotional funding. The confirmations received, and documentation reviewed, allowed us to evaluate whether commercial income or the manual elements of promotional funding had been appropriately recognised in the period. No exceptions arose from this work. We also analysed commercial income and the manual elements of promotional funding recognised each month and compared it to the previous period to identify whether there were any unusual trends in the amounts or timing of commercial income and the manual elements of promotional funding recognised in each period. We also used a data analytics approach to identify any unusual items in the commercial income and the manual elements of promotional funding populations. Where unusual items were identified these were agreed to supporting documentation without exception. **Balance sheet testing** We wrote to a sample of suppliers, and obtained independent evidence of the value and timing of commercial income and the manual elements of promotional funding to evaluate whether it had been recognised in the correct period. We also agreed a sample of accrued income to evidence of post-year end invoicing. We performed cut-off procedures and credit note testing to provide further evidence to support the timing of the recognition of both commercial income and the manual elements of promotional funding. Cut-off work involved testing a sample of commercial income and the manual elements of promotional funding recognised both pre and post the period end and evaluating by reference to documentation from suppliers that the timing of recognition was appropriate. We found no issues as a result of our audit procedures. Our credit note testing focused on credit notes raised after the period end in order to identify any instances of commercial income or the manual elements of promotional funding being subsequently reversed. We did not identify any exceptions from this work. We tested the recoverability of invoiced commercial income and the manual elements of promotional funding (unsettled balances included within trade debtors in note 5.3 to the financial statements and where the Group does not have the right of offset against trade creditors). This testing was performed by assessing the ageing of both outstanding commercial income and the manual elements of promotional funding debtors together with understanding the details of any disputes, and obtaining explanations from management to assess whether any provisions were appropriate. We also considered management's commercial income and promotional funding Key Performance Indicators in this analysis. No exceptions were noted. **Disclosures** We read the disclosures within the Annual Report in respect of commercial income and manual promotional funding and, based on our work, determined that they are consistent with accounting standards and the guidance on the reporting of complex supplier arrangements issued by the Financial Reporting Council.

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

Key audit matter	How our audit addressed the key audit matter
Impairment of intangible assets Refer to page 73 (sources of estimation uncertainty), note 3.1 (accounting policies) and note 3.2 (goodwill and intangible assets). The Group balance sheet includes intangible assets of £404m, of which the majority relates to software development costs incurred in connection with the Group's technology improvement programme, details of which are shown on pages 84 to 86 of the Annual Report. We focused on this area because judgement is required to assess whether the carrying value of the existing capitalised software or systems is impaired. During the year, an impairment charge of £11m has been recognised in relation to intangible assets.	We obtained management's assessment as to whether the development of new software or systems superseded or impaired any of the existing assets on the balance sheet. We reviewed management's assessment of the future expected benefit from capital projects, with no issues being identified from our work. We also applied our own understanding of both new and existing projects and considered whether, in our view, any existing software was no longer in use or whether its life had been shortened by development activity. We found no such items that were not already considered within management's assessment of the required impairment for the year. No further material impairment of intangible assets were identified from our work. **Disclosures** We read the disclosures within the Annual Report in respect of intangible assets, and, based on our work, determined that they are consistent with accounting standards.
Stock existence and valuation Refer to page 73 (sources of estimation uncertainty), note 5.1 (accounting policies) and note 5.2 (stock). The Group balance sheet includes stock of £713m (2018: £686m). We focused on this due to the nature of judgements made by management in assessing the level of provisions required, in particular in respect of existence and valuation. The stock valuation is reduced by provisions including those relating to estimated losses due to shrinkage (note 5.1). As disclosed in note 1.4, during the period, the Group continued to automate its ordering systems and revised its methodology for calculating shrinkage provisions. The stock valuation is additionally reduced for commercial income and promotional funding (as the stock which this income and/or funding relates to, is yet to be sold). When the stock is sold, the commercial income and/or promotional funding is recognised in the income statement. Also, stock is reduced for provisions related to estimated obsolescence and other known specific risks.	We attended stock counts and performed sample counts at a number of the Group's supermarkets and petrol forecourts throughout the period. In addition to performing sample test counts, we assessed the effectiveness of the count controls in operation, with no material issues being identified. We also evaluated the results of cycle counts performed by management and third parties through re-performance and inspection at a sample of distribution centres throughout the period to assess the level of count variances. We found no material variances or count control deficiencies across these sites. We assessed the assumptions included in the shrinkage provision including testing the key inputs to supporting information. We reviewed recent count results to ensure that the year-end shrinkage provision adequately reflected the levels of stock loss experienced during the year. We determined that based on information available, the provision was materially correct. We tested the unearned commercial income and promotional funding deduction by verifying the inputs of the calculation and methodology of the provision, noting no issues. The obsolescence provision is calculated by applying a judgemental percentage to the period end stock levels, with this judgement being informed by management's view of the current stock profile and expected stock life. We considered this provision by assessing the explanations provided by management on the current profile and expected stock life noting no issues. We have assessed the other specific provisions with reference to the risks identified by management and noted no issues. **Disclosures** We read the disclosures within the Annual Report in respect of stock, and, based on our work, determined that they are consistent with accounting standards.
Pension accounting Refer to page 73 (sources of estimation uncertainty) and note 8 (pensions). We have focused on the valuation of the Group's defined benefit pension schemes because of the level of judgement required in determining the year end valuation. In addition, the size of the gross assets (£4,820 million) and liabilities (£4,132 million) within the schemes are significant and material. The net surplus position of the schemes at 3 February 2019 was £688 million.	We obtained the IAS 19 valuation reports produced by the Group's independent actuaries. We used our own actuarial experts to assess the judgemental assumptions used within the reports to form the valuation of the pension schemes' liabilities, such as discount rate, inflation and mortality rates. We obtained the detailed reports underlying the valuation of the schemes' assets and agreed the valuations to third party confirmations. We assessed the membership data used in valuing the schemes' liabilities and tested any significant changes since the last valuation. We agreed a sample of contributions made by the Group to bank statements. We have no exceptions to report as a result of this testing. We have reviewed management's assessment of the right to recognise the net surplus in two of the three schemes under the requirements of IFRIC 14, including inspecting updated legal advice, and are satisfied that it is appropriate to recognise the net asset on the balance sheet. The third scheme (Retirement Saver Plan (RSP)) is recognised as a net liability and therefore this aspect of IFRIC 14 is not applicable. A curtailment loss of £19m has been recognised relating to the closure to future accrual of the RSP. We used our actuarial experts to test the underlying assumptions and methodology used in calculating the curtailment loss. We have no exceptions to note from this testing. Following a ruling by the High Court on 26th October 2018, pension schemes are required to recalculate their obligations for the impact of guaranteed minimum pensions (GMP) equalisation, for which an amount of £7m has been recognised. Our actuaries have tested the methodology and assumptions used in calculating this liability and we have noted no exceptions. **Disclosures** We read the disclosures within the Annual Report in respect of pensions, and, based on our work, determined that they are consistent with accounting standards.

How we tailored the audit scope

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

The Group's accounting process is structured around a Group finance function at its head office in Bradford which is responsible for the Group's reporting units. For each reporting unit we determined whether we required an audit of its reported financial information ('full scope'), or whether certain account balances of reporting units were required to be in the scope of our Group audit to address specific risk characteristics or to provide sufficient overall Group coverage of particular financial statement line items.

A full scope audit was required for Wm Morrison Supermarkets PLC and Safeway Stores Limited determined as financially significant because they individually contribute more than 15% of the Group's profit before tax. All of the audit procedures have been performed by the Group audit engagement team.

In aggregate, our audit procedures accounted for 99% of Group revenues and 95% of profit before tax. In addition, the Group audit team performed analytical review procedures over a number of smaller reporting units. This included an analysis of year-on-year movements, at a level of disaggregation to enable a focus on higher risk balances and unusual movements. Those not subject to analytical review procedures were individually, and in aggregate, immaterial. This gave us the evidence we needed for our opinion on the financial statements as a whole.

Materiality

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

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

	Group financial statements	Company financial statements
Overall materiality	£20.0m (2018: £18.7m).	£18.0m (2018: £16.8m).
How we determined it	5% of profit before exceptional items and net pension interest.	Allocated to the Company as part of the Group audit.
Rationale for benchmark applied	The Group has revised its adjusted profit performance measure from underlying profit before tax to profit before exceptionals and net pension interest. Consistent with the prior year we have applied the relevant performance measure as our benchmark because, in our view, this is the most relevant metric against which the performance of the Group is most commonly measured. Profit before exceptional items and net pension interest is defined by management as profit before exceptional items, which are significant in size and/or nature and net pension interest, as reconciled in note 1.4 of the Group financial statements.	In our view, users focus on the consolidated results of the Group rather than the individual results of the Company, therefore we determined our materiality in the overall context of the Group.

For the two reporting units in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The materiality allocated to the components was £18m.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £1.0m (Group audit) (2018: £0.9m) and £0.9m (Company audit) (2018: £0.8m) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Directors' identification of any material uncertainties to the Group's and the Company's ability to continue as a going concern over a period of at least 12 months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union, which is currently due to occur on 29 March 2019, are not clear, and it is difficult to evaluate all of the potential implications on the Company's trade, customers, suppliers and the wider economy.
We are required to report if the Directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

Independent auditors' report continued

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

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 3 February 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report. (CA06)

The Directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

We have nothing material to add or draw attention to regarding:

- The Directors' confirmation on page 23 of the Annual Report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The Directors' explanation on page 26 of the Annual Report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report having performed a review of the Directors' statement that they have carried out a robust assessment of the principal risks facing the Group and statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the 'Code'); and considering whether the statements are consistent with the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit. (Listing Rules)

Other Code Provisions

We have nothing to report in respect of our responsibility to report when:

- The statement given by the Directors, on page 57, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and Company obtained in the course of performing our audit.
- The section of the Annual Report on page 35 to 37 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- The Directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

Directors' remuneration

In our opinion, the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006. (CA06)

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities set out on page 57, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- the Company financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the Board of Directors on 5 June 2014 to audit the financial statements for the year ended 1 February 2015 and subsequent financial periods. The period of total uninterrupted engagement is five years, covering the years ended 1 February 2015 to 3 February 2019.

Andrew Paynter (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
12 March 2019

Consolidated income statement

52 weeks ended 3 February 2019

	Note	2019 Before exceptionals £m	2019 Exceptionals (note 1.4) £m	2019 Total £m	2018 Before exceptionals £m	2018 Exceptionals (note 1.4) £m	2018 Total £m
Revenue	1.2	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	1.6	465	(71)	394	445	13	458
Finance costs	6.2	(64)	(33)	(97)	(78)	(16)	(94)
Finance income	6.2	4	18	22	5	9	14
Share of profit of joint venture (net of tax)	4.2	1	–	1	2	–	2
Profit before taxation		406	(86)	320	374	6	380
Taxation	2.2	(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	1.5			10.34			13.30
Diluted	1.5			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	8.2	100	323
Tax on defined benefit pension schemes	2.3	(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	1.4	–	(2)
Tax on items that may be reclassified subsequently to profit or loss	2.3	(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	3.2	404	428
Property, plant and equipment	3.3	7,312	7,243
Investment property	3.5	26	33
Pension asset	8.2	730	612
Investment in joint venture	4.2	47	53
Derivative financial assets	7.3	15	16
		8,534	8,385
Current assets			
Stock	5.2	713	686
Debtors	5.3	347	250
Derivative financial assets	7.3	19	15
Cash and cash equivalents	6.4	264	327
		1,343	1,278
Assets classified as held-for-sale	3.4	39	4
		1,382	1,282
Liabilities			
Current liabilities			
Creditors	5.4	(3,085)	(2,981)
Borrowings	6.3	(178)	(72)
Derivative financial liabilities	7.3	(5)	(13)
Current tax liabilities		(27)	(15)
		(3,295)	(3,081)
Non-current liabilities			
Borrowings	6.3	(1,110)	(1,245)
Derivative financial liabilities	7.3	(2)	(1)
Pension liability	8.2	(42)	(18)
Deferred tax liabilities	2.3	(483)	(478)
Provisions	5.5	(353)	(299)
		(1,990)	(2,041)
Net assets		4,631	4,545
Shareholders' equity			
Share capital	6.5	237	236
Share premium	6.5	178	159
Capital redemption reserve	6.6	39	39
Merger reserve	6.6	2,578	2,578
Retained earnings and other reserves	6.6	1,599	1,533
Total equity attributable to the owners of the Company		4,631	4,545

The notes on pages 74 to 110 form part of these financial statements.

The financial statements on pages 66 to 110 were approved by the Board of Directors on 12 March 2019 and were signed on its behalf by:

Trevor Strain
Chief Finance and Commercial Officer

Consolidated cash flow statement

52 weeks ended 3 February 2019

	Note	2019 £m	2018 £m
Cash flows from operating activities			
Cash generated from operations	5.6	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	10.1	7	8
Proceeds from the 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	6.5	(9)	(4)
Settlement of share awards	6.5	(5)	(7)
Proceeds from exercise of employee share options	6.5	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	1.8	(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	6.4	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	6.4	(997)	(973)

1 Net debt is defined in the Glossary on page 133.

Consolidated statement of changes in equity

52 weeks ended 3 February 2019

	Note	Share capital £m	Share premium £m	Capital redemption reserve £m	Merger reserve £m	Hedging reserve £m	Retained earnings £m	Total equity £m
		Attributable to the owners of the Company						
Current period								
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	8.2	–	–	–	–	–	100	100
Tax in relation to components of other comprehensive income	2.3	–	–	–	–	(1)	(17)	(18)
Total comprehensive income for the period		–	–	–	–	8	327	335
Purchase of trust shares	6.5	–	–	–	–	–	(9)	(9)
Employee share option schemes:								
Share-based payments charge	1.7	–	–	–	–	–	34	34
Settlement of share awards	6.5	–	–	–	–	–	(5)	(5)
Share options exercised	6.5	1	19	–	–	–	–	20
Dividends	1.8	–	–	–	–	–	(289)	(289)
Total transactions with owners		1	19	–	–	–	(269)	(249)
At 3 February 2019		**237**	**178**	**39**	**2,578**	**10**	**1,589**	**4,631**

	Note	Share capital £m	Share premium £m	Capital redemption reserve £m	Merger reserve £m	Hedging reserve £m	Retained earnings £m	Total equity £m
		Attributable to the owners of the Company						
Prior period								
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	1.4	–	–	–	–	(2)	–	(2)
Exchange differences on translation of foreign operations		–	–	–	–	–	(1)	(1)
Remeasurement of defined benefit pension schemes	8.2	–	–	–	–	–	323	323
Tax in relation to components of other comprehensive income	2.3	–	–	–	–	4	(61)	(57)
Total comprehensive (expense)/income for the period		–	–	–	–	(16)	572	556
Purchase of trust shares	6.5	–	–	–	–	–	(4)	(4)
Employee share option schemes:								
Share-based payments charge	1.7	–	–	–	–	–	33	33
Settlement of share awards	6.5	–	–	–	–	–	(7)	(7)
Share options exercised	6.5	2	31	–	–	–	–	33
Dividends	1.8	–	–	–	–	–	(129)	(129)
Total transactions with owners		2	31	–	–	–	(107)	(74)
At 4 February 2018		236	159	39	2,578	2	1,531	4,545

General information

Company information

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

Basis of preparation

The financial statements have been prepared for the 52 weeks ended 3 February 2019 (2018: 53 weeks ended 4 February 2018) in accordance with International Financial Reporting Standards (IFRS) and International Financial Reporting Standards Interpretation Committee (IFRS IC) interpretations as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. IFRS and IFRS IC interpretations are issued by the International Accounting Standards Board (the IASB) and must be adopted into European Union law, referred to as endorsement, before they become mandatory under the IAS Regulation.

The financial statements have been prepared on a going concern basis.

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

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

Accounting reference date

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

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'; and
  - 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 for impairment of financial assets based on expected credit losses; and
- revised hedge accounting treatment 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.

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 (see note 5.1). 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.

New accounting standards, amendments and interpretations adopted by the Group continued

IFRS 15 'Revenue from Contracts with Customers' continued

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.

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 (as disclosed in note 6.8). 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 statement.

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
- an adjustment to opening retained earnings of around £0.4bn.

General information continued

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

IFRS 16 'Leases' continued

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, as disclosed in note 3.6, 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.

Basis of consolidation

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

Foreign currencies

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

Alternative Performance Measures

The Directors measure the performance of the Group based on a range of financial measures, including measures not recognised by EU-adopted IFRS. These Alternative Performance Measures may not be directly comparable with other companies' Alternative Performance Measures and the Directors do not intend these to be a substitute for, or superior to, IFRS measures. For definitions of the Alternative Performance Measures used, see the Glossary on pages 132 and 133.

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'. Here on in 'Profit before exceptional items and net pension interest' will be referred to as 'profit before exceptionals' (for further details on definitions, see the Glossary on page 132). This change has no impact on amounts previously reported under the previous definition. As such, previously reported adjusted profit measures have not been restated.

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.

Critical accounting judgements

The critical judgement made in the process of applying the Group's accounting policies is detailed below:

Profit before exceptionals

Profit before exceptionals is defined as 'Profit before exceptional items and net pension interest'. For further details, see the Glossary on page 132.

The Directors consider that the adjusted profit measure provides useful information for shareholders on ongoing trends and performance. This measure is consistent with how business performance is measured internally by the Board and the Executive Committee.

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 Group's definition of items excluded, together with further details of adjustments made during the period, is provided in note 1.4.

The classification of items excluded from profit before exceptionals 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.

Sources of estimation uncertainty

The areas of estimation uncertainty that have a significant risk of resulting in material adjustment to carrying amounts of assets and liabilities are detailed below. These estimates and assumptions are continually evaluated and are based on historical experience and other factors that the Directors believe to be reasonable.

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

Property, plant and equipment and intangible assets are reviewed annually for impairment or where changes in circumstances indicate impairment (or impairment reversal). The recoverable amount is estimated when the impairment review is conducted. Judgement is required in applying estimates to assess the level of provision needed, specifically in relation to discount rates and future growth rates. Further detail is provided in notes 3.1, 3.2 and 3.3.

Where property contracts exist for which expected future cash flows are less than the future contract commitments, an onerous contract provision is recognised. Judgement is required in applying estimates to assess the level of provision required specifically in relation to discount rates of future cash flows and future growth rates. Further detail is provided in notes 5.1 and 5.5.

Commercial income

Commercial income is accounted for as a deduction from the cost of purchase, and it is recognised in accordance with signed supplier agreements, with most income subject to little or no subjectivity or judgement. However, a certain level of estimation or judgement is required in assessing future sales or purchase volumes and whether performance obligations have been achieved. This is estimated based on historic trends and information on sales or purchase projections. The Group's recognition policy for commercial income along with areas of estimation is included in note 1.1.

Stock

Certain estimates are required to assess the net realisable value of stock, along with provisions for obsolete and slow moving stock and stock loss, where estimation is required. Estimating the level of loss between stock counts is inherently judgemental and is based on past information and other available information. The Group's accounting policy for stock is provided in note 5.1.

Pensions

Accounting for defined benefit pension schemes requires the application of a number of assumptions which have an impact on the valuation of the schemes' assets and liabilities. The significant assumptions include discount rate, inflation, rate of salary increases and longevity. The Group uses an independent actuary to calculate pension liabilities. Details of these assumptions are provided in note 8.

Notes to the Group financial statements

52 weeks ended 3 February 2019

1 Performance in the period

1.1 Accounting policies

Revenue recognition

Revenue is recognised when the Group has a contract with a customer and a performance obligation has been satisfied, at the transaction price allocated to that performance obligation.

The Group does not adjust any of the transaction prices for the time value of money due to the nature of the Group's transactions being completed shortly after the transaction is entered into with the customer.

Sale of goods in-store and online, and sale of fuel

For revenue from the sale of goods in-store, fuel and online, the transaction price is the value of the goods net of returns, colleague discounts, coupons, vouchers and 'More' points earned in-store, and the free element of multi-save transactions. It comprises cash from customers and excludes VAT. Sale of fuel is recognised net of VAT and 'More' points earned on fuel. Revenue is recognised when the customer obtains control of the goods, which is when the transaction is completed in-store or at the filling station, or in the case of online, when goods are accepted by the customer on delivery.

Other sales

Other sales include wholesale sales made direct to third party customers, and income from concessions and commissions, and is net of returns and net of promotional funding to customers. Wholesale revenue is recognised when the goods are delivered to the customer. Revenue collected on behalf of others is not recognised as revenue, other than the related commission which is based on the terms of the contract. Sales are recorded net of VAT and intra-group transactions.

'More' points

For 'More' points, the fair value of the points is the value to the customer of the points issued, adjusted for factors such as the expected redemption rate. The Group continues to assess the appropriateness of the expected redemption rates against actual redemptions.

The fair value of 'More' points is recognised once the performance obligation has been satisfied. The fair value is treated as a deferral from revenue, and is deferred until the rewards are redeemed by the customer in a future sale, as at the point of issue, the customer has a material right to acquire additional goods and services (but at a future date).

Cost of sales

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

Promotional funding

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

Commercial income

Commercial income is recognised as a deduction from cost of sales, based on the expected entitlement that has been earned up to the balance sheet date for each relevant supplier contract. The Group only recognises commercial income where there is documented evidence of an agreement with an individual supplier and when associated performance conditions are met. The types of commercial income recognised by the Group, and the recognition policies are:

Type of commercial income	Description	Recognition
Marketing and advertising funding	Examples include income in respect of in-store 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.

1 Performance in the period continued

1.1 Accounting policies continued

Commercial income continued

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

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

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

Other operating income

Other operating income primarily consists of income not directly related to in-store and online grocery retailing and wholesale supply. It mainly comprises rental income from investment properties, income generated from the recycling of packaging and certain commissions.

Profit/loss on disposal and exit of properties

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

1.2 Revenue

	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.

1.3 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.

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

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

Notes to the Group financial statements continued

52 weeks ended 3 February 2019

1 Performance in the period continued

1.4 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 on pages 132 and 133.

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 exceptionals 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 £m	2018 £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
Pensions exceptional items (notes 8.6, 8.7 and 8.8)[1]	26	(13)
Other exceptional items[1]	42	25
Net pension income (note 8.2)[1]	(18)	(9)
Profit before tax and exceptionals	406	374
Normalised tax charge at 23.5% (2018: 23.8%)[1,2]	(95)	(89)
Profit before exceptionals after tax	311	285
Earnings per share before exceptionals (pence):		
Basic (note 1.5.2)	13.17	12.19
Diluted (note 1.5.2)	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 1.5.2.
2 Normalised tax is defined in the Glossary, see page 133 for details.

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 3.3 and 3.2). The £163m impairment reversal relates entirely to property, plant and equipment (see note 3.3). A net £74m charge has been recognised in relation to provisions for onerous contracts (see note 5.5). This has been partially offset by amounts released from accruals for amounts provided for onerous commitments of £21m. In addition, other property provisions increased by £7m mainly relating to provisions for dilapidations (see note 5.5).

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 accruals for onerous commitments of 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).

1 Performance in the period continued

1.4 Profit before exceptionals continued

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 £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 8.6).
- 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 8.7.

In the 53 weeks ended 4 February 2018, the pensions 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 8.8.

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.

1.5 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).

1.5.1 Basic and diluted EPS (unadjusted)

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

			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

Notes to the Group financial statements continued

52 weeks ended 3 February 2019

1 Performance in the period continued

1.5 Earnings per share (EPS) continued

1.5.2 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 1.4)	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

1.6 Operating profit

	2019 £m	2018 £m
The following items have been included in arriving at operating profit:		
Employee costs (note 1.7)	1,900	1,938
Depreciation and impairment:		
Property, plant and equipment (note 3.3)	350	333
Investment property (note 3.5)	–	1
Net impairment reversal (notes 1.4 and 3.3)	(66)	(8)
Amortisation and impairment:		
Intangible assets (note 3.2)	93	84
Net impairment charge (notes 1.4 and 3.2)	11	1
Operating lease rentals:		
Land and buildings	92	93
Other	22	17
Sublease receipts	(3)	(3)
Value of stock expensed	13,772	13,365

Commercial income

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

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

1 Performance in the period continued

1.6 Operating profit continued

Auditor remuneration

During the period, PricewaterhouseCoopers LLP, the Group's auditor, provided the following services:

	2019 £m	2018 £m
Audit services		
Fees payable to the Group's auditor for the audit of the Group and the Company financial statements	0.6	0.5
Other services		
Fees payable to the Group's auditor and its associates for other services:		
The audit of the Group's subsidiaries pursuant to legislation	0.2	0.2
Other services	0.1	0.2
	0.9	0.9

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

1.7 Employees and Directors

	2019 £m	2018 £m
Employee benefit expense for the Group during the period		
Wages and salaries	1,643	1,682
Social security costs	129	131
Share-based payments	34	33
Other pension costs	94	92
	1,900	1,938

	2019 No.	2018 No.
Average monthly number of people, including Directors		
Stores	86,552	89,558
Manufacturing	8,799	8,212
Distribution	6,004	5,565
Centre	2,275	2,152
	103,630	105,487

Directors' remuneration

A detailed analysis of Directors' remuneration, including salaries, bonuses and long-term incentives, and the highest paid Director, is provided in the Single total figure of remuneration table in the audited section of the Directors' remuneration report, which forms part of these financial statements (page 47). There are no Executive Directors (2018: none) who have retirement benefits accruing under any of the Group's defined benefit pension schemes.

Senior management remuneration

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

	2019 £m	2018 £m
Senior managers		
Wages and salaries	17	20
Social security costs	4	4
Share-based payments	12	11
Other pension costs	1	1
	34	36

Notes to the Group financial statements continued

52 weeks ended 3 February 2019

1 Performance in the period continued

1.8 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 (2017: 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.

2 Taxation

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

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

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

- The Netherlands: The Group has operations in the Netherlands as part of its produce supply chain. Local corporation taxes of £2m were paid during 2019 (2018: £2m);
- Hong Kong: Offices in Hong Kong were established in 2011 and source many of the Group's non-food products. Local corporation taxes of £0.4m were paid during 2019 (2018: £0.4m); and
- Isle of Man, Jersey and Guernsey: The Group's insurance company is based in the Isle of Man for regulatory reasons. Companies based in Jersey and Guernsey hold UK property assets as a result of historic acquisitions. All profits arising in these companies are subject to UK tax.

2.1 Accounting policies

Current tax

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

Deferred tax

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

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

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

Uncertain tax positions

The Group uses in-house tax specialists, professional advisers and relevant previous experience to assess tax risks, and considers IFRIC guidance on the determination of taxable profit and tax bases, when making its assessment.

The Group recognises a tax provision when it is considered probable that there will be a future outflow of funds to a tax authority. Provisions are measured based on the single most likely outcome for each item unless there is a range of possible outcomes for a particular item, where a weighted average measurement is more appropriate. Provisions are included in current liabilities.

Notes to the Group financial statements continued

52 weeks ended 3 February 2019

2 Taxation continued

2.2 Taxation

2.2.1 Analysis of charge in the period

	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

2.2.2 Tax on items charged in other comprehensive income and equity

	2019 £m	2018 £m
Remeasurements of defined benefit pension schemes	17	55
Cash flow hedges	1	(4)
Share-based payments	–	6
Total tax on items included in other comprehensive income and equity (note 2.3)	18	57

2.2.3 Tax reconciliation

The reconciliation below shows how the tax charge of £76m (2018: £69m) has arisen on profit before taxation of £320m (2018: £380m).

The tax for the period is higher (2018: lower) than the standard rate of corporation tax in the UK of 19% (2018: 19.16%). The differences are explained below:

	2019 £m	2018 £m
Profit before taxation	320	380
Profit before taxation at 19% (2018: 19.16%)	61	73
Effects of:		
Recurring items:		
Expenses not deductible for tax purposes	(1)	(6)
Disallowed depreciation on UK properties	21	20
Deferred tax on Safeway acquisition assets	(2)	(4)
Adjustments in respect of prior periods	12	(2)
Non-recurring items:		
Profit on property transactions	(1)	(8)
Tax impact of impairment and related items	(14)	(4)
Tax charge for the period	76	69

2 Taxation continued

2.2 Taxation continued

2.2.3 Tax reconciliation continued

Factors affecting current and future tax charges

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.

2.3 Deferred tax liabilities

	2019 £m	2018 £m
Deferred tax liability	483	478

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

The movements in deferred tax liabilities during the period are shown below:

	Property, plant and equipment £m	Pensions £m	Other short-term temporary differences £m	Total £m
Current period				
At 5 February 2018	364	101	13	478
Credited to profit for the period	(5)	(1)	(7)	(13)
Charged to other comprehensive income and equity	–	17	1	18
At 3 February 2019	359	117	7	483
Prior period				
At 30 January 2017	361	46	10	417
Charged to profit for the period	3	–	1	4
Charged to other comprehensive income and equity	–	55	2	57
At 4 February 2018	364	101	13	478

The analysis of deferred tax liabilities are as follows:

	2019 £m	2018 £m
Deferred tax liabilities to be settled after more than 12 months	487	480
Deferred tax assets to be settled within 12 months	(4)	(2)
	483	478

Notes to the Group financial statements continued

52 weeks ended 3 February 2019

3 Operating assets

3.1 Accounting policies

Intangible assets

Goodwill

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

Other intangible assets (software development costs and licences)

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

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

Separately acquired pharmaceutical licences and software licences are recognised at historic cost less accumulated amortisation and impairment. Those acquired in a business combination are recognised at fair value at the acquisition date. Pharmaceutical licences and software licences are amortised over their useful lives (three to ten years) on a straight-line basis or over the life of the licence if different. Amortisation is charged in cost of sales.

Property, plant and equipment

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

Depreciation rates

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

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

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

Investment property

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

Non-current assets classified as held-for-sale

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

Lessor accounting – operating leases

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

Finance leases

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

3 Operating assets continued

3.1 Accounting policies continued

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

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

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

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

3.2 Goodwill and intangible assets

Current period	Goodwill £m	Other intangibles £m	Total £m
Cost			
At 5 February 2018	10	714	724
Additions	–	79	79
Interest capitalised	–	1	1
Disposals	–	(18)	(18)
Fully written down assets	–	(35)	(35)
At 3 February 2019	10	741	751
Accumulated amortisation and impairment			
At 5 February 2018	–	296	296
Amortisation charge for the period	–	93	93
Impairment	–	11	11
Disposals	–	(18)	(18)
Fully written down assets	–	(35)	(35)
At 3 February 2019	–	347	347
Net book amount at 3 February 2019	10	394	404

Other intangibles include software development costs and licences. Within this asset class, there are assets under construction of £30m (2018: £20m). The net book amount of licences at 3 February 2019 was £16m (2018: £14m).

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 1.4).

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

Impairment testing of goodwill
Goodwill of £10m is allocated to the grocery group of CGUs. This group of CGUs has been tested for impairment via the value in use calculation described in note 3.3. The pre-tax discount rate used is 9.0% (2018: 9.0%) and the growth rate applied to the period after three years is 2.0% (2018: 2.0%).

Notes to the Group financial statements continued

52 weeks ended 3 February 2019

3 Operating assets continued

3.2 Goodwill and intangible assets continued

Software development costs

The cumulative interest capitalised in respect of software development costs included within other intangibles is £42m (2018: £41m). The cost of internal labour capitalised during the year is not material for separate disclosure.

Prior period	Goodwill £m	Other intangibles £m	Total £m
Cost			
At 30 January 2017	10	678	688
Additions	–	68	68
Disposals	–	(3)	(3)
Fully written down assets	–	(29)	(29)
At 4 February 2018	10	714	724
Accumulated amortisation and impairment			
At 30 January 2017	–	243	243
Amortisation charge for the period	–	84	84
Impairment	–	1	1
Disposals	–	(3)	(3)
Fully written down assets	–	(29)	(29)
At 4 February 2017	–	296	296
Net book amount at 4 February 2018	10	418	428

3.3 Property, plant and equipment

Current period	Freehold land £m	Freehold buildings £m	Leasehold land and buildings £m	Plant, equipment, fixtures and vehicles £m	Total £m
Cost					
At 5 February 2018	3,898	4,189	932	1,736	**10,755**
Additions	3	7	13	375	**398**
Acquisition of business	–	4	–	1	**5**
Reclassifications	(15)	–	20	(5)	**–**
Transfers from investment property	6	–	–	–	**6**
Transfers to assets classified as held-for-sale	(28)	(26)	–	–	**(54)**
Disposals	(18)	(13)	(5)	(44)	**(80)**
Fully written down assets	–	(8)	(12)	(116)	**(136)**
At 3 February 2019	3,846	4,153	948	1,947	**10,894**
Accumulated depreciation and impairment					
At 5 February 2018	576	1,741	479	716	**3,512**
Depreciation charge for the period	–	102	17	231	**350**
Impairment	15	13	10	59	**97**
Impairment reversal	(85)	(54)	(20)	(4)	**(163)**
Reclassifications	(12)	–	13	(1)	**–**
Transfers to assets classified as held-for-sale	(2)	(11)	–	–	**(13)**
Disposals	(8)	(9)	(5)	(43)	**(65)**
Fully written down assets	–	(8)	(12)	(116)	**(136)**
At 3 February 2019	484	1,774	482	842	**3,582**
Net book amount at 3 February 2019	3,362	2,379	466	1,105	**7,312**
Assets under construction included above	2	1	2	4	**9**

3 Operating assets continued

3.3 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 the table on page 86 are leasehold land and buildings 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.

Notes to the Group financial statements continued

52 weeks ended 3 February 2019

3 Operating assets continued

3.3 Property, plant and equipment continued

Prior period	Freehold land £m	Freehold buildings £m	Leasehold land and buildings £m	Plant, equipment, fixtures and vehicles £m	Total £m
Cost					
At 30 January 2017	3,948	4,251	944	1,409	10,552
Additions	–	23	1	403	427
Interest capitalised	–	1	–	–	1
Reclassifications	2	5	(7)	–	–
Disposals	(52)	(67)	(2)	(8)	(129)
Fully written down assets	–	(24)	(4)	(68)	(96)
At 4 February 2018	3,898	4,189	932	1,736	10,755
Accumulated depreciation and impairment					
At 30 January 2017	601	1,690	469	565	3,325
Depreciation charge for the period	–	100	17	216	333
Impairment	49	25	24	20	118
Impairment reversal	(51)	(44)	(21)	(10)	(126)
Reclassifications	–	4	(4)	–	–
Disposals	(23)	(10)	(2)	(7)	(42)
Fully written down assets	–	(24)	(4)	(68)	(96)
At 4 February 2018	576	1,741	479	716	3,512
Net book amount at 4 February 2018	3,322	2,448	453	1,020	7,243
Assets under construction included above	5	16	–	3	24

3.4 Assets classified as held-for-sale

	2019 £m	2018 £m
At start of period	4	–
Transfers from property, plant and equipment at net book value	41	–
Transfers from investment property at net book value	–	4
Disposals	(6)	–
At end of period	39	4

Assets with a cost of £54m and accumulated depreciation of £13m were transferred from property, plant and equipment to assets classified as held-for-sale in the 52 weeks ended 3 February 2019 (2018: £nil).

No assets were transferred from investment property in the 52 weeks ended 3 February 2019 (2018: £4m net book value, cost of £5m and accumulated depreciation of £1m).

3 Operating assets continued

3.5 Investment property

	2019 £m	2018 £m
Cost		
At start of period	53	53
Additions	–	5
Transfers to property, plant and equipment	(6)	–
Transfers to assets classified as held-for-sale	–	(5)
Disposals	(1)	–
At end of period	46	53
Accumulated depreciation and impairment		
At start of period	20	20
Charge for the period	–	1
Transfers to assets classified as held-for-sale	–	(1)
At end of period	20	20
Net book amount at end of period	26	33

Included in other operating income is £8m (2018: £8m) of rental income generated from investment properties. At the end of the period the fair value of investment properties was £44m (2018: £52m). Investment properties are valued by independent surveyors on a vacant possession basis using observable inputs (fair value hierarchy level 2).

3.6 Operating leases – lessor

The Group has non-cancellable agreements with tenants with varying terms, escalation clauses and renewal rights. The future minimum lease income is as follows:

	2019 £m	2018 £m
Within one year	12	11
More than one year and less than five years	32	29
After five years	30	20
	74	60

3.7 Capital commitments

	2019 £m	2018 £m
Contracts placed for future capital expenditure not provided in the financial statements (property, plant and equipment and intangible assets)	36	38

Notes to the Group financial statements continued

52 weeks ended 3 February 2019

4 Interests in other entities

4.1 Accounting policies

Joint ventures

The Group applies IFRS 11 'Joint Arrangements' to all joint arrangements. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for under the equity method and are initially recognised at cost.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of the equity accounted investees, from the date that joint control commences until the date that joint control ceases.

Business combinations

The acquisition method is used to account for business combinations. Consideration is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group, including the fair value of any contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired, and liabilities and contingent liabilities assumed, are measured initially at their fair values at the acquisition date. On an acquisition by acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Goodwill is the excess of consideration transferred, plus any non-controlling interest and the fair value of any previous equity interest in the acquiree, over the fair value of the identifiable net assets acquired. In the event that this excess is negative the difference is recognised directly in profit for the period.

Disposal of subsidiaries

When the Group ceases to have control over a subsidiary, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

4.2 Investment in joint venture

The Group and Ocado Group plc are sole investors in a company (MHE JVCo Limited), which owns the plant and equipment at the Dordon customer fulfilment centre. The Group has a 51.1% interest in MHE JVCo Limited (2018: 51.5%). Decisions regarding MHE JVCo Limited require the unanimous consent of both parties. The Directors have considered the impact of IFRS 11 and determined that the Group continues to jointly control MHE JVCo Limited.

MHE JVCo Limited	2019 £m	2018 £m
Non-current assets	71	86
Current assets	22	20
Current liabilities	(1)	(3)
Net assets	92	103
Group's share of net assets	47	53
Profit	2	4
Group's share of profit	1	2

4.3 Business combinations

On 19 February 2018, the Group acquired 100% of the ordinary share capital of Chippindale Foods Limited, a leading supplier of free range eggs. Total consideration was £5m net of amounts due from the Group. The fair value of net assets acquired was £5m, including property, plant and equipment and net current assets. Goodwill recognised in the transaction was negligible.

In the 53 weeks ended 4 February 2018, there were no business combinations.

5 Working capital and provisions

5.1 Accounting policies

Stock

Stock represents goods for resale and is measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale. Cost is calculated on a weighted average basis and comprises purchase price, and other directly attributable costs, including import duties and other non-recoverable taxes, reduced by promotional funding and commercial income and a provision for estimated losses relating to shrinkage and obsolescence. Losses relating to shrinkage in stores are based on historical losses, verified by physical stock counts conducted by an independent third party. Provision is made for obsolete and slow moving items.

Trade and other debtors

Trade and other debtors are initially recognised at fair value, which is generally equal to face value, and subsequently held at amortised cost. Provision for impairment of trade debtors is recognised based on lifetime expected credit losses, with the charge being included in administrative expenses.

Cash and cash equivalents

Cash and cash equivalents for cash flow purposes includes cash-in-hand, cash-at-bank and bank overdrafts. In the balance sheet, bank overdrafts that do not have right of offset are presented within current liabilities.

Cash and cash equivalents includes debit and credit card payments made by customers which clear the bank shortly after the sale takes place.

Cash held by the Group's captive insurer, Farock Insurance Company Limited, is not available for use by the rest of the Group as it is restricted for use against the specific liability of the captive. As the funds are available on demand, they meet the definition of cash in IAS 7 'Cash flow statements'.

Trade and other creditors

Trade and other creditors are initially recognised at fair value, which is generally equal to face value of the invoices received, and subsequently held at amortised cost. Trade creditors are presented net of commercial income due when the Group's trading terms state that income from suppliers will be netted against amounts owing to that supplier.

Provisions

Provisions are created where the Group has a present obligation as a result of a past event, where it is probable that it will result in an outflow of economic benefits to settle the obligation, and where it can be reliably measured. For petrol filling station decommissioning costs this is when the filling station is first constructed and for dilapidations on leased buildings, when the lease is entered into or where circumstances change. Provisions for onerous leases and other onerous contracts are recognised when the Group believes that the unavoidable costs of meeting the obligations exceed the economic benefits expected to be received under the contract. The Group assesses the appropriateness of each of these provisions each year. The amounts provided are based on the Group's best estimate of the least net cost of exit. Where material, these estimated outflows are discounted to net present value using a pre-tax rate that reflects current market assumptions. The unwinding of this discount is recognised as a financing cost in the income statement.

Contingent liabilities

Contingent liabilities are possible obligations whose existence will be confirmed only on the occurrence or non-occurrence of uncertain future events outside the Group's control, or present obligations that are not recognised because it is not probable that an outflow of economic benefits will be required to settle the obligation or the amount cannot be measured reliably. The Group does not recognise contingent liabilities but does disclose any such balances (see note 10.2). The disclosure includes an estimate of their potential financial effect and any uncertainties relating to the amount or timing of any outflow, unless the possibility of settlement is remote or the Group cannot measure reliably.

5.2 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.

Notes to the Group financial statements continued

52 weeks ended 3 February 2019

5 Working capital and provisions continued

5.3 Debtors

	2019 £m	2018 £m
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)
Trade debtors	195	149
Prepayments and accrued income	136	91
Other debtors	16	10
	347	250

The ageing analysis of trade debtors and the provision for impairment of trade debtors is as follows:

Current period	Current %/£m	31 to 60 days past due %/£m	61 to 90 days past due %/£m	91 days plus past due %/£m	Total £m
Expected credit loss rate	0%	25%	41%	100%	
Gross carrying amount – trade debtors	194	1	1	3	199
Provision for impairment of trade debtors	–	–	(1)	(3)	(4)

Prior period	Current %/£m	31 to 60 days past due %/£m	61 to 90 days past due %/£m	91 days plus past due %/£m	Total £m
Expected credit loss rate	0%	28%	81%	100%	
Gross carrying amount – trade debtors	147	3	1	4	155
Provision for impairment of trade debtors	–	(1)	(1)	(4)	(6)

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.

5.4 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.

5 Working capital and provisions continued

5.5 Provisions

	Onerous leases and onerous contracts £m	Other property provisions £m	Total £m
At 5 February 2018	279	20	299
Charged to profit for the period	74	7	81
Utilised/released during the period	(35)	(5)	(40)
Unwinding of discount	13	–	13
At 3 February 2019	331	22	353

Part of the onerous leases relate to sublet and vacant properties, with commitments ranging from one to 55 years. Included with the above balance at 3 February 2019 is £18m (2018: £nil) relating to a balance due within one year. The provision is revised regularly in response to market conditions. During the period, £74m has been charged to onerous lease and onerous contracts provisions due to changes in circumstances or performance relating to certain contracts, as detailed in note 1.4. The utilisation of provisions relates to the ongoing utilisation of onerous contracts and the assignment of onerous leases.

Other property provisions include a petrol filling station decommissioning reserve for the cost of decommissioning petrol tanks, and provisions for dilapidations on leased buildings, for the cost of restoring assets to their original condition.

5.6 Cash generated from operations

	2019 £m	2018 £m
Profit for the period	244	311
Net finance costs	75	80
Taxation charge	76	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).

Notes to the Group financial statements continued

52 weeks ended 3 February 2019

6 Capital and borrowings

6.1 Accounting policies

Borrowings
Interest-bearing loans and overdrafts are initially recorded at fair value, net of attributable transaction costs. Subsequent to initial recognition, any difference between the redemption value and the initial carrying amount is recognised in profit for the period over the period of the borrowings on an effective interest rate basis.

Borrowing costs
All borrowing costs are recognised in the Group's profit for the period on an effective interest rate basis except for interest costs that are directly attributable to the construction of buildings and other qualifying assets, which are capitalised and included within the initial cost of the asset. Capitalisation commences when both expenditure on the asset and borrowing costs are being incurred, and necessary activities to prepare the asset for use are in progress. In the case of new stores, this is generally once planning permission has been obtained. Capitalisation ceases when the asset is ready for use. Interest is capitalised at the effective rate incurred on borrowings before taxation of 5% (2018: 5%). Capitalised interest is included within interest paid in cash flow from operating activities.

Leases
Leases in which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases; all other leases are classified as finance leases. Property leases are analysed into separate components for land and buildings and tested to establish whether the components are operating leases or finance leases. Rental payments on operating leases in which the Group is lessee are taken to profit for the period on a straight-line basis over the life of the lease.

Sale and leaseback of properties
The accounting treatment of the sale and leaseback depends upon the substance of the transaction (by applying the lease classification principles described above). For sale and operating leasebacks, the assets are sold at fair value, and accordingly the profit or loss from the sale is recognised immediately in the consolidated income statement. When forming the conclusion of operating lease classification, consideration is given to the key lease classification indicators of IAS 17. On making an assessment, the Directors review the remaining useful lives for these particular properties and compare that to the period of the lease. Other key indicators considered in reaching the classification of a lease as an operating or finance lease are the present value of the minimum lease payments and the ownership clauses in the contracts upon expiry of the lease.

Share capital
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Where any Group company purchases the Company's equity share capital, the consideration paid, including directly attributable incremental costs, is deducted from retained earnings until the shares are cancelled. On cancellation, the nominal value of the shares is deducted from share capital and the amount is transferred to the capital redemption reserve.

Own shares held
The Group has employee trusts for the granting of Group shares to executives and members of the employee share plans. Shares in the Group held by the employee share trusts are presented in the balance sheet as a deduction from retained earnings. The shares are deducted for the purpose of calculating the Group's earnings per share.

Net debt
Net debt is cash and cash equivalents, long-term cash on deposit, bank and other current loans, bonds and derivative financial instruments (stated at current fair value).

6 Capital and borrowings continued

6.2 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 (note 5.5)	(13)	(13)
Other finance costs	(1)	(1)
Finance costs before exceptionals[1]	(64)	(78)
Costs associated with the repayment of borrowings (note 1.4)	(33)	(16)
Finance costs	(97)	(94)
Bank interest received	4	5
Finance income before exceptionals[1]	4	5
Net pension income (notes 1.4 and 8.2)	18	9
Finance income	22	14
Net finance costs	(75)	(80)

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

6.3 Borrowings

The Group had the following current borrowings and other financial liabilities:

	2019 £m	2018 £m
Current		
£nil sterling bonds 6.12% December 2018 (2018: £71m)	–	72
Other short-term borrowings	178	–
	178	72

The Group had the following non-current borrowings and other financial liabilities:

	2019 £m	2018 £m
Non-current		
€280m euro bond 2.25% June 2020 (2018: €280m)	247	247
£250m sterling bonds 4.625% December 2023 (2018: £365m)	249	363
£250m sterling bonds 3.50% July 2026 (2018: £318m)	272	342
£250m sterling bonds 4.75% July 2029 (2018: £300m)	245	293
Revolving credit facility	97	–
	1,110	1,245

The movements in the nominal value of the non-current bonds was due to partial early repayment during the 52 weeks ended 3 February 2019. During the year, the Group partially repaid some of the outstanding 2023, 2026 and 2029 sterling bonds. In addition, the remaining balance on the 2018 sterling bond was repaid on maturity in December 2018.

Borrowing facilities

The Group has a syndicated committed revolving credit facility of £1.35bn with a maturity date of June 2023. The revolving credit facility incurs commitment fees and interest charges at a spread above LIBOR. The Group had £1.25bn of undrawn committed headroom available on this facility as at 3 February 2019.

On 29 January 2019, the Group entered into a new £250m revolving credit facility to provide flexibility on refinancing the €280m euro bond when it matures in June 2020. The Group can borrow under the facility from 19 May 2020. The facility has an initial maturity date of July 2020 and includes options to extend for up to 24 months.

In the event of default of covenants, the principal amounts of borrowings and any interest accrued become repayable on demand.

The Group has a number of uncommitted facilities which are available to meet short-term borrowing requirements, and incur interest charges according to usage.

Notes to the Group financial statements continued

52 weeks ended 3 February 2019

6 Capital and borrowings continued

6.3 Borrowings continued

Maturity of borrowings

The table below summarises the maturity profile of the Group's borrowings based on contractual, undiscounted payments, which include interest payments. As a result, amounts shown below do not agree to the amounts disclosed on the balance sheet for borrowings. Creditors (note 5.4) are excluded from this analysis.

	2019 £m	2018 £m
Less than one year	216	123
One to two years	282	48
Two to three years	32	293
Three to four years	32	42
Four to five years	381	42
More than five years	587	1,130

Fair values

The fair value of the sterling and euro denominated bonds is measured using closing market prices (level 1). The fair values of borrowings included in level 2 are based on the net present value of the anticipated future cash flows associated with these instruments using rates currently available for debts on similar terms, credit risk and equivalent maturity dates.

These compare to carrying values as follows:

	2019		2018	
	Amortised cost £m	Fair value £m	Amortised cost £m	Fair value £m
Total borrowings: non-current and current	1,288	1,360	1,317	1,429

The fair value of other items within current and non-current borrowing equals their carrying amount, as the impact of discounting is not material.

6.4 Analysis of net debt[1]

	Note	2019 £m	2018 £m
Cross-currency interest rate swaps[2]		9	12
Fuel and energy price contracts		6	4
Non-current financial assets	7.3	15	16
Foreign exchange forward contracts		3	1
Fuel and energy price contracts		16	14
Current financial assets	7.3	19	15
Bonds[2]	6.3	–	(72)
Other short-term borrowings[2]	6.3	(178)	–
Foreign exchange forward contracts	7.3	(4)	(13)
Fuel and energy price contracts	7.3	(1)	–
Current financial liabilities		(183)	(85)
Bonds[2]	6.3	(1,013)	(1,245)
Revolving credit facility[2]	6.3	(97)	–
Fuel and energy price contracts	7.3	(2)	(1)
Non-current financial liabilities		(1,112)	(1,246)
Cash and cash equivalents		264	327
Net debt[1]		(997)	(973)

1 Net debt is defined in the Glossary on page 133.

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.

6 Capital and borrowings continued

6.5 Called-up share capital

	Number of shares millions	Share capital £m	Share premium £m	Total £m
At 5 February 2018	2,355.9	236	159	395
Share options exercised	12.4	1	19	20
At 3 February 2019	2,368.3	237	178	415

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 share awards
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 Group's 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 employee's tax liability on vesting of share options.

6.6 Reserves

	2019 £m	2018 £m
Capital redemption reserve	39	39
Merger reserve	2,578	2,578
Hedging reserve	10	2
Retained earnings	1,589	1,531
Total	4,216	4,150

Capital redemption reserve
The capital redemption reserve relates to 389,631,561 of the Company's own shares which it purchased on the open market for cancellation between 31 March 2008 and 8 March 2013 at a total cost of £1,081m.

Merger reserve
The merger reserve represents the reserve arising on the acquisition in 2004 of Safeway Limited.

Hedging reserve
This represents the gains and losses arising on derivatives used for cash flow hedging.

Notes to the Group financial statements continued

52 weeks ended 3 February 2019

6 Capital and borrowings continued

6.7 Capital management

The Group defines the capital that it manages as the Group's total equity and net debt balances, as well as its lease commitments.

The Group's capital management objectives are to safeguard its viability taking into consideration the risks that it faces whilst maintaining an investment grade credit rating and having adequate liquidity headroom. The Group manages its capital structure by managing the balance of debt and shares outstanding. It does this by seeking an effective balance between debt and equity. During the 52 weeks ended 3 February 2019, net debt has increased by £24m. Throughout the period, the Group has comfortably complied with the gearing and fixed charge cover covenants attaching to its revolving credit facility.

6.8 Operating leases – lessee

The Group has outstanding commitments for future minimum lease payments under non-cancellable operating leases. The leases have varying terms, escalation clauses and renewal rights, and fall due as follows:

	2019		2018	
	Property £m	Vehicles, plant and equipment £m	Property £m	Vehicles, plant and equipment £m
Within one year	114	17	114	13
More than one year and less than five years	436	33	435	22
After five years	1,731	–	1,666	–
	2,281	50	2,215	35

The movement in the property lease commitments within one year is summarised below:

	£m
At 5 February 2018	114
Net impact of disposal programme	(2)
New lease commitments	4
Other	(2)
At 3 February 2019	114

7 Financial risk and hedging

7.1 Accounting policies

Derivative financial instruments and hedge accounting

Derivatives are transacted to mitigate financial risks that arise as a result of the Group's operating activities and funding arrangements. At the inception of a hedge, the Group documents the economic relationship between the hedging instrument and the hedged item, the risk management objective and strategy for undertaking the hedge. This includes an assessment of whether changes in fair values or the cash flows of the hedging instruments are expected to offset changes in the fair values or cash flows of hedged items.

All derivatives are initially recognised at fair value and are also measured at fair value at each reporting date. Derivatives with positive fair values are recognised as assets and those with negative fair values as liabilities. They are also categorised as current or non-current according to the maturity of each derivative. All gains or losses arising due to changes in the fair value of derivatives are recognised in profit or loss except when the derivative qualifies for cash flow hedge accounting.

Cash flow hedges

The Group designates derivatives into a cash flow hedge where they have been transacted to hedge a highly probable forecast transaction or a particular risk associated with an asset or liability. The effective portion of the change in the fair value of the derivatives, that are designated into cash flow hedge relationships, are recognised in other comprehensive income. Cumulative gains or losses on derivatives are reclassified from other comprehensive income into profit or loss in the period when the transaction occurs. Any ineffective portion of the gain or loss on the derivative is immediately recognised in profit or loss.

When option contracts are used to hedge forecast transactions, both the intrinsic and time value of the options are designated as hedging instruments. Gains or losses relating to the effective portion of the change in fair value of the options are recognised in the cash flow hedge reserve within equity. Any changes in the fair value of the option premium is recognised in other comprehensive income.

When forward contracts are used to hedge forecast transactions, the Group designates the change in fair value of the forward contract as the hedging instrument. Gains or losses relating to the effective portion of the change in fair value of the entire forward contract are recognised in the cash flow hedge reserve within equity.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs, at which point the net cumulative gain or loss recognised in equity is transferred to profit or loss in the period.

7.2 Financial risk management

The Group has a centralised treasury function which manages funding, liquidity and other financial risk in accordance with the Board approved Treasury Policy. The objective of the policy and controls that are established is to mitigate the risk of an adverse impact on the performance of the Group as a result of its exposure to financial risks arising from the Group's operations and its sources of finance. It is the Group's policy not to engage in speculative trading of financial instruments.

The Board retains ultimate responsibility for treasury activity and is involved in key decision making. A Treasury Committee is established to provide governance and oversight to treasury activity within delegated authority limits and formally reports to the Audit Committee.

Foreign currency risk

The majority of purchases made by the Group are denominated in sterling, however some trade purchases are made in other currencies, primarily the euro and US dollar. The Group's objective is to reduce short-term profit volatility from exchange rate fluctuations. Group policy specifies the minimum percentage of committed and highly probable exposures that must be hedged.

Cross-currency interest rate swaps are used to mitigate the Group's currency exposure arising from payments of interest and principal in relation to foreign currency funding.

At the reporting date, the sensitivity to a reasonable possible change (+/-10%) in the US dollar and euro exchange rates would equate to a £8m post-tax profit or loss exposure in relation to the euro and £4m in relation to the US dollar, for the unhedged forecast foreign currency exposures over the next 12 months. A movement of the pound sterling by +/-10% against the euro and US dollar exchange rates would impact other comprehensive income by £31m for the hedged amount.

Notes to the Group financial statements continued

52 weeks ended 3 February 2019

7 Financial risk and hedging continued

7.2 Financial risk management continued

Liquidity risk

The Group policy is to maintain an appropriate maturity profile across its borrowings and a sufficient level of committed headroom to meet obligations. The Group finances its operations using a diversified range of funding providers including banks and bondholders.

A central cash forecast is maintained by the treasury function who monitor the availability of liquidity to meet business requirements and any unexpected variances. The treasury function seek to centralise surplus cash balances to minimise the level of gross debt. Short-term cash balances, together with undrawn facilities, enable the Group to manage its day-to-day liquidity risk. Any short-term surplus is invested in accordance with Treasury Policy. Some suppliers have access to supply chain finance facilities, which allows these suppliers to benefit from the Group's credit profile. The total size of the facility at 3 February 2019 was £1,078m. The level of utilisation is dependent on the individual supplier requirements and varies significantly over time.

The Treasury Committee compares the committed liquidity available to the Group against the forecast requirements including policy headroom. This policy includes a planning assumption that supply chain finance facilities are not available.

Interest rate risk

The Group seeks to protect itself against adverse movements in interest rates by maintaining at least 60% of its total borrowings at fixed interest rates. As at the balance sheet date, 78% (2018: 100%) of the Group's borrowings are at fixed rate.

Whilst still applying the policy described above, from time-to-time the Group enters into fixed-to-floating interest rate swaps to achieve the appropriate proportion of fixed versus floating rate borrowings.

Credit risk

The majority of the Group's revenue is received in cash at the point of sale. Some credit risk does arise from cash and cash equivalents, deposits with banking groups and exposures from other sources of income such as commercial income, third party wholesale customers and tenants of investment properties.

The Group has established appropriate credit verification procedures in respect of financial institutions and other trading counterparties such as wholesale customers. Limits on the total exposure to a counterparty or Group of connected counterparties are established within Treasury Policy. Compliance with limits is regularly monitored.

Commodity price risk

The Group manages the risks associated with the purchase of electricity, gas and diesel consumed by its activities (excluding fuel purchased for resale to customers) by entering into hedging contracts to fix prices for expected consumption.

The Group has adopted a capital at risk model for hedging its fuel and power consumption. The Treasury Committee reviews the Group's exposure to commodity prices and ensures it remains within policy limits.

A change of +/-10% in the market value of the commodity price at the balance sheet date would affect other comprehensive income by £12m (2018: £13m).

7 Financial risk and hedging continued

7.3 Derivative financial assets and liabilities

Derivative financial assets	2019 £m	2018 £m
Current		
Foreign exchange forward contracts	3	1
Fuel and energy price contracts	16	14
	19	15
Non-current		
Cross-currency interest rate swaps	9	12
Fuel and energy price contracts	6	4
	15	16

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.

Derivative financial liabilities	2019 £m	2018 £m
Current		
Foreign exchange forward contracts	4	13
Fuel and energy price contracts	1	–
	5	13
Non-current		
Fuel and energy price contracts	2	1
	2	1

The amounts disclosed in the table below are the contractual undiscounted derivative cash flows and therefore differ to those in the balance sheet.

	2019 £m		2018 £m	
Maturity analysis of derivatives	< 1 year £m	1-5 years £m	< 1 year £m	1-5 years £m
Derivatives settled on a gross basis				
Cross-currency swaps – cash flow hedges:				
Outflow	(7)	(247)	(7)	(254)
Inflow	6	253	6	250
Forward contracts – cash flow hedges:				
Outflow	(374)	–	(350)	–
Inflow	372	–	339	–
Derivatives settled on a net basis				
Energy price contracts – cash flow hedges:				
Inflow	15	4	14	3

Cash flow hedges

At 3 February 2019 and at 4 February 2018, the Group held cross-currency swaps designated as cash flow hedges. The notional principal amount of the outstanding cross-currency swaps at 3 February 2019 was €282m (2018: €282m).

The fuel and energy price contracts and foreign currency derivatives shown in note 7.3 are designated as cash flow hedges.

Notes to the Group financial statements continued

52 weeks ended 3 February 2019

8 Pensions

8.1 Accounting policies

A defined contribution scheme is a pension scheme under which the Group pays fixed contributions into a separate entity and provides no guarantee as to the quantum of retirement benefits that those contributions will ultimately purchase. A defined benefit scheme is one that is not a defined contribution scheme.

8.1.1 Defined benefit schemes

Pension scheme assets are valued at fair market value as required by IAS 19. Pension scheme obligations are an estimate of the amount required to pay the benefits that employees have earned in exchange for current and past service, assessed and discounted to present value using the assumptions shown in note 8.4.1. The net pension liability or asset recognised in the consolidated balance sheet is the net of the schemes' assets and obligations, which are calculated separately for each scheme.

Current service cost is treated as an operating cost in the consolidated income statement and consolidated cash flow statement and is part of adjusted earnings. Net interest income/expense is calculated by applying the discount rate on liabilities to the net pension liability or asset (adjusted for cash flows over the accounting period) and is recognised in finance costs or income and excluded from profit before exceptionals.

Expenses incurred in respect of the management of scheme assets are included in other comprehensive income as a reduction in the return on scheme assets. Other scheme expenses are recognised in profit or loss as an operating expense.

Remeasurements comprise of actuarial gains and losses on the obligations and the return on scheme assets (excluding interest). They are recognised immediately in other comprehensive income. Amounts shown within note 8 are before any adjustments for deferred taxation.

8.1.2 Defined contribution schemes

The cost of defined contribution schemes is recognised in the consolidated income statement as incurred. The Group has no further payment obligations once the contributions have been paid.

8.2 Defined benefit schemes: summary and description

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 (see note 8.6).

The position of each scheme at 3 February 2019 is as follows:

	2019 £m	2018 £m
CARE Schemes	730	612
RSP	(42)	(18)
Net pension asset	688	594

The disclosures below show the details of the schemes combined:

Balance sheet:	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)

Income statement:	2019 CARE £m	2019 RSP £m	2018 CARE £m	2018 RSP £m
Current service cost – recognised in cost of sales	–	35	–	60
Current service cost – recognised in administrative expenses	–	18	–	31
Past service cost (guaranteed minimum pension) (note 8.7)	7	–	–	–
Administrative costs paid by the Schemes – recognised in administrative expenses	2	1	3	1
Settlement and curtailment gain	(2)	–	(10)	–
Curtailment loss from closure of the pension scheme (note 8.6)	–	19	–	–
Net interest on net pension asset – finance income	(18)	–	(9)	–
Total expense (credited)/charged to income statement	(11)	73	(16)	92
Statement of other comprehensive income:				
Remeasurements in other comprehensive income – credit	(100)	–	(295)	(28)

8 Pensions continued

8.2 Defined benefit schemes: summary and description continued

The Schemes are registered schemes under the provisions of Schedule 36 of the Finance Act 2004 and the assets are held in legally separate, trustee-administered funds. The Board of each scheme is required by law to act in the best interests of the scheme participants within the context of administering the scheme in accordance with the purpose for which the trust was created, and is responsible for setting the investment, funding and governance policies of the fund. A representative of the Group attends Trustee Investment Committee meetings in order to provide the Group's view on investment strategy, but the ultimate power lies with the Trustees. The Deed and Rules of the Morrison Scheme gives the Trustees the power to set contributions, while in the Safeway Scheme and the RSP this power is given to the Group, subject to regulatory override.

Settlement and curtailment gains in the 53 weeks ended 4 February 2018 include £8m relating to the settlement of retirement benefits resulting from actions taken to further de-risk the Group's pension schemes.

8.3 Scheme assets

Assets of the Schemes generate returns and ultimately cash that is used to satisfy the Schemes' obligations. They are not necessarily intended to be realised in the short term. The Trustees of each Scheme invest in different categories of asset and with different allocations amongst those categories, according to the investment principles of that Scheme.

Currently, the investment strategy of the CARE Schemes is to maintain a balance of growth assets (equities and diversified growth funds), income assets (comprising credit investments, corporate bonds and absolute return bonds) and protection assets (comprising a liability driven investment (LDI) portfolio and the two annuity policies), with a weighting towards protection assets. There are no direct investments in the parent Company's own shares or property occupied by any member of the Group.

Fair value of Scheme assets:

	2019 CARE £m	2019 RSP £m	2018 CARE £m	2018 RSP £m
Equities (quoted)	507	135	562	130
Corporate bonds (quoted)	442	–	375	–
Diversified growth funds (quoted)	120	76	573	82
Credit funds (unquoted)	444	–	468	–
Liability driven investments (unquoted)	2,264	137	2,189	102
Annuity policies (unquoted)	665	–	336	–
Cash (quoted)	29	1	39	1
	4,471	349	4,542	315

Liability driven investments

Part of the investment objective of the Schemes is to minimise fluctuations in the Schemes' funding levels due to changes in the value of the liabilities. This is primarily achieved through the use of LDI, whose main goal is to align movements in the value of assets with movements in the Schemes' liabilities arising from changes in market conditions. The Schemes have hedging that broadly covers interest rate movements and inflation movements, as measured on the Trustees' funding assumptions which use a discount rate derived from gilt yields.

LDI primarily involves the use of government bonds (including re-purchase agreements). Derivatives such as interest rate and inflation swaps are also used. There are no annuities or longevity swaps.

The value of the LDI assets is determined based on the latest market bid price for the underlying investments, which are traded daily on liquid markets.

Annuity policies

During the 52 weeks ended 3 February 2019, the Safeway Scheme entered into a buy-in policy that provides insurance for a proportion of the pensioner population. This in addition to a buy-in policy entered into by the Safeway Scheme in 53 weeks ended 4 February 2018. The policy pays an income to the Scheme that is exactly equal to the benefits paid to the insured population. This has removed all investment, interest rate, inflation and longevity risks in respect of these members.

The value of the annuity is determined using the disclosed assumptions used for valuing the benefits of the Schemes and is equal to the accounting liabilities of the insured pensioner population.

Notes to the Group financial statements continued

52 weeks ended 3 February 2019

8 Pensions continued

8.3 Scheme assets continued

Diversified growth funds

The Schemes employ diversified growth funds in order to reduce their exposure to equity markets. These funds typically invest in a range of public and private market assets, including equities, bonds, commodities, property and other assets.

Credit funds

The Schemes invest in credit funds in order to improve returns available from their bond assets. These funds typically lend directly to corporations on a senior secured basis, rather than purchasing debt issued in the public markets.

The credit funds invest in a portfolio of different debt instruments and their value is equal to the value of the component assets. For high yield debt, the value is based on the latest available market price. For senior debt and private credit, where no such market price exists, the value is taken either at par value or by determining a fair enterprise value using a variety of techniques. For real-estate related investments, the value is derived from market comparables or third party valuations.

The movement in the fair value of the Schemes' assets over the period was as follows:

	2019 CARE £m	2019 RSP £m	2018 CARE £m	2018 RSP £m
Fair value of scheme assets at start of period	4,542	315	4,455	219
Interest income	124	9	125	7
Return on scheme assets excluding interest	(53)	(6)	159	25
Employer contributions	7	49	8	67
Employee contributions	–	3	–	3
Settlement and curtailment	–	–	(37)	–
Benefits paid	(147)	(20)	(165)	(5)
Administrative expenses	(2)	(1)	(3)	(1)
Fair value of scheme assets at end of period	4,471	349	4,542	315

Scottish Limited Partnership

The Group has previously entered into a pension funding partnership structure. In January 2013, Wm Morrison Supermarkets PLC made a contribution to the CARE Schemes of £90m. On the same day, the CARE Schemes invested £90m in the Wm Morrison Property Partnership (SLP) as a limited partner. The SLP holds properties which have been leased back to the Group in return for rental income payments. The Group retains control over these properties, including the flexibility to substitute alternative properties.

As partners in the SLP, the CARE Schemes are entitled to receive a fixed distribution of £6.6m p.a. from the profits of the SLP for 20 years from 2013, subject to certain conditions. The distributions shared with the Schemes are reflected in the Group financial statements as employer pension contributions.

In July 2015, the SLP was amended to enhance the security provided to the Schemes by including additional properties. The terms of these additional properties are such that the CARE Schemes have no entitlement to receive a distribution.

The CARE Schemes' interests in the SLP reduce the respective deficits on a funding basis, although the agreements do not affect the position directly on an IAS 19 accounting basis because the investments held by the CARE Schemes do not qualify as scheme assets for IAS 19 purposes.

8 Pensions continued

8.4 Present value of obligations

The movement in the defined benefit obligation over the period was as follows:

	2019 CARE £m	2019 RSP £m	2018 CARE £m	2018 RSP £m
Defined benefit obligation at start of period	(3,930)	(333)	(4,162)	(240)
Current service cost	–	(53)	–	(91)
Past service cost (guaranteed minimum pension)	(7)	–	–	–
Interest expense	(106)	(9)	(116)	(7)
Actuarial gain – demographic assumptions	123	–	–	–
Actuarial gain – financial assumptions	30	3	136	4
Actuarial gain/(loss) – experience	–	3	–	(1)
Settlement and curtailment gain	2	–	47	–
Curtailment loss from closure of the pension scheme	–	(19)	–	–
Employee contributions	–	(3)	–	(3)
Benefits paid	147	20	165	5
Defined benefit obligation at end of period	(3,741)	(391)	(3,930)	(333)

The durations of the defined benefit obligations at the end of the 2019 reporting period are: RSP 19 years; Morrison CARE 26 years; Safeway CARE 24 years. The weighted average duration of all three Schemes is 24 years.

8.4.1 Significant actuarial assumptions

The following are the principal actuarial assumptions at the reporting date (expressed as weighted averages):

Financial assumptions	2019 CARE	2019 RSP	2018 CARE	2018 RSP
Discount rate applied to scheme liabilities (% p.a.)	2.8%	2.7%	2.8%	2.7%
Inflation assumption (RPI) (% p.a.)	3.2%	3.2%	3.3%	3.3%

Life expectancies	2019 CARE	2019 RSP	2018 CARE	2018 RSP
Longevity in years from age 65 for current pensioners				
Male	22.0	n/a	22.4	n/a
Female	23.3	n/a	23.9	n/a
Longevity in years from age 65 for current members aged 45				
Male	23.7	n/a	24.6	n/a
Female	25.2	n/a	26.3	n/a

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.

Notes to the Group financial statements continued

52 weeks ended 3 February 2019

8 Pensions continued

8.4 Present value of obligations continued

8.4.1 Significant actuarial assumptions continued

Related actuarial assumptions (expressed as weighted averages)

	2019 CARE	2019 RSP	2018 CARE	2018 RSP
Rate of increases in salaries (% p.a.)	–	–	–	2.2%
Rate of increase of pensions in payment: RPI inflation capped at either 2.5% p.a. or 5% p.a. (% p.a.)	2.1%/3.1%	–	2.1%/3.1%	–
Pre-retirement revaluation for active members (% p.a.)	–	–	–	1.8%
Rate of increase of pensions in deferment: CPI inflation capped at either 2.5% p.a. or 5% p.a. (% p.a.)	–/2.1%	2.1%/–	–/2.2%	2.2%/–
CPI inflation (% p.a.)	2.1%	2.1%	2.2%	2.2%

8.4.2 Sensitivity analysis on significant actuarial assumptions

The following table summarises the impact on the defined benefit obligation at the end of the reporting period if each of the significant actuarial assumptions listed above were changed, in isolation, assuming no other changes in market conditions at the accounting date. In practice any movement in assumptions could be accompanied by a partially offsetting change in asset values, and the corresponding overall impact on the net asset/(liability) is therefore likely to be lower than the amounts below in a number of scenarios. Extrapolation of the sensitivities shown may not be appropriate.

		2019 CARE £m	2019 RSP £m	2018 CARE £m	2018 RSP £m
Discount rate applied to Scheme obligations	+/– 0.1% p.a.	–/+90	–/+7	–/+95	–/+7
Inflation assumption (RPI and associated assumptions)	+/– 0.1% p.a.	+/–80	+/–7	+/–85	+/–3
Longevity	+/– one year	+155	–	+170	–

8.5 Funding

The Morrison Scheme is entirely funded by the parent Company and the Safeway Scheme is funded by Safeway Limited and its subsidiaries. The parent Company and its subsidiaries participated in the RSP until its closure. There is no contractual agreement or stated policy for charging the net defined benefit cost between the parent Company and its subsidiaries. The contribution of each participating subsidiary to the RSP was calculated in proportion to the number of employees that are members of the RSP.

The latest full actuarial valuations were carried out as at 1 April 2016 for the Safeway Scheme and 5 April 2016 for the Morrison Scheme and the RSP. The valuations indicated that, on the agreed funding basis, the Safeway, Morrison and RSP Schemes had surpluses of £100m, £1m and £10m respectively. As a result of these funding positions there are currently no deficit contributions payable. As such there is no 'minimum funding requirement' in force.

The results of the 2016 actuarial valuations for the CARE Schemes have been used and updated for IAS 19 'Employee benefits' purposes for the period to 3 February 2019 by a qualified independent actuary. For the RSP an actuarial valuation for the purposes of IAS 19, based on member data as at 31 December 2017, has been completed and updated to 3 February 2019 by a qualified independent actuary. The Schemes expose the Group to inflation risk, interest rate risk and market investment risk. In addition, the CARE Schemes expose the Group to longevity risk.

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

8 Pensions continued

8.6 Closure of the RSP

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 weeks ended 3 February 2019 (2018: £nil).

8.7 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.

8.8 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 (see note 1.4), 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).

Notes to the Group financial statements continued

52 weeks ended 3 February 2019

9 Share-based payments

9.1 Accounting policy

The Group issues equity-settled share-based payments to certain employees in exchange for services rendered by them. The fair value of the share-based award is calculated at the date of grant and is expensed on a straight-line basis over the vesting period with a corresponding increase in equity. This is based on the Group's estimate of share options that will eventually vest. This takes into account movement of non-market conditions, being service conditions and financial performance, if relevant.

The fair value of share options is measured by use of the Black-Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for effects of non-transferability, exercise restrictions and behavioural considerations. The charge in the period for share-based payments was £34m (2018: £33m).

9.2 Share save schemes

All employees (including Executive Directors) are eligible for the Share save schemes once the necessary service requirements have been met. The scheme allows participants to save up to a maximum of £350 each month for a period of three years. Options are offered at a discount to the mid-market closing price on the day prior to the offer and are exercisable for a period of six months commencing after the end of the fixed period of the contract. The exercise of options under this scheme is subject only to service conditions.

The fair value of options granted, and the inputs used to determine it are as follows:

Grant date	17 May 2018	17 May 2017	16 May 2016	19 May 2015
Share price at grant date	£2.55	£2.44	£1.91	£1.81
Fair value of options granted	£13.2m	£16.5m	£5.1m	£4.8m
Exercise price	£1.87	£1.84	£1.70	£1.64
Dividend yield	3.96%	2.08%	2.62%	5.15%
Annual risk free interest rate	0.56%	0.30%	0.87%	1.06%
Expected volatility[1]	24.9%	28.1%	26.8%	22.7%

1 The volatility measured at the standard deviation of expected share price returns is based on statistical analysis on weekly share prices over the past 3.37 years prior to the date of grant.

The requirement that the employee has to save in order to purchase shares under the Share save plan is a non-vesting condition. This feature has been incorporated into the fair value at grant date by applying a discount to the valuation obtained from the Black-Scholes option pricing model. The discount is determined by estimating the probability that the employee will stop saving based on expected future trends in the share price and employee behaviour.

	2019 Weighted average exercise price in £ per share	2019 Options thousands	2018 Weighted average exercise price in £ per share	2018 Options thousands
Movement in outstanding options				
Outstanding at start of period	**1.75**	**44,676**	1.66	46,765
Granted	**1.87**	**22,166**	1.84	24,257
Exercised	**1.64**	**(12,441)**	1.64	(20,279)
Forfeited	**1.82**	**(6,831)**	1.73	(6,067)
Outstanding at end of period	**1.83**	**47,570**	1.75	44,676
Exercisable at end of period	**1.64**	**14**	1.64	21

	2019 Weighted average share price at date of exercise £	2019 Weighted average option price at date of exercise £	2019 Number of shares thousands	2018 Weighted average share price at date of exercise £	2018 Weighted average option price at date of exercise £	2018 Number of shares thousands
Share options exercised in the financial period	**2.51**	**1.64**	**12,441**	2.40	1.64	20,279

	2019	2018
Share options outstanding at the end of the period		
Range of exercise prices	**£1.64 to £1.87**	£1.64 to £1.84
Weighted average remaining contractual life	**1.64 years**	1.61 years

9 Share-based payments continued

9.3 Long Term Incentive Plans (LTIPs)

The LTIP awards have no exercise price and accrue the value of dividends over the vesting period with the exception of senior employees within the schemes granted in 2016.

LTIP grants issued between 2013 and 2016 had associated performance conditions for Executive Committee members, whilst other senior employees eligible for LTIPs had to satisfy a service condition only. The LTIP schemes granted since 2016 have service and performance conditions for all employees. The performance conditions associated with all awards are measured through adjusted free cash flow, sales and earnings per share performance.

Awards normally vest three years after the original grant date, provided the relevant service and performance criteria have been met. The fair value of awards granted and the inputs used to determined it are as follows:

Grant date	18 Sept 2018	22 March 2018	24 Oct 2017	22 March 2017	25 Oct 2016	13 May 2016	06 Apr 2016	01 Oct 2015	23 Apr 2015
Option fair value at grant date	£2.62	£2.09	£2.34	£2.37	£2.28	£1.90	£2.00	£1.74	£1.97
Fair value of share awards	£0.9m	£27.3m	£2.0m	£29.4m	£9.2m	£1.9m	£73.6m	£1.8m	£5.3m

	2019 Share awards thousands	2018 Share awards thousands
Movement in outstanding share awards		
Outstanding at start of period	47,967	46,482
Granted	13,386	13,253
Exercised	(3,474)	(4,415)
Forfeited	(3,711)	(7,353)
Outstanding at end of period	54,168	47,967
Exercisable at end of period	–	–

The weighted average remaining contractual life of the share awards is 0.9 years (2018: 1.45 years).

9.4 One-off share awards

As part of the package for certain senior management, restricted share awards may be granted. These are primarily designed to replace the value of share scheme awards forfeited from the previous employer. Vesting of these awards is subject only to service conditions.

The share price at grant date of 10 July 2015 was £1.72 and the fair value of awards granted was £0.1m. There were no share awards outstanding as at 3 February 2019 as all awards were exercised during the period (2018: 46,000). The weighted average remaining contractual life of the share awards is nil years (2018: 0.39 years).

9.5 Deferred share bonus plan

Certain members of senior management participate in the deferred share bonus plan under which 50% of any bonus payable is deferred in shares for three years from the date the deferred share award is made. Dividend equivalents accrue over the vesting period, to be paid when the shares vest. Vesting of these share awards is subject only to service conditions.

The fair value of awards granted and the inputs used to determine it:

Grant date	2018/19 scheme	2017/18 scheme
Share price at grant date	£2.09	£2.35
Exercise price	£nil	£nil
Fair value of share awards granted	£2.8m	£2.9m

	2019 Share awards thousands	2018 Share awards thousands
Movement in outstanding share awards		
Outstanding at start of period	2,491	1,360
Granted	1,355	1,247
Exercised	(297)	(116)
Outstanding at end of period	3,549	2,491

The weighted average remaining contractual life of the share awards is 1.25 years (2018: 1.52 years).

Notes to the Group financial statements continued

52 weeks ended 3 February 2019

10 Other

10.1 Related party transactions

The Group's related party transactions in the period include the remuneration of the senior managers (see note 1.7), 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 these financial statements.

During the 52 weeks ended 3 February 2019, the Group received a dividend of £7m (2018: £8m) from MHE JVCo Limited. The Group has a 51.1% interest in MHE JVCo Limited (see note 4.2).

10.2 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 appeals have 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 can not 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.

Wm Morrison Supermarkets PLC Company balance sheet

3 February 2019

	Note	2019 £m	2018 £m
Fixed assets			
Intangible assets	11.6	384	411
Property, plant and equipment	11.7	2,355	2,197
Investment property	11.8	15	10
Investments	11.9	6	–
Investment in joint venture		67	67
		2,827	2,685
Current assets			
Stock		447	422
Debtors	11.10	5,937	5,901
Pension asset due after more than one year	11.16	284	230
Derivative financial assets due within one year	11.13	19	15
Derivative financial assets due after more than one year	11.13	15	16
Cash and cash equivalents		169	229
		6,871	6,813
Creditors – amounts falling due within one year	11.11	(3,758)	(3,090)
Derivative financial liabilities due within one year	11.13	(5)	(13)
Net current assets		3,108	3,710
Total assets less current liabilities		5,935	6,395
Creditors – amounts falling due after more than one year	11.12	(1,198)	(1,375)
Derivative financial liabilities due after more than one year	11.13	(2)	(1)
Pension liabilities due after more than one year	11.16	(42)	(18)
Deferred tax liabilities	11.14	(145)	(143)
Provisions for liabilities	11.15	(313)	(250)
		(1,700)	(1,787)
Net assets		4,235	4,608
Shareholders' equity			
Share capital	11.17	237	236
Share premium	11.17	178	159
Capital redemption reserve	11.18	39	39
Merger reserve	11.18	1,202	1,604
Retained earnings and other reserves[1]	11.18	2,579	2,570
Total shareholders' funds		4,235	4,608

1 Included within Retained earnings and other reserves is loss after tax of £155m (2018: profit of £186m). After adjusting for exceptionals, profit before exceptionals after tax is £7m (2018: £184m).

The accounting policies on pages 113 to 115 and the notes on pages 116 to 126 form part of these financial statements.

The financial statements on pages 111 to 126 were approved by the Board of Directors and authorised for issue on 12 March 2019. They were signed on its behalf by:

Trevor Strain
Chief Finance and Commercial Officer

Wm Morrison Supermarkets PLC
Company statement of changes in equity

52 weeks ended 3 February 2019

	Note	Attributable to the owners of the Company						
		Share capital £m	Share premium £m	Capital redemption reserve £m	Merger reserve £m	Hedging reserve £m	Retained earnings £m	Total shareholders' funds £m
Current period								
At 5 February 2018		236	159	39	1,604	2	2,568	4,608
Loss for the period		–	–	–	–	–	(155)	(155)
Other comprehensive income/(expense):								
Cash flow hedging movement		–	–	–	–	9	–	9
Remeasurement of defined benefit pension schemes	11.16	–	–	–	–	–	49	49
Tax in relation to components of other comprehensive income	11.14	–	–	–	–	(1)	(8)	(9)
Total comprehensive income/(expense) for the period		–	–	–	–	8	(114)	(106)
Purchase of trust shares	6.5	–	–	–	–	–	(9)	(9)
Employee share option schemes:								
Share-based payments charge	11.5	–	–	–	–	–	16	16
Settlement of share awards	6.5	–	–	–	–	–	(5)	(5)
Share options exercised	6.5	1	19	–	–	–	–	20
Dividends	1.8	–	–	–	–	–	(289)	(289)
Realisation of merger reserve	11.18	–	–	–	(402)	–	402	–
Total transactions with owners		1	19	–	(402)	–	115	(267)
At 3 February 2019		237	178	39	1,202	10	2,569	4,235

	Note	Attributable to the owners of the Company						
		Share capital £m	Share premium £m	Capital redemption reserve £m	Merger reserve £m	Hedging reserve £m	Retained earnings £m	Total shareholders' funds £m
Prior period								
At 30 January 2017		234	128	39	2,578	11	1,419	4,409
Profit for the period		–	–	–	–	–	186	186
Other comprehensive (expense)/income:								
Cash flow hedging movement		–	–	–	–	(11)	–	(11)
Items reclassified from hedging reserve in relation to repayment of borrowings		–	–	–	–	(2)	–	(2)
Remeasurement of defined benefit pension schemes	11.16	–	–	–	–	–	127	127
Tax in relation to components of other comprehensive income	11.14	–	–	–	–	4	(31)	(27)
Total comprehensive (expense)/income for the period		–	–	–	–	(9)	282	273
Purchase of trust shares	6.5	–	–	–	–	–	(4)	(4)
Employee share option schemes:								
Share-based payments charge	11.5	–	–	–	–	–	33	33
Settlement of share awards	6.5	–	–	–	–	–	(7)	(7)
Share options exercised	6.5	2	31	–	–	–	–	33
Dividends	1.8	–	–	–	–	–	(129)	(129)
Realisation of merger reserve	11.18	–	–	–	(974)	–	974	–
Total transactions with owners		2	31	–	(974)	–	867	(74)
At 4 February 2018		236	159	39	1,604	2	2,568	4,608

The accounting policies on pages 113 to 115 and the notes on pages 116 to 126 form part of these financial statements.

Wm Morrison Supermarkets PLC Company accounting policies

52 weeks ended 3 February 2019

11 Company financial statements

11.1 General information

The principal activity of Wm Morrison Supermarkets PLC (the 'Company') is the operation of retail supermarket stores under the Morrisons brand and associated activities. The Company is incorporated and domiciled in the United Kingdom. The address of its registered office is Hilmore House, Gain Lane, Bradford, BD3 7DL, United Kingdom.

11.2 Basis of preparation

The financial statements have been prepared for the 52 weeks ended 3 February 2019 (2018: 53 weeks ended 4 February 2018). These separate financial statements of the Company have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101) and the Companies Act 2006 ('the Act'). FRS 101 sets out a reduced disclosure framework for a 'qualifying entity' as defined in the standard which addresses the financial reporting requirements and disclosure exemptions in the individual financial statements of qualifying entities that otherwise apply the recognition, measurement and disclosure requirements of EU-adopted IFRS.

The Company is a qualifying entity for the purposes of FRS 101 as it is a member of a group which prepares publicly available consolidated financial statements and it is included in the consolidation for that group.

The disclosure exemptions adopted by the Company in preparation of these financial statements in accordance with FRS 101 are as follows:

a) IFRS 2 'Share-based payment' (paragraphs 45(b) and 46 to 52) – details of the number and weighted-average exercise prices of share options, and how the fair value of goods or services received was determined;

b) IFRS 7 'Financial Instruments: Disclosures';

c) IFRS 13 'Fair value measurement' (paragraphs 91 to 99) – disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities;

d) IAS 1 'Presentation of financial statements' (paragraph 38) – comparative information requirements in respect of:

   (i) paragraph 79(a)(iv) of IAS 1;

   (ii) paragraph 73(e) of IAS 16 'Property, plant and equipment';

   (iii) paragraph 118(e) of IAS 38 'Intangible assets' – reconciliations between the carrying amount at the beginning and end of the period; and

   (iv) paragraph 76 and 79(d) of IAS 40 'Investment property';

e) The following paragraphs of IAS 1 'Presentation of financial statements':

   (i) 10(d), (statement of cash flows);

   (ii) 111 (cash flow statement information); and

   (iii) 134-136 (capital management disclosures);

f) IAS 7 'Statement of cash flows';

g) IAS 8 'Accounting policies, changes in accounting estimates and errors' (paragraph 30 and 31) – requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective;

h) The following requirements of IAS 24 'Related party disclosures':

   (i) paragraph 17 – key management compensation; and

   (ii) the requirements to disclose related party transactions entered into with two or more wholly owned members of a group.

In addition to the FRS 101 exemptions above, the Company has taken advantage of the exemption available under section 408 of the Act and not presented a profit and loss account for the Company.

The financial statements have been prepared on a going concern basis under the historical cost convention except as disclosed in the Summary of accounting policies in note 11.3. The Company's accounting policies have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are the same for the Company as they are for the Group. For further details, see page 73 in the Group financial statements.

Wm Morrison Supermarkets PLC
Company accounting policies continued

52 weeks ended 3 February 2019

11 Company financial statements continued

11.2 Basis of preparation continued

New accounting standards, amendments and interpretations adopted by the Company

The following new standards, interpretations and amendments to standards are mandatory 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'; and
- Improvements to IFRSs (2014-2016).

The Company 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 Company or they do not have a significant impact on the Company's financial statements.

Although IFRS 9 and IFRS 15 are relevant to the Company for the 52 weeks ended 3 February 2019, the Directors have concluded that both new standards do not have a material impact on the financial statements of the Company. For more details on this assessment and the conclusions made by the Directors, see pages 70 to 71 in the consolidated financial statements.

Accounting reference date

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

11 Company financial statements continued

11.3 Summary of accounting policies

The accounting policies listed below are the same for the Company as for the Group. As such, for further detail see the following notes:

a) Revenue recognition (1.1);

b) Cost of sales (1.1);

c) Promotional funding and commercial income (1.1);

d) Other operating income (1.1);

e) Taxation (2.1);

f) Intangible assets (3.1);

g) Property, plant and equipment (3.1);

h) Investment property (3.1);

i) Impairment of non-financial assets (3.1);

j) Lessor accounting – operating leases (3.1);

k) Finance leases (3.1);

l) Stock (5.1);

m) Trade and other debtors (5.1);

n) Cash and cash equivalents (5.1);

o) Trade and other creditors (5.1);

p) Provisions (5.1);

q) Borrowings and borrowing costs (6.1);

r) Leases (6.1);

s) Sale and leaseback (6.1);

t) Share capital (6.1);

u) Derivative financial instruments and hedge accounting (7.1);

v) Pensions (8.1); and

w) Share-based payments (9.1).

The following accounting policies are those policies which are specific, and which deal with items considered material, in relation to the Company's financial statements.

Investments

Investments in subsidiary undertakings and joint ventures are stated at cost less provision for impairment.

All other equity instruments are held for long-term investment and are measured at fair value. Gains or losses arising from changes in the fair value are presented in the profit and loss account within finance income or expenses in the period they arise.

Impairment losses or reversals of previous impairment losses are presented in the profit and loss account in the period they arise.

Amounts owed to/by Group undertakings

Amounts owed to/by Group undertakings are initially recorded at fair value, which is generally the proceeds received. They are subsequently carried at amortised cost. The amounts are non-interest bearing and repayable on demand.

Contingent liabilities

Contingent liabilities are possible obligations whose existence will be confirmed only on the occurrence or non-occurrence of uncertain future events outside the Company's control, or present obligations that are not recognised because it is not probable that an outflow of economic benefits will be required to settle the obligation or the amount cannot be measured reliably. The Company does not recognise contingent liabilities but does disclose any such balances (see note 11.21). The disclosure includes an estimate of their potential financial effect and any uncertainties relating to the amount or timing of any outflow, unless the possibility of settlement is remote.

Financial guarantees

Where the Company enters into financial contracts to guarantee the indebtedness of other companies within its Group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

Notes to the Company financial statements

52 weeks ended 3 February 2019

11 Company financial statements continued

11.4 Profit and loss account

The loss after tax for the Company for the 52 weeks ended 3 February 2019 was £155m (2018: Profit after tax of £186m). After adjusting for exceptionals, profit before exceptionals after tax is £7m (2018: £184m). The profit before exceptionals after tax in the 52 weeks ended 3 February 2019 includes dividends received from subsidiary undertakings of £nil (2018: £150m).

	2019 £m	2018 £m
Employee benefit expense for the Company during the period		
Wages and salaries	863	873
Social security costs	70	72
Share-based payments	16	33
Other pensions costs	50	51
	999	1,029

The average monthly number of people, including Directors, employed by the Company is 52,078 (2018: 52,284).

The Company's auditor, PricewaterhouseCoopers LLP charged £0.5m (2018: £0.5m) for audit services in the year, £nil (2018: £nil) for services related to taxation and £0.2m (2018: £0.2m) for other services.

11.5 Share-based payments

The Company issues equity-settled share-based payments to certain employees in exchange for services rendered by them. These awards are issued by the Company to employees of other Group companies and during the year these have been cross-charged to the relevant company. The fair value of the share-based award is calculated at the date of grant and is expensed on a straight-line basis over the vesting period with a corresponding increase in equity. This is based on the Company's estimate of share options that will eventually vest. This takes into account movement of non-market conditions, being service conditions and financial performance, if relevant.

The fair value of share options is measured by use of the Black-Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for effects of non-transferability, exercise restrictions and behavioural considerations.

The charge in the period for share-based payments was £16m (2018: £33m).

Further details of the Company's share schemes are disclosed in note 9, including:

a) a description of the type of share-based payment arrangements that existed during the reporting period, including general terms and conditions, maximum terms of options granted, and the method of entitlement;

b) weighted average share price information in respect of options exercised during the reporting period; and

c) the range of exercise prices and weighted average remaining contractual life of share options outstanding at the end of the reporting period.

11.6 Intangible assets

	Other intangibles £m	Total £m
Cost		
At 5 February 2018	703	703
Additions	74	74
Interest capitalised	1	1
Disposals	(18)	(18)
Fully written down assets	(34)	(34)
At 3 February 2019	726	726
Accumulated amortisation and impairment		
At 5 February 2018	292	292
Amortisation charge for the period	91	91
Impairment	11	11
Disposals	(18)	(18)
Fully written down assets	(34)	(34)
At 3 February 2019	342	342
Net book amount at 3 February 2019	384	384

11 Company financial statements continued

11.6 Intangible assets continued

Other intangibles include software development costs and licences. Within this asset class, there are assets under construction of £30m (2018: £20m). The net book amount of licences at 3 February 2019 totals £14m (2018: £12m).

The Company 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 have been retained in the Company's fixed asset register. In order to provide greater understanding of the Company'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, an impairment charge of £11m (2018: £1m) has been recognised in relation to intangible assets.

The cost of financing asset developments prior to them being ready for use has been included in the cost of the project. The cumulative amount of interest capitalised in the total cost above amounts to £42m (2018: £41m). Interest is capitalised at the effective interest rate of 5% (2018: 5%) incurred on borrowings.

11.7 Property, plant and equipment

	Freehold land £m	Freehold buildings £m	Leasehold land and buildings £m	Plant, equipment, fixtures and vehicles £m	Total £m
Cost					
At 5 February 2018	839	1,474	636	903	**3,852**
Additions	30	72	13	197	**312**
Reclassifications	(2)	(2)	9	(5)	**–**
Transfers from other Group companies	17	12	23	56	**108**
Disposals	(11)	(13)	(5)	(22)	**(51)**
Fully written down assets	–	–	(12)	(140)	**(152)**
At 3 February 2019	873	1,543	664	989	**4,069**
Accumulated depreciation and impairment					
At 5 February 2018	174	691	357	433	**1,655**
Depreciation charge for the period	–	45	14	134	**193**
Impairment	1	3	13	36	**53**
Impairment reversal	(16)	(17)	(22)	(3)	**(58)**
Reclassifications	–	–	1	(1)	**–**
Transfers from other Group companies	–	5	21	39	**65**
Disposals	(7)	(9)	(4)	(22)	**(42)**
Fully written down assets	–	–	(12)	(140)	**(152)**
At 3 February 2019	152	718	368	476	**1,714**
Net book amount at 3 February 2019	721	825	296	513	**2,355**

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

Included in the table above is a cost of £873m (2018: £839m) relating to non-depreciable land and £3m (2018: £15m) of assets under construction.

The cost of assets held under finance leases at 3 February 2019 is £267m (2018: £334m), with related accumulated depreciation of £135m (2018: £162m).

The cost of financing asset developments prior to them being ready for use has been included in the cost of the project. The cumulative amount of interest capitalised in the total cost above amounts to £73m (2018: £73m). Interest is capitalised at the effective interest rate of 5% (2018: 5%) incurred on borrowings.

Included within additions in the 52 weeks ended 3 February 2019 is £121m relating to assets which were previously subject to intra-group leasing arrangements, which had been dissolved and full ownership reverted to the Company. Included within deprecation is £27m relating to the period since the leases were dissolved.

Notes to the Company financial statements continued

52 weeks ended 3 February 2019

11 Company financial statements continued

11.7 Property, plant and equipment continued

The Company considers that each store is a separate cash generating unit (CGU) and therefore considers every store for an indication of impairment annually. The Company 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. The methodology applied by the Company is the same methodology as applied by the Group, see note 3.3 for further details.

Having applied the methodology and assumptions, the Company has recognised a net impairment reversal of £5m (£58m impairment reversal offset by £53m impairment charge) during the year in respect of property, plant and equipment (2018: net £17m impairment reversal; £62m impairment reversal offset by £45m 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 Company as estimated a change of +/- 1% in either would result in a change in impairment of c.£30m.

11.8 Investment property

	Total £m
Cost	
At 5 February 2018	20
Transfers from other Group companies	5
At 3 February 2019	25
Accumulated depreciation and impairment	
At 3 February 2019 and at 5 February 2018	10
Net book amount at 3 February 2019	15

Included in other operating income is £4m (2018: £3m) of rental income generated from investment properties. At the end of the period the fair value of investment properties was £18m (2018: £17m). Investment properties are valued by independent surveyors on a vacant possession basis using observable inputs (fair value hierarchy level 2).

11.9 Investments

	2019 £m	2018 £m
Net book amount		
At start of period	–	3,439
Additions	6	–
Disposals	–	(3,439)
At end of period	6	–

On 19 February 2018, the Company acquired 100% of the ordinary share capital of Chippindale Foods Limited, a leading supplier of free range eggs. Total consideration was £6m.

During the 53 weeks ended 4 February 2018, the Company disposed of investments with a net book amount of £3,439m after an internal restructuring exercise undertaken by the Group. As part of this exercise, the Company sold certain investments it held in its subsidiaries to Wm Morrison Supermarkets Holdings Limited, a fellow group subsidiary, for consideration of £3,439m. No further disposals have taken place in the 52 weeks ended 3 February 2019.

After the internal restructuring exercise undertaken by the Group in the 53 weeks ended 4 February 2018, the Company continues to hold investments in other related undertakings, which in aggregate are less than £1m as at 3 February 2019. The Directors believe that the carrying value of these investments is supported by their underlying net assets. A list of all of the Company's related undertakings at the balance sheet date is shown on page 127.

11 Company financial statements continued

11.10 Debtors – amounts falling due within one year

	2019 £m	2018 £m
Trade debtors	174	136
Amounts owed by Group undertakings	5,339	5,387
Current tax asset	135	110
Prepayments and accrued income	289	268
	5,937	5,901

Prepayments includes £192m (2018: £176m) relating to amounts falling due after more than one year. Amounts owed by Group undertakings are unsecured and repayable on demand.

Provision for impairment of amounts owed by Group undertakings have been assessed based on lifetime expected credit losses. As all balances are repayable on demand, and the Company expects to be able to recover the outstanding intercompany balances if demanded, no provision has been recognised in the 52 weeks ended 3 February 2019 (2018: £nil).

11.11 Creditors – amounts falling due within one year

	2019 £m	2018 £m
Trade creditors	2,220	2,088
Other short-term borrowings	178	–
Amounts owed to Group undertakings	821	420
Other taxation and social security	94	75
Other creditors	105	115
Accruals and deferred income	340	392
	3,758	3,090

Amounts owed to Group undertakings within one year are unsecured and repayable on demand.

The Company has a number of uncommitted facilities which are available to meet short-term borrowing requirements, and incur interest charges according to usage.

11.12 Creditors – amounts falling due after more than one year

	2019 £m	2018 £m
€280m euro bond 2.25% June 2020 (2018: €280m)	247	247
£250m sterling bonds 4.625% December 2023 (2018: £365m)	249	363
£250m sterling bonds 3.50% July 2026 (2018: £318m)	272	342
£250m sterling bonds 4.75% July 2029 (2018: £300m)	245	293
Revolving credit facility	97	–
Amounts owed to Group undertakings	88	130
	1,198	1,375

The movements in the nominal value of the bonds are due to partial early repayment during the 52 weeks ended 3 February 2019. During the period, the Company continued to reduce its level of debt, through the partial early settlement of the 2023, 2026 and 2029 sterling bonds.

The Company has a syndicated committed revolving credit facility of £1.35bn with a maturity date of June 2023. The revolving credit facility incurs commitment fees and interest charges at a spread above LIBOR. The Company had £1.25bn of undrawn committed headroom available on this facility as at 3 February 2019.

On 29 January 2019, the Company entered into a new £250m revolving credit facility to provide flexibility on refinancing the €280m euro bond when it matures in June 2020. The Company can borrow under the facility from 19 May 2020. The facility has an initial maturity date of July 2020 and includes options to extend for up to 24 months.

In the event of default of covenants the principal amounts of borrowings and any interest accrued become repayable on demand.

Finance leases
Net obligations under finance leases of £88m (2018: £130m) are payable in two to five years, and are included in amounts owed to Group undertakings in the table above.

Notes to the Company financial statements continued

52 weeks ended 3 February 2019

11 Company financial statements continued

11.13 Derivative financial assets and liabilities

	2019 £m	2018 £m
Assets due within one year		
Foreign exchange forward contracts	3	1
Fuel and energy price contracts	16	14
	19	15
Assets due after more than one year		
Cross-currency interest rate swaps	9	12
Fuel and energy price contracts	6	4
	15	16
Liabilities due within one year		
Foreign exchange forward contracts	4	13
Fuel and energy price contracts	1	–
	5	13
Liabilities due after more than one year		
Fuel and energy price contracts	2	1
	2	1

Further details of the derivative financial instruments are provided in note 7, including significant assumptions underlying the valuation; and fair value and the amounts recognised in profit and loss.

11.14 Deferred tax liabilities

	2019 £m	2018 £m
Deferred tax liability	167	160
Deferred tax asset	(22)	(17)
Net deferred tax liability	145	143

IAS 12 'Income taxes' permits the offsetting of balances within the same tax jurisdiction. All of the deferred tax assets are available for offset against deferred tax liabilities. The movements in deferred tax liabilities/(assets) during the period are shown below:

	Property, plant and equipment £m	Pensions £m	Other short-term temporary differences £m	Total £m
Current period				
At 5 February 2018	124	36	(17)	143
Charged/(credited) to profit for the period	2	(3)	(6)	(7)
Charged to other comprehensive income and equity	–	8	1	9
At 3 February 2019	126	41	(22)	145
Prior period				
At 30 January 2017	131	17	(18)	130
Credited to profit for the period	(7)	(5)	(2)	(14)
Charged to other comprehensive income and equity	–	24	3	27
At 4 February 2018	124	36	(17)	143

11.15 Provision for liabilities

	Onerous leases and onerous contracts £m	Other property provisions £m	Total £m
At 5 February 2018	243	7	250
Charged to profit for the period	74	7	81
Utilised/released during the period	(28)	(1)	(29)
Unwinding of discount	11	–	11
At 3 February 2019	300	13	313

11 Company financial statements continued

11.15 Provision for liabilities continued

Part of the onerous leases relates to sublet and vacant properties, with commitments ranging from one to 55 years. Included with the above balance at 3 February 2019 is £18m (2018: £nil) relating to a balance due within one year. The provision is revised regularly in response to market conditions. During the period, £74m has been charged to onerous lease and onerous contracts provisions due to changes in circumstances or performance relating to certain contracts.

The utilisation of provisions relates to the ongoing utilisation of onerous contracts and the assignment of onerous leases. Other property provisions include a petrol filling station decommissioning reserve for the cost of decommissioning petrol tanks, and provisions for dilapidations on leased buildings, for the cost of restoring assets to their original condition.

11.16 Pensions

11.16.1 Defined benefit schemes: summary and description

The Company operates two 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 Scheme provides pension benefits based on either the employee's compensation package or career average revalued earnings (CARE) (the 'CARE Scheme'). The CARE Scheme is no longer open to new members and was 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, which is revalued each year in line with inflation subject to a cap. The RSP was open to colleagues across the Group with the applicable cost recharged to the relevant group company. The RSP was closed to future accrual in September 2018 (see note 11.16.6).

The position of each scheme at the balance sheet date is as follows:

	2019 £m	2018 £m
CARE Scheme	284	230
RSP	(42)	(18)
Net pension asset	**242**	**212**

Balance sheet:	2019 CARE £m	2019 RSP £m	2018 CARE £m	2018 RSP £m
Fair value of scheme assets	1,261	349	1,249	315
Present value of obligations	(977)	(391)	(1,019)	(333)
Net pension asset/(liability)	**284**	**(42)**	**230**	**(18)**

Income statement	2019 CARE £m	2019 RSP £m	2018 CARE £m	2018 RSP £m
Current service cost – recognised in cost of sales	–	35	–	60
Current service cost – recognised in administrative expenses	–	18	–	31
Past service cost (guaranteed minimum pension) (note 11.16.7)	2	–	–	–
Administrative costs paid by Schemes – recognised in administrative expenses	1	1	1	1
Settlement and curtailment gain	–	–	(9)	–
Curtailment loss from closure of the pension scheme (note 11.16.6)	–	19	–	–
Net interest on net pension asset – finance income	(6)	–	(3)	–
Total expense (credited)/charged to income statement	**(3)**	**73**	**(11)**	**92**
Statement of other comprehensive income:				
Remeasurements in other comprehensive income – credit	(49)	–	(99)	(28)

The Schemes are registered schemes under the provisions of Schedule 36 of the Finance Act 2004 and the assets are held in legally separate, trustee-administered funds. The Board of each Scheme is required by law to act in the best interests of the Scheme participants within the context of administering the Scheme in accordance with the purpose for which the trust was created, and is responsible for setting the investment, funding and governance policies of the fund. A representative of the Group attends Trustee Investment Committee meetings in order to provide the Group's view on investment strategy, but the ultimate power lies with the Trustees. The Deed and Rules of the Morrison Scheme gives the Trustees the power to set contributions, while in the RSP this power is given to the Group, subject to regulatory override.

Settlement and curtailment gains in the 53 weeks ended 4 February 2018 include £8m relating to the settlement of retirement benefits resulting from actions taken to further de-risk the Company's pension schemes.

Notes to the Company financial statements continued

52 weeks ended 3 February 2019

11 Company financial statements continued

11.16 Pensions continued

11.16.2 Scheme assets

Assets of the Schemes generate returns and ultimately cash that is used to satisfy the Schemes' obligations. They are not necessarily intended to be realised in the short term. The Trustees of each Scheme invest in different categories of asset and with different allocations amongst those categories, according to the investment principles of that Scheme.

Currently, the investment strategy of the CARE Scheme is to maintain a balance of growth assets (equities and diversified growth funds), income assets (comprising credit investments, corporate bonds and absolute return bonds) and protection assets (comprising a liability driven instruments portfolio), with a weighting towards protection assets. There are no direct investments in the Group's own shares or property occupied by any member of the Group.

Fair value of Scheme assets:

	2019 CARE £m	2019 RSP £m	2018 CARE £m	2018 RSP £m
Equities (quoted)	187	135	206	130
Corporate bonds (quoted)	103	–	106	–
Diversified growth funds (quoted)	120	76	196	82
Credit funds (unquoted)	163	–	153	–
Liability driven investments (unquoted)	657	137	555	102
Scottish Limited Partnership (unquoted)	26	–	27	–
Cash (quoted)	5	1	6	1
	1,261	349	1,249	315

For definitions of liability driven investments, diversified growth funds and credit funds, see note 8.3.

The movement in the fair value of the Schemes' assets over the period was as follows:

	2019 CARE £m	2019 RSP £m	2018 CARE £m	2018 RSP £m
Fair value of scheme assets at start of period	1,249	315	1,222	219
Interest income	33	9	34	7
Return on scheme assets excluding interest	7	(6)	57	25
Employer contributions	2	49	–	67
Employee contributions	–	3	–	3
Settlement and curtailment	–	–	(37)	–
Benefits paid	(29)	(20)	(26)	(5)
Administrative expenses	(1)	(1)	(1)	(1)
Fair value of scheme assets at end of period	1,261	349	1,249	315

Scottish Limited Partnership

The Company has previously entered into a pension funding partnership structure. In January 2013, the Company made a contribution to the CARE Scheme of £30m. On the same day, the CARE Scheme invested £30m in the Wm Morrison Property Partnership (SLP) as a limited partner. The SLP holds properties which have been leased back to the Company in return for rental income payments. The Group retains control over these properties, including the flexibility to substitute alternative properties.

As a partner in the SLP, the CARE Scheme is entitled to receive a fixed distribution of £2.2m p.a. from the profits of the SLP for 20 years from 2013, subject to certain conditions. In July 2015, the SLP was amended to enhance the security provided to the Schemes by including additional properties. The terms of these additional properties are such that the CARE Scheme has no entitlement to receive a distribution.

The CARE Scheme's interests in the SLP increases the net pension asset on an IAS 19 accounting basis because the investments held by the CARE Scheme qualify as an asset for Company IAS 19 purposes.

11 Company financial statements continued

11.16 Pensions continued

11.16.3 Present value of obligations

The movement in the defined benefit obligation over the period was as follows:

	2019 CARE £m	2019 RSP £m	2018 CARE £m	2018 RSP £m
Defined benefit obligation at start of period	(1,019)	(333)	(1,102)	(240)
Current service cost	–	(53)	–	(91)
Past service cost (guaranteed minimum pension)	(2)	–	–	–
Interest expense	(27)	(9)	(31)	(7)
Actuarial gain – demographic assumptions	31	–	–	–
Actuarial gain – financial assumptions	11	3	42	4
Actuarial gain/(loss) – experience	–	3	–	(1)
Settlement and curtailment gain	–	–	46	–
Curtailment loss from closure of the pension scheme (note 11.16.6)	–	(19)	–	–
Employee contributions	–	(3)	–	(3)
Benefits paid	29	20	26	5
Defined benefit obligation at end of period	(977)	(391)	(1,019)	(333)

The durations of the defined benefit obligations at the end of the 2019 reporting period are: RSP 19 years; CARE 26 years. The weighted average duration of the Schemes is 24 years.

11.16.4 Significant actuarial assumptions

The following are the principal actuarial assumptions at the reporting date (expressed as weighted averages):

Financial assumptions	2019 CARE	2019 RSP	2018 CARE	2018 RSP
Discount rate applied to scheme liabilities (% p.a.)	2.8%	2.7%	2.8%	2.7%
Inflation assumption (RPI) (% p.a.)	3.2%	3.2%	3.3%	3.3%

Life expectancies	2019 CARE	2019 RSP	2018 CARE	2018 RSP
Longevity in years from age 65 for current pensioners				
Male	21.4	n/a	21.8	n/a
Female	22.8	n/a	23.3	n/a
Longevity in years from age 65 for current members aged 45				
Male	23.2	n/a	24.0	n/a
Female	24.7	n/a	25.7	n/a

During the 53 weeks ended 4 February 2018, the Company updated the methodology for deriving the discount rate assumption used in valuing the pension scheme liabilities. The methodology has also been used in the IAS 19 valuation at 3 February 2019. The Company believes that this approach better reflects expected yields on high quality corporate bonds over the duration of the Company'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 Care Scheme, 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 Company 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 Care Scheme, with CMI 2015 projections and a long-term rate of improvement of 1.5% p.a.

Notes to the Company financial statements continued

52 weeks ended 3 February 2019

11 Company financial statements continued

11.16 Pensions continued

11.16.4 Significant actuarial assumptions continued

Related actuarial assumptions (expressed as weighted averages)

	2019 CARE	2019 RSP	2018 CARE	2018 RSP
Rate of increases in salaries (% p.a.)	–	–	–	2.2%
Rate of increase of pensions in payment: RPI inflation capped at either 2.5% p.a. or 5% p.a. (% p.a.)	2.1%/3.1%	–	2.1%/3.1%	–
Pre-retirement revaluation for active members (% p.a.)	–	–	–	1.8%
Rate of increase of pensions in deferment: CPI inflation capped at either 2.5% p.a. or 5% p.a. (% p.a.)	–/2.1%	2.1%/ –	–/2.2%	2.2%/–
CPI inflation (% p.a.)	2.1%	2.1%	2.2%	2.2%

Sensitivity analysis on significant actuarial assumptions

The following table summarises the impact on the defined benefit obligation at the end of the reporting period if each of the significant actuarial assumptions listed above were changed, in isolation, assuming no other changes in market conditions at the accounting date. In practice any movement in assumptions could be accompanied by a partially offsetting change in asset values, and the corresponding overall impact on the net asset/(liability) is therefore likely to be lower than the amounts below in a number of scenarios. Extrapolation of the sensitivities shown may not be appropriate.

		2019 CARE	2019 RSP	2018 CARE	2018 RSP
Discount rate applied to Scheme obligations	+/-0.1% p.a.	-/+25	-/+7	-/+25	-/+7
Inflation assumption (RPI and associated assumptions)	+/-0.1% p.a.	+/-20	+/-7	+/-25	+/-3
Longevity	+one year	+50	n/a	+50	n/a

11.16.5 Funding

The CARE Scheme is entirely funded by the Company. The Company along with other subsidiaries of the Group participated in the RSP until its closure. There is no contractual agreement or stated policy for charging the net defined benefit cost between the Company and its subsidiaries. The contribution of each participating subsidiary to the RSP was calculated in proportion to the number of employees that are members of the RSP.

The latest full actuarial valuations were carried out as at 5 April 2016 for the CARE Scheme and the RSP. The valuations indicated that, on the agreed funding basis, the CARE and RSP Schemes had surpluses of £1m and £10m respectively. As a result of these funding positions there are currently no deficit contributions payable. As such there is no 'minimum funding requirement' in force. The results of the 2016 actuarial valuations for the CARE Scheme has been used and updated for IAS 19 'Employee benefits' purposes for the period to 3 February 2019 by a qualified independent actuary.

For the RSP an actuarial valuation for the purposes of IAS 19, based on member data as at 31 December 2017, has been completed and updated to 3 February 2019 by a qualified independent actuary. The Schemes expose the Company to inflation risk, interest rate risk and market investment risk. In addition, the CARE Scheme exposes the Company to longevity risk.

At 3 February 2019, schemes in surplus have been disclosed within the assets on the balance sheet. The Company 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 Company has an unconditional right to a refund of a surplus. In respect of the RSP, this is on the basis that paragraph 11(a) of IFRIC 14 applies enabling a refund of surplus during the life of the RSP. In respect of the CARE 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). Amendments to the current version of IFRIC 14 are currently being considered. The legal advice received by the Company has concluded that the above accounting treatment should not be affected by the current exposure draft, including the planned revised wording, to IFRIC 14.

The current best estimate of Company contributions to be paid to the defined benefit schemes for the accounting period commencing 3 February 2019 is £2m (2018: £67m). This estimate includes amounts payable from the SLP and salary sacrificed contributions from employees.

11 Company financial statements continued

11.16 Pensions continued

11.16.6 Closure of the RSP

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

11.16.7 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 CARE Scheme. The Company has worked with the Trustees of the scheme and independent actuaries and has estimated the cost of equalising benefits at £2m. This cost has been recognised in the 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.

11.16.8 Defined contribution scheme

The Company 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 has become the auto enrolment scheme for the Company and as such the Company was liable for backdated contributions for eligible employees to 1 October 2012. This was paid in January 2018.

As the MPRS is a defined contribution scheme, the Company 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 Company paid contributions of £21m to the MPRS (2018: £3m), and expects to contribute £52m for the following period (2018: £15m).

11.17 Share capital

	Number of shares millions	Share capital £m	Share premium £m	Total £m
At 5 February 2018	2,355.9	236	159	**395**
Share options exercised	12.4	1	19	**20**
At 3 February 2019	2,368.3	237	178	**415**

All issued shares are fully paid and have a par value of 10p per share (2018: 10p per share).

For further details on share capital and share premium, see note 6.5.

11.18 Reserves

	2019 £m	2018 £m
Capital redemption reserve	**39**	39
Merger reserve	**1,202**	1,604
Hedging reserve	**10**	2
Retained earnings	**2,569**	2,568
Total	**3,820**	4,213

Capital redemption reserve

The capital redemption reserve at the start of the period related to 389,631,561 of the Company's own shares which it purchased on the open market for cancellation between 31 March 2008 and 8 March 2013 at a total cost of £1,081m.

Merger reserve

The merger reserve represents the reserve arising on the acquisition in 2004 of Safeway Limited. This merger reserve was initially considered unrealised on the basis it was represented by investments held by the Company, which is not qualifying consideration in accordance with Tech 02/17 issued by the Institute of Chartered Accountants in England and Wales (ICAEW).

During the 53 weeks ended 4 February 2018, the majority of the Company's investments were transferred to another group company, Wm Morrison Supermarkets Holdings Limited, in exchange for an intercompany loan. To the extent that this intercompany balance is settled in qualifying consideration, the same proportion of the merger reserve becomes realised. During 52 weeks ended 3 February 2019, this intercompany loan balance was partially settled through £402m of qualifying consideration (2018: £974m). As a result, £402m of the merger reserve balance was realised in the period (2018: £974m).

Hedging reserve

This represents the gains and losses arising on derivatives used for cash flow hedging.

Notes to the Company financial statements continued

52 weeks ended 3 February 2019

11 Company financial statements continued

11.19 Capital commitments

	2019 £m	2018 £m
Contracts placed for future capital expenditure not provided in the financial statements (property, plant and equipment and intangible assets)	32	27

11.20 Operating lease commitments

Total outstanding commitments for future minimum lease payments under non-cancellable operating leases are:

	2019		2018	
	Land and buildings £m	Plant, equipment, fixtures and vehicles £m	Land and buildings £m	Plant, equipment, fixtures and vehicles £m
Within one year	94	17	87	13
More than one year and less than five years	376	33	339	22
After five years	1,480	–	1,308	–
	1,950	50	1,734	35

In addition to the above, the Company has operating lease commitments of £252m (2018: £372m) with other Group companies.

11.21 Guarantees and contingent liabilities

The Company has given an unlimited guarantee in respect of the overdraft of all the subsidiary undertakings within the Group's banking offset agreement. The overdraft position at 3 February 2019 was £nil (2018: £nil). The Company has also provided a guarantee in respect of sterling bonds amounting to £nil at fair value (2018: £75m) in respect of a subsidiary undertaking. Where the Company enters into financial contracts to guarantee the indebtedness of other companies within its Group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

Following the disposal of the land and building of its customer fulfilment centre at Dordon to a third party in the 53 weeks ended 4 February 2018, the Company continues to guarantee the lease in respect of this site. If the lessee were to default, their lease obligations could revert back to the Company under the terms of the guarantee and become a liability of the Company. Should the lessee default, the additional future commitment is estimated at up to £31m (2018: £32m).

The Company 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 Company was liable for the actions of the former employee who conducted the data theft. The Company 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 appeals have been concluded. During the 52 weeks ended 3 February 2019 the High Court rejected this appeal and the Company is now appealing to the Supreme Court. It is the Directors' view that at this stage of the process the Company can not 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.

Related undertakings

In accordance with section 409 of the Companies Act 2006, a full list of related undertakings including the country of incorporation, the principal activity and the effective percentage of equity owned as at 3 February 2019 is disclosed below. The registered address of all undertakings is Hilmore House, Gain Lane, Bradford, BD3 7DL unless otherwise stated.

Related undertakings of Wm Morrison Supermarkets PLC

Name	Country of incorporation	Principal activity	Interest
Bos Brothers Fruit and Vegetables B.V.[1]	Netherlands	Acquirer of food products	100%
Chippendale Foods Limited	United Kingdom	Supplier of eggs	100%
De Mandeville Gate Management Company Limited	United Kingdom	Property maintenance	51%
Dordon SPV Limited[2]	United Kingdom	Dormant	100%
Farock Insurance Company Limited[3]	Isle of Man	Insurance company	100%
Fisherdale Properties Limited[2]	United Kingdom	Dormant	100%
Flower World Limited	United Kingdom	Dormant	100%
Ipsolus Limited[2]	United Kingdom	Dormant	100%
MHE JVCo Limited[4]	United Kingdom	Joint venture with Ocado	51%
MoClo Limited[2]	United Kingdom	Dormant	100%
Neerock Farming Limited[5]	United Kingdom	Dormant	100%
Perimeter Holdings Limited	United Kingdom	Property development	100%
Wm Morrison (HK) Limited[6]	Hong Kong	Acquirer of non-food products	100%
Wm Morrison Nominee 1 Limited	United Kingdom	Dormant	100%
Wm Morrison Nominee 2 Limited	United Kingdom	Dormant	100%
Wm Morrison Nominee 3 Limited	United Kingdom	Dormant	100%
Wm Morrison Pension Trustee Limited	United Kingdom	Dormant	100%
Wm Morrison Property Investments Limited[7]	United Kingdom	General partner in a partnership	100%
Wm Morrison Supermarkets Holdings Limited	United Kingdom	Holding company	100%

Related undertakings of other Group companies

Name	Country of incorporation	Principal activity	Interest
Alliance Property Holdings Limited	United Kingdom	Dormant	100%
Amos Hinton & Sons Limited	United Kingdom	Dormant	100%
Argyle Securities Limited[7]	United Kingdom	Dormant	100%
Argyll Foods Limited	United Kingdom	Dormant	100%
Argyll Stores (Holdings) Limited	United Kingdom	Dormant	100%
Ascot Road Watford Limited	United Kingdom	Holding company	100%
Cancede Limited	United Kingdom	Property investment	100%
Cordon Bleu Freezer Food Centres Limited	United Kingdom	Dormant	100%
Divertigo Limited	United Kingdom	Dormant	100%
English Real Estates Limited	United Kingdom	Dormant	100%
Erith Pier Company Limited	United Kingdom	Property maintenance	100%
Evermere Limited	United Kingdom	Dormant	100%
Farmers Boy Limited	United Kingdom	Manufacturer and distributor of fresh food products	100%
Farmers Boy (Deeside) Limited	United Kingdom	Dormant	100%
Federated Properties Limited	United Kingdom	Dormant	100%
Firsdell Ltd	United Kingdom	Property investment	100%
Freehold Investments Limited[8]	Jersey	Property investment	100%
Holsa Limited	United Kingdom	Dormant	100%
International Seafoods Limited	United Kingdom	Preparation and supply of seafood	100%
J3 Property Limited[7]	United Kingdom	Dormant	100%
Kiddicare Properties Limited	United Kingdom	Lease company	100%
Lease Securities Limited[8]	Jersey	Property investment	100%
Maypole Limited[9]	Guernsey	Investment company	100%
MDW (Eastbourne) Limited	United Kingdom	Dormant	100%
Monument Hill Properties Limited	United Kingdom	Dormant	100%
Neerock Limited	United Kingdom	Fresh meat processor	100%
Newincco 1072 Limited	United Kingdom	Property development	100%

Related undertakings continued

Related undertakings of other Group companies continued

Name	Country of incorporation	Principal activity	Interest
Oldwest Limited[7]	United Kingdom	Dormant	100%
Optimisation Developments Limited	United Kingdom	Property development	100%
Optimisation Investments Limited	United Kingdom	Property investment	100%
Presto Stores (LC) Limited	United Kingdom	Dormant	100%
Presto Stores Limited	United Kingdom	Dormant	100%
Rathbones Bakeries Limited	United Kingdom	Dormant	100%
Rathbone Kear Limited	United Kingdom	Manufacturer and distributor of morning goods and bread	100%
RP (No. 37) Limited[8]	Jersey	Property investment	100%
Safeway (Overseas) Limited	United Kingdom	Grocery retailer (overseas)	100%
Safeway Development Limited	United Kingdom	Dormant	100%
Safeway Food Stores Limited	United Kingdom	Dormant	100%
Safeway Limited	United Kingdom	Holding company	100%
Safeway Pensions Trustees Company Limited	United Kingdom	Dormant	100%
Safeway Pension Trustees Limited	United Kingdom	Dormant	100%
Safeway Properties Limited	United Kingdom	Property investment	100%
Safeway QUEST Trustees Limited	United Kingdom	Dormant	100%
Safeway Stores (Gibraltar) Pension Trustees Limited[10]	Gibraltar	Dormant	100%
Safeway Stores (Ireland) Limited	United Kingdom	Dormant	100%
Safeway Stores Limited	United Kingdom	Grocery retailer	100%
Safeway Trustee (FURB) Limited	United Kingdom	Dormant	100%
Safeway Wholesale Limited	United Kingdom	Dormant	100%
Simply Fresh Foods Holdings Limited	United Kingdom	Dormant	100%
Stalwart Investments Limited[8]	Jersey	Property investment	100%
Stores Group Limited	United Kingdom	Investment company	100%
The Home & Colonial Stores Limited	United Kingdom	Dormant	100%
The Medical Hall Limited[11]	Gibraltar	Pharmaceutical licence holder (Gibraltar)	100%
The Morrisons Foundation	United Kingdom	Charity	100%
Tower Centre Hoddesdon Limited	United Kingdom	Property development	100%
Trilogy (Leamington Spa) Limited	United Kingdom	Property development	100%
Velligrist Limited	United Kingdom	Dormant	100%
Wm Morrison At Source Limited	United Kingdom	Technical testing and analysis	100%
Wm Morrison Bananas Limited	United Kingdom	Property investment	100%
Wm Morrison GP 1 Limited	United Kingdom	General partner in a partnership	100%
Wm Morrison GP 2 Limited	United Kingdom	General partner in a partnership	100%
Wm Morrison GP 3 Limited	United Kingdom	General partner in a partnership	100%
Wm Morrison Growers Limited[12]	United Kingdom	Acquirer of fresh produce	100%
Wm Morrison LP 1 Limited	United Kingdom	Limited partner in a partnership	100%
Wm Morrison LP 2 Limited	United Kingdom	Limited partner in a partnership	100%
Wm Morrison LP 3 Limited	United Kingdom	Limited partner in a partnership	100%
Wm Morrison Produce Limited	United Kingdom	Produce packer and purchaser	100%
Wm Morrison Property Partnership LP[7]	United Kingdom	Scottish Limited Property Partnership	100%
Wm Morrison Property Partnership 1 Limited Partnership	United Kingdom	Property partnership	100%
Wm Morrison Property Partnership 2 Limited Partnership	United Kingdom	Property partnership	100%
Wm Morrison Property Partnership 3 Limited Partnership	United Kingdom	Property partnership	100%
Wm Morrison Supermarket Stores Ltd	United Kingdom	Dormant	100%

1 Registered address 3151, ZJ Hoek van Holland, the Netherlands, Amersgat 17.
2 Registered address 1 Ashley Road, 3rd Floor, Altrincham, WA14 2DT.
3 Registered address 1st Floor, Rose House, 51-59 Circular Road, Douglas, Isle of Man, IM1 1AZ.
4 Registered address Buildings 1 & 2, Trident Place, Mosquito Way, Hatfield, Hertfordshire, AL10 9UL.
5 Registered address Market Hill, Market Hill Road, Turriff, Aberdeenshire, Scotland, AB53 4PA.
6 Registered address 4304 China Resources Building, 26 Harbour Road, Wanchai, Hong Kong.
7 Registered address Capella Building (Tenth Floor), 60 York Street, Glasgow, G2 8JX.
8 Registered address Lime Grove House, Green Street, St Helier, Jersey, JE1 2ST.
9 Registered address 1st & 2nd floors, Elizabeth House, Les Ruettes Brayes, St Peter Port, Guernsey, GY1 4LX.
10 Registered address Suites 41/42 Victoria House, 26 Main Street, Gibraltar.
11 Registered address 1st Floor, 5 Secretary's Lane, Gibraltar GX11 1AA.
12 Registered address Stubbings Farm, Otley, West Yorkshire, United Kingdom, LS21 1DN.

Five year summary

52 weeks ended 3 February 2019

Consolidated income statement

	2019 £m	2018[1] £m	2017 £m	2016 £m	2015 £m
Revenue	17,735	17,262	16,317	16,122	16,816
Cost of sales	(17,128)	(16,629)	(15,713)	(15,505)	(16,055)
Gross profit	607	633	604	617	761
Other operating income	88	78	76	72	78
Profit/loss on disposal and exit of properties and sale of business and investments	2	19	32	97	135
Administrative expenses	(303)	(272)	(244)	(472)	(1,670)
Operating profit/(loss)	394	458	468	314	(696)
Finance costs	(97)	(94)	(160)	(112)	(105)
Finance income	22	14	15	13	7
Share of profit of joint venture (net of tax)	1	2	2	2	2
Profit/(loss) before taxation	320	380	325	217	(792)
Taxation	(76)	(69)	(20)	5	31
Profit/(loss) for the period attributable to the owners of the Company	244	311	305	222	(761)
Profit before tax and exceptionals[2]	406	374	337	242	345
Profit before exceptionals after tax[2]	311	285	253	181	255
Earnings per share (pence):					
Basic	10.34	13.30	13.11	9.51	(32.63)
Diluted	10.11	13.03	12.95	9.47	(32.63)
Basic before exceptionals[2]	13.17	12.19	10.86	7.77	10.93
Dividend per ordinary share (pence)	12.60	10.09	5.43	5.00	13.65

1 Reported on a 53 week basis.
2 For definitions, see the Glossary on pages 132 and 133.

Five year summary continued

52 weeks ended 3 February 2019

Consolidated balance sheet

	2019 £m	2018 £m	2017 £m	2016 £m	2015 £m
Assets					
Goodwill and intangible assets	**404**	428	445	483	520
Property, plant and equipment	**7,312**	7,243	7,227	7,161	7,252
Investment property	**26**	33	33	37	68
Pension asset	**730**	612	293	186	4
Investment in joint venture	**47**	53	56	63	68
Investments	**–**	–	–	31	31
Other financial assets	**15**	16	16	30	–
Non-current assets	**8,534**	8,385	8,070	7,991	7,943
Current assets	**1,343**	1,278	1,176	1,316	1,144
Assets classified as held-for-sale	**39**	4	–	–	84
Liabilities					
Current liabilities	**(3,295)**	(3,081)	(2,864)	(2,755)	(2,273)
Other financial liabilities	**(1,112)**	(1,246)	(1,555)	(2,058)	(2,558)
Deferred tax liabilities	**(483)**	(478)	(417)	(429)	(415)
Pension liabilities	**(42)**	(18)	(21)	–	(43)
Provisions	**(353)**	(299)	(326)	(309)	(288)
Non-current liabilities	**(1,990)**	(2,041)	(2,319)	(2,796)	(3,304)
Net assets	**4,631**	4,545	4,063	3,756	3,594
Shareholders' equity					
Called-up share capital	**237**	236	234	234	234
Share premium	**178**	159	128	127	127
Capital redemption reserve	**39**	39	39	39	39
Merger reserve	**2,578**	2,578	2,578	2,578	2,578
Retained earnings and other reserves	**1,599**	1,533	1,084	778	616
Total equity attributable to the owners of the Company	**4,631**	4,545	4,063	3,756	3,594

Supplementary information

52 weeks ended 3 February 2019

	2019	2018	2017	2016	2015
Increase/(decrease) on previous year %					
Revenue	**2.74**	5.79	1.21	(4.13)	(4.89)
Operating profit/(loss) before exceptionals	**4.49**	3.01	27.43	(23.30)	(44.60)
Profit/(loss) before taxation	**(15.79)**	16.92	49.77	(127.40)	349.35
Profit/(loss) after taxation	**(21.54)**	1.97	37.39	(129.17)	219.38
Profit before taxation and exceptionals	**8.56**	10.98	39.26	(29.86)	(52.02)
Diluted earnings per share	**(22.41)**	0.62	36.74	(129.17)	(218.96)
Ordinary dividend per share	**8.37**	12.15	8.60	(18.32)	5.00
% of revenue					
Operating profit before exceptionals	**2.62**	2.58	2.65	2.10	2.63
Profit/(loss) before taxation	**1.80**	2.20	1.99	1.35	(4.71)
Profit/(loss) after taxation	**1.38**	1.80	1.87	1.38	(4.52)
Retail portfolio					
Total number of stores	**494**	491	491	498	667
Petrol filling stations	**335**	334	334	336	335
Total sales area (000s square feet)[1]	**14,884**	14,094	14,094	14,142	14,732
Total supermarket takings ex petrol (gross) £m[2]	**14,023**	14,061	13,591	13,700	14,033
Average takings per store per week ex petrol (£000)[2]	**547**	540	531	521	531
Average number of customers per store per week[2]	**24,399**	24,164	23,532	22,573	22,034
Average take per customer (£)[2]	**22.52**	22.36	22.62	23.44	23.83
Employees					
Full time	**39,581**	40,162	42,054	47,925	48,519
Part time	**64,049**	65,325	70,311	72,988	71,259
Total	**103,630**	105,487	112,365	120,913	119,778
Full time equivalent (average)	**72,120**	73,210	77,300	82,992	85,545
Average per FTE employee:					
Revenue (£000s)	**246**	236	211	194	197
Operating profit before exceptionals (£)	**6,448**	6,078	5,589	4,085	5,167
Employee costs (£)	**26,345**	26,472	24,900	23,424	23,029

1 During the 52 weeks ended 3 February 2019, we adjusted the internal sales area of several stores to incorporate refits, re-configurations and other changes in gross to net space.
2 Excludes convenience and online.

The impact of week 53 in the period ended 3 February 2018 was to increase revenue by £318m and increase profit before taxation by £5m.

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 previously 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.

Measures	Closest equivalent IFRS measure	Definition and purpose	Reconciliation for 2018/19 Group measures[1]
Profit measures			
Like-for-like (LFL) sales growth	Revenue	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. See page 46 in the Directors' remuneration report for more information.	52 weeks ended 3 February 2019 % Group LFL (exc. fuel): 4.8% Group LFL (inc. fuel): 4.3% 53rd week impact: (1.9)% Net new space: 0.3% **Total revenue year-on-year: 2.7%**
Total sales growth	Revenue	**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. See page 46 in the Directors' remuneration report for more information.	A reconciliation of total sales including and excluding fuel is provided in note 1.2 of the financial statements.
Profit before tax and exceptionals	Profit before tax	Profit before tax and exceptionals 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. See page 46 in the Directors' remuneration report for more information.	A reconciliation of this measure is provided in note 1.4 of the financial statements.
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 exceptionals and tax of £406m less a normalised tax charge of £95m (see note 1.4 of the financial statements).
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 ongoing 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 6.2 of the 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.

Measures	Closest equivalent IFRS measure	Definition and purpose	Reconciliation for 2018/19 Group measures[1]
Profit measures continued			
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, and in setting the dividend policy. See page 46 in the Directors' remuneration report for more information.	A reconciliation of this measure is included in note 1.5 of the financial statements.
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 1.5 of the financial statements.
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 financial statements.
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 (£(24)m) before payment of dividend (£289m).
Adjusted free cash flow	No direct equivalent	See page 46 in the Directors' remuneration report. This measure is a key measure used by the Directors. It provides key information on the level of cash generated by the Group and is used for Director and management remuneration.	See page 46 in the Directors' remuneration report.
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 6.4 of the financial statements.
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 5.6 of the financial statements.
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 non-recurring movements relating to property balances.	A reconciliation of this measure is provided in note 5.6 of the financial statements.
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) adjusted 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).

Investor relations and financial calendar

Financial calendar 2018/19

Financial events and dividends	
Quarter 1 trading statement	9 May 2019
Final dividend record date	24 May 2019
Annual General Meeting	13 Jun 2019
Final dividend payment date	1 Jul 2019
Half year end	4 Aug 2019
Interim results announcement	12 Sep 2019
Interim dividend record date	27 Sep 2019
Interim dividend payment date	1 Nov 2019
Financial year end	2 Feb 2020

Company Secretary

Jonathan Burke

Company number

00358949

Registered office

Wm Morrison Supermarkets PLC
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Investor relations

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Corporate responsibility enquiries

Telephone: 0845 611 5000

Annual General Meeting

The AGM will be held on 13 June 2019 at Wm Morrison Supermarkets PLC Head Office, Gain Lane, Bradford, BD3 7DL.

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

Dividend reinvestment plan

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

Morrisons website

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

Share price information

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

Online reports and accounts

Our annual and interim Group financial statements are available to download from the website along with Corporate responsibility reports and other financial announcements. The 2018/19 Annual Report is also available to view in HTML format at www.morrisons-corporate.com/investor-centre/financial-reports/

The information in the online Annual Report and Financial Statements, Strategic report, and the Interim reports is exactly the same as in the printed version.

Environmental matters

Our environmental footprint is taken very seriously. In the production of the 2018/19 Annual Report, we have contributed to the reduction in environmental damage in the following ways:

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

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

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

Registrars and shareholding enquiries

Administrative enquiries about the holding of Morrisons shares, such as change of address, change of ownership, dividend payments and the dividend reinvestment plan should be directed to:

Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA

Telephone: 0333 207 6513
Overseas: +44 (0) 121 415 0992
We are open between 09:00 – 17:30, Monday to Friday excluding public holidays in England and Wales.

Web: www.shareview.co.uk

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Central Square
29 Wellington Street
Leeds LS1 4DL

Stockbrokers

Jefferies Hoare Govett
Vintners Place
68 Upper Thames Street
London EC4V 3BJ

Credit Suisse
One Cabot Square
London E14 4QJ

Shore Capital
Bond Street House
14 Clifford Street
London W1S 4JU

Investment bankers

NM Rothschild & Sons Limited
St Swithin's Lane
London EC4N 8AL

Shareholder information

The number of shareholders at 3 February 2019 was 39,090 (2018: 41,444) and the number of shares in issue was 2,368,256,205 (2018: 2,355,814,852).

Analysis by shareholder (type)	Number of holders	% holders	Balances at 4 Feb 19	% capital
Private shareholder	35,492	90.80	85,967,300	3.63
Nominee companies	1,138	2.91	2,017,487,484	85.19
Deceased accounts	631	1.61	1,570,016	0.07
Limited companies	1,761	4.50	229,169,281	9.67
Other institutions	50	0.13	32,630,184	1.38
Bank and bank nominees	7	0.02	1,413,627	0.06
Investment trusts	7	0.02	9,664	0.00
Pension funds	4	0.01	8,649	0.00

Analysis by shareholder (holding)	Number of holders	% holders	Balances at 3 Feb 19	% capital
1–1,000	21,776	55.71	9,030,344	0.38
1,001–10,000	15,029	38.44	45,573,898	1.92
10,001–1,000,000	2,091	5.35	198,133,122	8.37
Over 1,000,000	194	0.50	2,115,518,841	89.33

Information at your fingertips

Customer

Our website, www.morrisons.com, allows customers to shop online, search thousands of inspirational products and recipes for the food we make and provide, and find out useful information about our stores and the services they offer.

The delivery service of Morrisons.com now covers over 75% of Great Britain. The geography that we cover is growing all the time with the Scotland, Wales and the South East opened up to customers in the last 12 months. A postcode checker makes it easy to see if customers are eligible for our home delivery service.

At Morrisons.com customers can:

- Purchase over 28,000 Morrisons grocery products, including over 500 'Best' products and 8,000 General Merchandise branded products;
- Navigate from our home page to all our various websites, including our new all year round order and collect service for gatherings and special occasions;
- Benefit from competitive 'one-off' delivery charges or purchase a delivery pass for unlimited deliveries for a one-off fee;
- Check out latest promotions and seasonal events, including online exclusive deals;
- Sign up for our latest offers and our marketing by email;
- Find recipes based on our ingredients and inspired by our campaigns and events;
- Read content on healthy eating, reducing food waste and our support for various charitable causes such as CLIC Sargent or the Morrisons Foundation; and
- Leave or research a Trustpilot review about the customer service received at Morrisons, and with four stars Morrisons is rated the highest of the UK multiples.

Customers can also sign up to and manage their 'More' Card account on our website, and earn points on all their purchases. In our dedicated area, customers can find out what our loyalty card scheme has to offer, check their points balance and make changes to preferences.

Not all products are available online. However, the website is an excellent vehicle for finding out more about things we offer and customers can do this on the website through a desktop, a smartphone (using our App) and even using their voice through an Alexa device – a first for a UK supermarket.

Customers are also able to preview selected items from ranges such as 'Nutmeg' and Market Street, and our new café offers, in-store services, award wins, pharmacies, glass hire and details of our new store openings online. As standard, morrisons.com also provides a mobile-friendly online Store Finder where customers can find details of their nearest store, opening times and services it offers.

Corporate

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

About Morrisons
Find information about the Group, its operations, strategy and structure, and past financial information.

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

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

Corporate responsibility
Find out about our corporate responsibility ethos, including how we take good care of our environment, society and how we go about business. www.morrisons.com/cr

Investors
Presentations, announcements and financial reports can be quickly and easily downloaded or viewed on-screen as PDFs. Investors can easily navigate around the Annual Report and Financial Statements 2018/19 on-screen, viewing only the parts they want to, at www.morrisons-corporate.com/investor-centre/financial-reports/

Webcasts
Webcasts of the Directors delivering the preliminary results for 2018/19 on 13 March 2019 are available.

Shareholder information
Other relevant shareholder information is available, for example share price history, dividends, financial calendar and corporate governance information.

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

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

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

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

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