Morrisons
Since 1899

Food makers and shopkeepers

Wm Morrison Supermarkets PLC
Annual Report and Financial Statements 2019/20

Living our purpose

Our core purpose is the reason the business exists and underpins everything we do.

To make and provide

As food makers and shopkeepers, we make and provide food

food we're all proud of

Food is at our heart. Our manufacturing capability and Market Street are unique points of difference

where everyone's effort is worthwhile

Our colleagues are our biggest asset. Food makers and shopkeepers, with talent coming up through the organisation, surrounded by experience and know how

Farming apprenticeship fund

£2m

We've opened up £2m of our government apprenticeship levy fund to develop the next generation of farmers.

Market Street

92%

of our customers shop Market Street. It is a key reason for customers choosing to shop at Morrisons.

Financial highlights

Group revenue

£17.5bn

2019/20	17.5
2018/19	17.7
2017/18[1]	17.3
2016/17	16.3
2015/16	16.1

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

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

(0.8)%

2019/20	(0.8)%
2018/19	4.8%
2017/18	2.8%
2016/17	1.9%
2015/16[1]	(2.0)%

1 2015/16 does not include wholesale contribution to LFL sales.

Profit before tax, exceptional items and net retirement benefit interest[1]

£408m +3.0%

2019/20	408
2018/19[2]	396
2017/18[3]	374
2016/17	337
2015/16[4]	242

1 Referred to as 'profit before tax and exceptionals*'.
2 Restated following the application of IFRS 16.
3 £369m 52 week equivalent.
4 2015/16 profit before tax and exceptionals* excluding £60m one-offs was £302m.

Free cash flow* SH

£238m

2019/20	238
2018/19[1]	281
2017/18	350
2016/17	670
2015/16	854

1 Restated following application of IFRS 16.

Net debt* SH

£2,458m

	Net debt excluding lease liabilities	Total
2019/20	1,082	2,458
2018/19	997	2,394
2017/18	973	2,386
2016/17	1,194	
2015/16	1,746	

● Net debt excluding lease liabilities
● Lease liabilities

2019/20, 2018/19 and 2017/18 on a post-IFRS 16 basis, 2016/17 and 2015/16 on a pre-IFRS 16 basis.

Total dividend SH

8.77p

	Ordinary	Total
2019/20[1]	6.67p	8.77p
2018/19[2]	6.60p	12.60p
2017/18[3]	6.09p	10.09p
2016/17	5.43p	
2015/16	5.00p	

● Ordinary ● Special

1 Including 2.00p special interim dividend.
2 Including 6.00p special dividend.
3 Including 4.00p special dividend.

Throughout the Directors' report and Strategic report:
Unless otherwise stated, 2019/20 refers to the 52 week period ended 2 February 2020 and 2018/19 refers to the 52 week period ended 3 February 2019. 2019 and 2020 refer to calendar years.

so more and more people

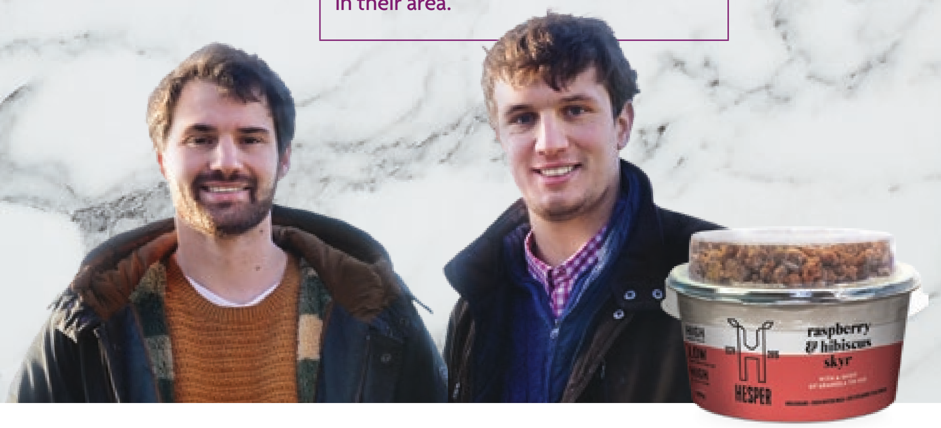
To grow sustainably, we must continue to listen and respond to societal changes and serve more and more customers better every day

can afford to enjoy eating well

We invest in the products that really matter to our customers, ensuring they are at the right price and always available

Locally-produced products

Our Nation's Local Food Maker events help us to identify local suppliers who can work and grow with us to supply Morrisons stores in their area.



Non-financial highlights

Customer satisfaction index C

+18% pts vs baseline

Jan 20	118
Jan 19	120
Jan 18	112
Jan 17	105
Jan 16	103

Measured at January each year.
Movement vs Jan 15 baseline (index at 100).

Colleague engagement index CO

77% +1.0% pts

2019/20	77%
2018/19	76%
2017/18	78%
2016/17	76%
2015/16	76%

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

Alignment of highlights to our stakeholder ambitions:

C Customers S Suppliers CO Colleagues SH Shareholders # All

Business highlights

- Significant investments in price, service, and Market Street are improving the shopping trip for customers
- £1.1bn disposal proceeds target exceeded following sale of our Camden store and site
- Morrisons store on Amazon Prime Now extended to eight cities, supplied from 17 Morrisons stores across the UK
- A further 44 Fresh Look store improvements complete, bringing the total to around 350 since the start of the programme
- New overseas export wholesale supply partner, CP Lotus in China
- 'Nutmeg' clothing launched online in February 2020

* Alternative Performance Measures as defined in the Glossary on pages 152 to 154.

Our business model

Our 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

Customers
- Around 12 million customer transactions every week

Colleagues
- Over 98,000 friendly and skilled colleagues, supported by a high quality management team

Sites
- 492 conveniently located supermarkets
- 18 manufacturing sites, eight distribution centres and an increasing digital presence

Brand
- A well-loved brand becoming more relevant and accessible to more customers
- Online delivery service available to over 90% of British households
- Stores across Britain giving the brand national reach

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

Our business is different in many ways…

Food maker

Our food making skills provide customers with products that are fresh, good quality, great value and made by us

We are a diverse team, 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 automated 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

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

Our national distribution network moves the food we make and buy

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

…delivering through our seven 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**
7. **Naturally digital**

p8 For more detail

Wholesaler

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

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

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

Retailer

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

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 for them
- Over 90% of British households now have access to our online offer, and we continue to expand our 'reach'

... and supported by our five ways of working

1. Customers first
2. Teamwork
3. Freedom in the framework
4. Listening and responding
5. Selling, controlling costs, growing profits and removing waste

p16 For more detail

Outcomes

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

p14 For more detail

Colleagues

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

p16 For more detail

Suppliers

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

p18 For more detail

Shareholders

- A strong balance sheet
- A cash generative business with low levels of debt
- Strong financial performance and returns

p20 For more detail

Community

- Making a positive contribution to society
- Respecting human rights and ethical trading practices
- Supporting good causes and helping people in times of need

p23 For more detail

Environment

- Reducing, reusing and recycling the plastic we use
- Reducing food waste
- Supporting British farmers to be more sustainable
- Tackling climate change

p24 For more detail

Chair's statement

"Our consistent, sustained progress was pleasing, with another year of profit growth, strong free cash flow, and the payment of both an ordinary and special dividend, all of which have been constant features of Morrisons strategy over the last few years."

Andrew Higginson, Chair

Looking forward in a competitive market

Last year was another packed full of retail incident. The market remained very competitive and crowded, with Brexit uncertainty a persistent concern for customers.

Further retailer failures, especially in non-food, were reminders of both the pressures on the UK high street and how critical it is to stay relevant for customers. The Competition and Markets Authority's (CMA) decision on the Sainsbury's/Asda deal seems to block large-scale, intra-sector mergers for the foreseeable future, but also raises some uncertainty regarding what both companies may do now. In addition, two of our major competitors announced they will soon be changing Chief Executive.

In this context, our consistent, sustained progress was pleasing, with another year of profit growth, strong free cash flow, and the payment of both an ordinary and special dividend, all of which have been constant features of Morrisons Fix, Rebuild and Grow strategy over the last few years. Since 2014/15, the balance sheet has strengthened considerably and we have paid and declared 64.7p per share in dividends to shareholders, equivalent to over £1.5bn. It is particularly pleasing that the continuity of the Morrisons team effort is being maintained from within, as home grown management talent is coming through.

While this broad-based progress is encouraging, sales momentum did ease somewhat. Perhaps after several years of strong, uninterrupted growth, some degree of slow down was to be expected. That is not really the way that Morrisons is wired though. We are looking to get back to being the best we possibly can, and do the best possible job for customers.

Turnaround momentum

As always, we will take some learnings into next year. I am confident that, despite the competitive, crowded market, Morrisons can thrive.

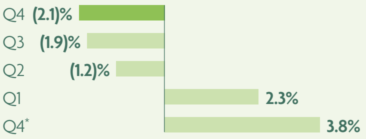
We will keep improving in key areas such as price, service and availability and we have, in our shops and our colleagues, the ability to be more on the front foot this year in delivering an even better shopping trip for customers.

As the Fresh Look programme and the innovations from the new stores are rolled out across the estate, Morrisons stores are looking more and more like a great fit for today's customers. They are neither too big nor too small, located in the heart of communities, with the emphasis on great value and good, British quality.

As I said last year, we are investing more and more into our Market Street butchers, bakers, fishmongers and other skilled craftspeople just as some of our competitors are coming out of service counters, a trend that accelerated further last year.

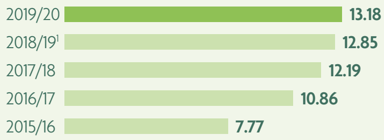
Our unique British fresh food manufacturing businesses give us an unrivalled provenance just as issues such as local, traceability and sustainability are becoming even more important for customers. Sections of this Annual Report and our Corporate Responsibility Report deal directly with many of these issues and show some of the excellent work Morrisons is doing on behalf of its multiple different types of stakeholder.

2019/20 quarterly Group LFL sales (exc. fuel)



Definition
See the Glossary on page 152 for a definition.
* 2018/19

Basic earnings per share before exceptionals (pence)



1 Restated for application of IFRS 16 'Leases'.

Definition
See the Glossary on page 153 for a definition.

Strong management succession plans

Complementing the best colleagues in our shops, is a talented senior team.

We were delighted to strengthen the Board with the appointment of a third Executive Director, Michael Gleeson, as Chief Financial Officer. Michael is a chartered accountant and joined Morrisons in 2014, initially as Group Financial Controller and then Supermarkets Finance Director. For the last three years he has been Trading Director, latterly responsible for ambient grocery, frozen, dairy, fuel and services. Both at Morrisons and before, he has a first-class track record and extensive financial, commercial and retail experience.

We were also delighted to promote Trevor Strain, already a proven business leader, to the new role of Chief Operating Officer. Trevor has been an Executive Director of Morrisons since 2013, initially as Chief Financial Officer and, for more than a year, as Group Chief Finance and Commercial Officer. In his new role, Trevor's responsibilities will include commercial, manufacturing, supply chain, logistics, operations development, online and wholesale.

The Board and I welcome both Michael and Trevor to their new roles and wish them every success in the future.

Together with changes to the Executive Committee that David describes, these important appointments are the result of a careful planning process that is bringing new generations of talent through, from within the Morrisons ranks. Continuity and management succession are vital parts of the turnaround and ones the Board will keep focusing on very closely as the evolution of the senior Executive and Non-Executive team continues.

COVID-19

At the time of writing, in mid-March, there is unprecedented challenge for our country, with the COVID-19 pandemic affecting almost everyone in the UK. The confidence in food supply is one of the key stabilising elements of a public health crisis and it is our duty to steer the Company through this period and support the country more widely. As a food maker ourselves, much of our supply chain is in our own hands, and we are all working incredibly hard throughout Morrisons to keep the shelves stocked, to keep store standards high and to serve our customers. Managing the business through the crisis, getting on the front foot, doing our best work, building our resilience and becoming even more central to the communities we operate in will help us beat this pandemic together.

Andrew Higginson, Chair

Governance highlights

Board leadership and Company purpose

p31

- The Company's purpose, values and strategy are aligned to its culture
- The views of key stakeholders are considered in Board discussions and decision making

Division of responsibilities

p34

- The Board comprises a majority of Non-Executive Directors
- There is an appropriate mixture of skills and experience on the Board
- Rooney Anand is the Senior Independent Director
- Tony van Kralingen is the Non-Executive Director designated to engage with colleagues on behalf of the Board

Composition, Succession and Evaluation

p38

- All Directors are subject to re-election at our AGM
- The internal Board effectiveness review found the Board to be effective, with a well balanced set of capabilities, experiences and expertise

Audit, Risk & Internal Control

p40

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

Remuneration

p46

- The Board is satisfied that remuneration policies and practices support the strategy and promote long-term sustainable success
- The updated Directors' Remuneration Policy will be tabled for shareholder approval at the 2020 AGM

Chief Executive's statement

"During the year, the tough trading conditions weighed on sales, but we kept focussed on our customers and our priorities – investing in the Morrisons price list, delivering good quality, improving availability, and closely managing our costs."

David Potts, Chief Executive

Momentum maintained in a more challenging year

2019/20 was our fourth year of turnaround and, in many ways, proved to be our most challenging to date. In more difficult conditions, I was pleased with the further progress we made, continuing the momentum of our Fix, Rebuild and Grow strategy.

However, at the time of writing in mid-March we are facing into a very rapidly developing crisis, the COVID-19 pandemic. It is a time of unprecedented challenges and we are managing the business through the crisis with the welfare of colleagues, customers and all stakeholders at the front of mind.

The last year

The very favourable summer weather and events such as the football World Cup in 2018, we always knew we were going to make for tougher year-on-year sales comparatives in 2019, but we also faced added challenges. Prolonged and unprecedented political debate over Brexit, plus a mid-December general election during our peak trading period, meant elevated levels of customer uncertainty throughout the year which weighed on shoppers' confidence.

In 2019/20, the food retail market, always very competitive, became collectively more so with much higher levels of promotional activity.

So, after three years of positive like-for-like, it was disappointing to report lower sales for the year. We will, of course, take some learnings into the new year.

However, despite the tough trading conditions weighing on sales, we kept focussed on our customers and our priorities – investing in the Morrisons price list, delivering good quality, improving availability, and closely managing our costs – and it was particularly pleasing to both grow profits for the fourth consecutive year and pay another special dividend.

Important plans

We are confident we have some important plans for the year ahead and beyond. We have introduced a fourth phase of our strategy – 'Sustain' – emphasising the critical importance of our broader societal and environmental responsibilities, and also striving to sustain the strong momentum of the turnaround so far and take opportunities to differentiate Morrisons.

Further progress is on many fronts: We are continuing to invest in the Morrisons price list, and are becoming cheaper across a basket of our customers' favourite items, both Morrisons own-brand and manufacturers' brands. For example, our basket of hundreds of Christmas items was once again very competitive, with most prices the same or lower than last year. We will keep on investing – lower prices mean more customers coming to Morrisons more often and more volume through our stores, both of which are key for the continued momentum of the turnaround.

Morrisons unique brands are taking shape. 'Morrisons Makes It', 'Naturally Wonky Naturally Wonderful', 'Best', 'Free From' and our vegan range, 'V Taste', are all going from strength to strength and are good examples of our great value, authentically British fresh food, made by our skilled team of food makers. In non-food 'Nutmeg' clothing is growing very rapidly, as too is Home and Leisure.

In addition, we are unique in owning our own fresh food businesses and brands, including International Seafoods Ltd, based in the port town of Grimsby, and Woodhead Bros, our fresh meat business. We are introducing low price, great value ranges under these and other exclusive Morrisons brands.

On Market Street we employ thousands of butchers, bakers, fishmongers, florists, and other highly skilled food specialists. Throughout the whole store, our knowledgeable and friendly colleagues are part of what makes us different from other supermarkets, and something our customers love most about Morrisons. We recently announced that we would be investing in 4,000 net new frontline jobs, all aimed at serving our customers better. We are removing over 3,000 managerial roles and creating 7,000 new customer-facing roles. This new colleague structure is exactly aligned with our food maker, shopkeeper credentials, and will put more pairs of hands on the shop floor, helping us stand out from the retail crowd and realise some of the productivity opportunities in our stores.

New format innovation is also beginning to come through, creating further opportunities for us. Our new store in Canning Town is our first with a Market Kitchen food-to-go offer, and we opened our first smaller community store, in Bolsover. We hope to develop many of these format and property learnings across our store estate over coming years. We were also very pleased to achieve a total consideration of around £120m for our store and site in Camden, which will be re-developed into a new Morrisons store, residences and businesses.

4,000

Net new front line jobs

38

Stores picking online orders

7th priority

Digitalising all aspects of our business is becoming increasingly important. Naturally digital has become our seventh priority

Broader, stronger, naturally digital

Away from our supermarkets, we are also making further good progress towards becoming a broader and stronger business.

In wholesale, with McColl's we are trialling the conversion of some of its shops to Morrisons Daily convenience stores. Sales so far are strong, and we are currently further tailoring and testing the proposition as we begin to transition McColl's remaining ex-Co-op stores to Morrisons wholesale supply. We are growing sales with all our other wholesale customers, including with Amazon, where the Morrisons store on Prime Now, our ultra-fast, same day online grocery home delivery service, has now extended to eight cities across the UK.

In online, we continue to grow quickly. We have deferred our entry into Ocado's Erith Customer Fulfilment Centre (CFC) until early-2021, when we expect reduced start-up costs. In the meantime, our part of the existing Dordon CFC is running at near-capacity and we are now picking Morrisons.com orders from almost 40 of our stores, and have extended our coverage area to over 90% of British households. In addition, we have begun a click and collect trial for customers in six stores, and have recently launched our 'Nutmeg' clothing offer online.

As we plan progress across many fronts, digitalising all aspects of our business is becoming increasingly important and relevant. So much so that 'naturally digital' has now become our seventh priority. We have set up a team to identify opportunities and act at pace to create value for all stakeholders by building digital solutions which will help us organise our colleagues and processes: to simplify all aspects of Morrisons, eliminate wasted effort, improve the shopping trip, and become more popular and accessible for customers. It will involve working with existing teams and infrastructure to improve or accelerate what we have, rather than invest significant new capital.

Sustainability spotlight

Our sustainability focus

'Sustain' is a core priority of our business and underpins everything we do.

A key part of this is the role Morrisons is playing in helping lower the use of carbon, and reducing our business and customers' reliance on plastic. It also means supporting British farmers, reducing food waste and supporting our suppliers to source responsibly. We are committed to being a positive force in the communities we serve, and are working towards making our business truly integrated locally.

CR www.morrisons-corporate.com/cr/corporate-responsibility/

A strong team

In the end though it's about people. Digital technology plays a key part, but Morrisons people are making the difference. We were delighted to welcome Michael Gleeson to the Board as Chief Financial Officer and Trevor Strain to his new role as Chief Operating Officer. We have also recently made some changes to the Executive Committee, which is responsible for day-to-day operations and strategy of the business. Andy Atkinson is now Group Commercial Director and David Lepley, an experienced retailer, has been promoted to the role of Group Retail Director. I am excited as these new generations of talent rise through the Morrisons ranks.

Most importantly though, I would like to thank all our colleagues – in the stores, manufacturing, distribution, and offices. Last year was more difficult, and recent weeks facing into COVID-19 have been incredibly testing for all, but our colleagues have been exceptional in their flexibility, professionalism, resourcefulness and positivity. We promise to keep working as hard as we can for all stakeholders as we overcome this virus together.

David Potts, Chief Executive

Seven priorities in action

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

These case studies illustrate progress made this year in building a broader, stronger Morrisons and delivering against our seven 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**
7. **Naturally digital**

Any case studies identified with the symbol below are part of our corporate responsibility objectives.

CR **Corporate Responsibility**

1

To be more competitive

Customers trust and rely on Morrisons to provide great value, especially on their favourite items.

- We continue to invest in the shopping trip and improve our relative competitiveness for customers.
- Being more competitive is about good quality as well as great prices. During the year we improved product specification, packaging and merchandising across hundreds of our customers' favourite items.
- We are making good progress developing our brands such as 'Morrisons Makes It', 'Naturally Wonky Naturally Wonderful', 'Best', 'Free From' and our vegan range 'V Taste'. We are also adding items from our unique manufacturing business, with brands such as International Seafoods and Woodhead Bros.
- In non-food, our Home and Leisure range is progressing well. 'Nutmeg' clothing is growing very rapidly and is now available online for both home delivery or click and collect from any Morrisons store.

Price crunch customer favourites

1,300 own-brand customer favourites

During 2019, we commenced our 'Customer Favourites' initiative, lowering prices on the products that matter the most to customers.

We've identified around 1,300 own-brand customer favourites to focus on, cutting prices within this basket.

The programme looks to improve both the quality and value of these products, carrying out benchmarking activities to ensure product and packaging quality.

In store, additional focus is given to merchandising, point of sale and product availability.

1 2 6

Sustainability spotlight

Reducing plastic packaging in our loose fruit and veg areas

We are extending our plastic-free fruit and veg areas in stores.

This follows a ten-month trial in three of our stores in Skipton, Guiseley and St Ives, where the amount of loose fruit and veg bought by customers increased by an average of 40%. Customers are able to purchase up to 127 varieties of loose fruit and veg including everyday essentials such as potatoes, cabbages, cauliflowers and apples, as well as seasonal varieties such as celeriac. The move to loose fruit and veg will reduce our use of plastic by an average of three tonnes per week, equating to around 160 tonnes per year.

This initiative rolled out to over 60 stores during 2019.

1 2 3 6 CR

CR www.morrisons-corporate.com/cr/policy/plastics/

3

Find local solutions

Our aim is to be truly integrated locally, to be part of local communities, helping them thrive in a sustainable way.

- We hosted another ten Local Food Maker events during the year, at venues from Fort William to Folkestone. We have now surpassed a key milestone of 1,000 new, local products, which we have sourced from 37 Local Food Maker events held across Britain in just three years.
- Many local food makers are continuing to expand their geographic reach through their relationship with Morrisons.
- Our Fresh Look programme continues to provide us with local opportunities. At Lake, on the Isle of Wight, our Fresh Look refit delivered our most integrated local store so far.
- We provide support for local communities through dedicated in-store Community Champions, community rooms where local groups can meet, and education and support programmes to help local customers enjoy eating well and address local issues.
- We also continue to improve our offer around events and local demographics.

2

To serve customers better

Customers tell us provenance, authenticity and service are very important.

- We are making investments to improve service for customers and in Market Street, and to increase the amount of plastic-free loose fruit and veg.
- Morrisons.com continues to grow. We can now access over 90% of British households through a combination of central fulfilment and store pick in almost 40 Morrisons supermarkets. We have also begun a click and collect service in six stores.
- We have introduced an initiative called ‘Too good to go’ in all of our stores allowing customers to purchase goods which are at risk of being wasted, at a discount.

Sustainability spotlight

Truly local at our Lake store

Customers are increasingly looking to buy local products and we now stock more than 1,000 local products, from 220 local suppliers.

Our store at Lake, Isle of Wight, is our most integrated store so far, stocking locally supplied milk, cheese, cream, coffee, eggs, meat, tomatoes, biscuits and garlic, and the top selling cream in the store is supplied by Briddlesford Lodge Farm & Dairy, situated just seven miles from the store.

1 2 3 4 6 CR

my.morrisons.com/foodmakers/local-sourcing/

BRITISH GROWN

‘Nutmeg’ range expands

489 stores

‘Nutmeg’ clothing is available in 489 stores, with womenswear growing throughout the year and now being stocked in almost 300 stores, alongside our already established childrenswear range. We have also released ‘Nutmeg’ gift cards, launched ‘Nutmeg’ online and have plans to introduce menswear.

1 2 3 4 6 7

Seven priorities in action

continued

Expanding our services

Market Kitchen

Our new store in Canning Town is the first to include a Market Kitchen which offers food-to-go options including smoothies, wraps and stir-fries.

1 2 3 4 6

4

Develop popular and useful services

We continue to develop and expand popular and useful services at Morrisons, providing more reasons for our customers to visit us.

- We have installed 100 rapid electric vehicle chargers at our stores, which are of the highest specification available, and allow Morrisons customers to fully recharge their electric vehicles within 20 to 60 minutes.
- After a successful start last year, we now have 50 Travel Money currency exchange kiosks in our stores.
- We now have around 35 hand car washes through our partner, Car Park Valeting, and are part of the Responsible Car Wash Scheme. We are also starting to introduce more high street offers onto our car parks. For example, we have launched the cash-for-clothes service, Smart Recycling, into nine stores, and have plans for more popular services such as barbers, beauty bars, windscreen repairs and travel pods.
- We have launched both Morrisons and 'Nutmeg' gift cards, introduced new third party gift card fixtures, digital gift card screens, and expanded the range of gift card services.

5

To simplify and speed up the organisation

Many components of our Fix, Rebuild, Grow and Sustain strategy aim at simplifying and speeding up, demonstrating how our priorities are interconnected.

- We are identifying several sources of productivity and cost saving opportunities.
- We made good progress in improving the shopping trip and being more competitive for our customers across areas such as merchandising, on-shelf stock holding, and range optimisation. We also introduced enhanced in-store systems to reduce waste and markdown and to enable better visibility of stock levels which improves availability.
- Work continues in our supply chain to introduce forecasting tools to enable better short and long-term order planning, and for promotions. We have also completed the implementation of a new fresh food warehouse management system in two depots.
- We have outsourced transportation planning and operations at three of our distribution centres and vehicle maintenance at five sites, bringing greater simplicity and flexibility to our distribution infrastructure.
- We are working more closely with suppliers, forming simpler, more collaborative relationships.

Investing in manufacturing capability

9,000+

manufacturing colleagues

- We provide fresh food straight from the factory
- A short supply chain keeps prices low for customers and provides choice
- Over 9,000 colleagues at food maker sites
- Increased automation is simplifying and speeding up

1 2 5 6 7 CR

6

To make the core supermarkets strong again

We continue to improve our existing store network through our Fresh Look refresh programme and are opening a handful of new stores each year.

- Our Fresh Look refits and new stores continue to provide learnings and changes across the Morrisons estate.
- 44 Fresh Look refits were completed in the year, bringing the total to almost 350 since the start of the programme.
- We will continue the Fresh Look programme and aim to have completed the refresh on the whole estate over coming years.
- We introduced almost 70 more garden centres for the summer season and around 50 additional enhanced Home & Leisure departments.
- We have started a programme to increase investment in our Market Street service counters. Customers tell us that our Market Street fresh food offer and our skilled craftspeople are highly valued and part of what makes Morrisons different.
- All three of 2018/19's new store openings, at Abergavenny, St Ives in Cambridgeshire, and Acocks Green in Birmingham are performing well.
- We opened four new stores during the year, which included two replacements. The new stores include Canning Town, which is our first store with a 'Market Kitchen' food-to-go offer, and Bolsover, our first smaller, 'community store' format.
- 'Nutmeg' womenswear is now in almost 300 stores and we have plans for a launch of menswear.

7

Naturally digital

With technology changing the way customers live and shop, we have added a seventh priority – to be naturally digital.

- We have set up a team to identify opportunities and act at pace to create value for all stakeholders by building digital solutions.
- This team and technology will help us organise our colleagues and processes to; simplify all aspects of Morrisons; eliminate wasted effort; improve the shopping trip; and become more popular and accessible for customers.
- It will involve working with existing teams and infrastructure to improve or accelerate what we have, rather than re-invent or invest significant new capital.
- As digital solutions aim to change things fast and once, they are increasingly the natural way to execute many elements of our Fix, Rebuild, Grow and Sustain turnaround strategy.

Garden centres

250+

We introduced almost 70 more garden centres for the summer season, taking the total across the estate to over 250, as our Fresh Look refits and new stores continue to drive innovation.

1 2 3 4 6

Sustainability spotlight

Our charity partner: CLIC Sargent

Our fundraising partnership with CLIC Sargent reached a total of £11m in January 2020. In late 2019, we decided to extend the initial three year partnership by a further 12 months, until February 2021. The highlight of this final year of fundraising will be the opening of a new CLIC Sargent 'Home from Home' in Manchester.

2019 saw increased colleague fundraising with more people than ever before taking on challenges and organising fundraising events. 133 colleagues took part in CLIC Sargent's sponsored Snowdon trek in July, and many more took part in store and site activities, such as Childhood Cancer Awareness Month. Other notable events included four 'Every Pack Gives Back' campaigns, together with the launch of a special own-brand ice cream and a bespoke shopper bag, designed by CLIC Sargent children, to raise money for the charity.

To date, the partnership has funded over 7,800 grants for families facing the unexpected costs of cancer, a 'home comforts' scheme at CLIC Sargent 'Home from Home', and has created a Nurse Educator programme to help improve young people's cancer care.

"Morrisons are incredible and we feel so grateful to have their support as a charity partner. We're in awe of what they've raised for CLIC Sargent in the last year – our partnership just keeps getting better and better."

Kate Lee, Chief Executive, CLIC Sargent

CR www.morrisons-corporate.com/cr/charity-of-the-year/

YOUNG LIVES vs CANCER CLIC SARGENT

Morrisons sites and brand

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

Morrisons
Since 1899

12m

We serve an average of around 12 million customers every week

50

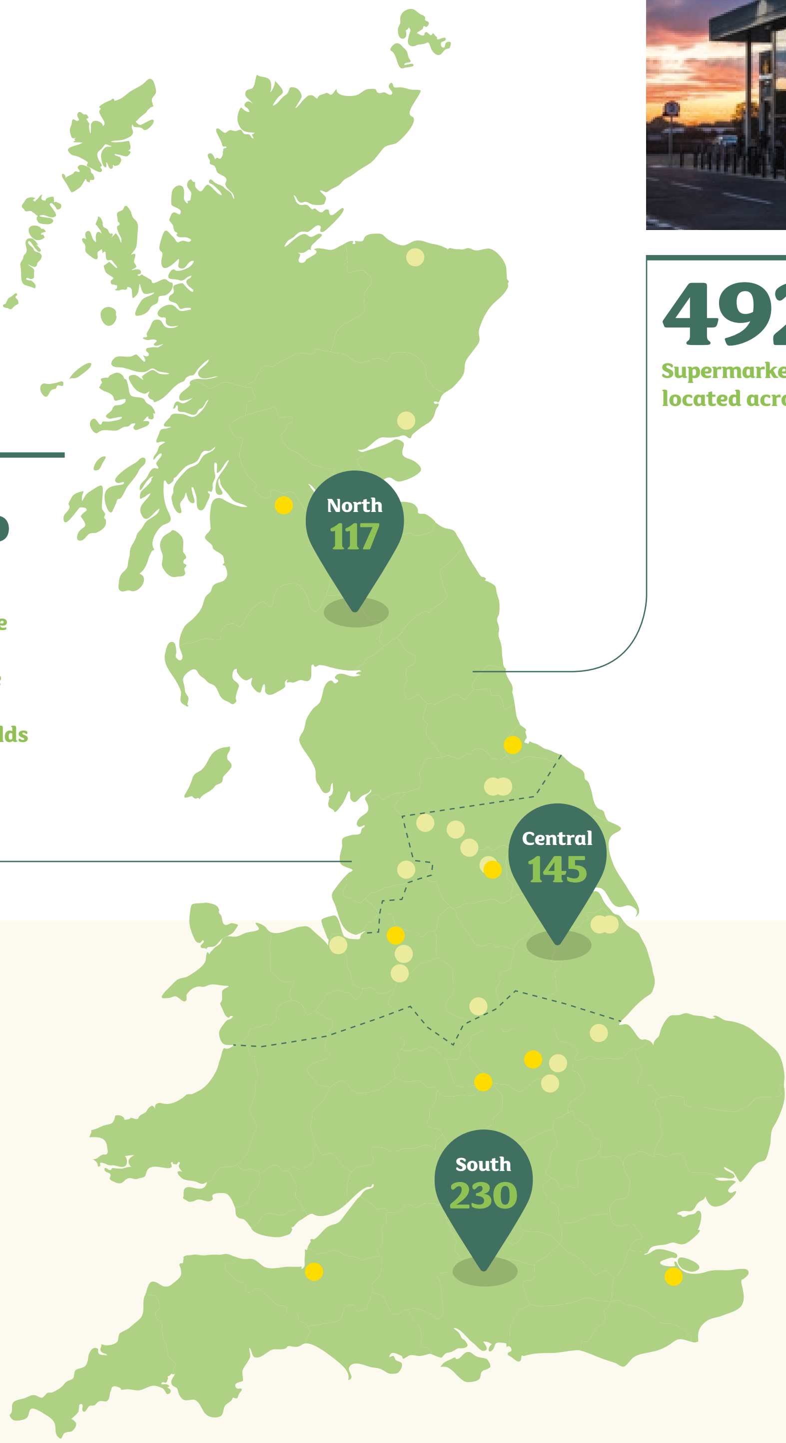
There are 50 Morrisons Daily convenience stores on our own forecourts and we have 335 petrol filling stations in total

492

Supermarkets conveniently located across the UK

90%

Our online home delivery service is now available to over 90% of British households



00 Number of stores by area

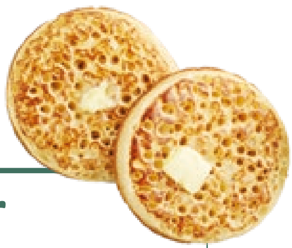
Distribution centre

Manufacturing site

220

local food makers

p9 For more detail



Over 50%

of the fresh food we sell is made by us

Our sites

At Morrisons we have 492 conveniently located supermarkets, along with 50 Morrisons Daily convenience stores located on our petrol forecourts, served by our seven regional distribution centres and our national distribution centre.

During 2019, we opened two new stores; one at Bolsover, which is a 'community' format store of 15,000 square feet, and one at Canning Town, along with two replacement stores at Folkestone and Oswestry, all of which are proving very popular with new and existing customers. The store at Canning Town is our first to incorporate 'Market Kitchen', an innovative food-to-go offer.

During the year, 44 stores received a Fresh Look refit and now benefit from a new look, innovation in produce, Food To Go, Café, Barista, Home & Leisure, Garden and Party. Our store-pick online delivery service has been extended to 38 stores and, together with our central fulfilment model, over 90% of British households now have access to our online offer. Morrisons store on Prime Now, the ultra-fast same day grocery service, in partnership with Amazon, has been expanded to 17 stores, in eight cities.

As the UK's biggest fresh food maker, our 18 well invested manufacturing sites make and supply our stores with meat, fish, bakery, flowers, cooked meats, pies, quiches, pastries, cheese and eggs, as well as fruit and veg. This provides unrivalled provenance and we work closely with British farmers and growers, to utilise whole crops, reduce food waste and provide good quality, great value products, which customers love. In addition to our 'Naturally Wonky Naturally Wonderful' brand, we have partnered with 'Too Good To Go' to offer discounted one kilo boxes of fresh products which have come to the end of their shelf life, but are still perfectly good to eat.

Our brands

Our wide range of brands cater for all tastes and budgets, from our entry price ranges: Savers, Woodhead Bros, International Seafoods and Greenside Deli to The Best range, for those special occasions and treats.

Veganism is becoming increasingly popular and we have extended our own-brand vegan range, V Taste. Our Free From range continues to expand and includes products such as jackfruit pizza, as well as vegan pasties and rolls available at our Market Street counters.

Renowned for provenance and authenticity, our own-brand crumpets and pitta bread, are manufactured at our Rathbones bakery.

Market Street is a brand in its own right. Recognised and valued by customers, it offers traditional market counters where skilled colleagues prepare food exactly the way customers want, in exactly the portions they want – from hand cut steak and filleted fish, to hand finished cream cakes and personalised giant cookies.

'Nutmeg' is increasing in popularity and we have extended the range into other categories such as baby accessories, toothpaste, mouthwash and skincare. Our 'Nutmeg' Womenswear range is now available in 293 stores and is available to buy online.

8

Distribution centres

18

Manufacturing sites

A few of our brands:

Nutmeg
Clothing designed for life

little nutmeg

VEGAN

LITTLE KITCHEN

The Best

WM MORRISON GREENSIDE DELI

WM MORRISON WOODHEAD BROS EST. 1991

WM MORRISON STEPHENSON'S BAKERY

WM MORRISON INTERNATIONAL SEAFOOD CO EST. 2012

Our customers

Listening hard and responding to changing demands of our customers.

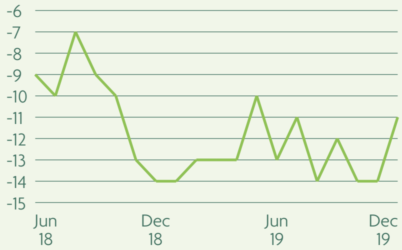
Outcomes for customers

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

Consumer confidence

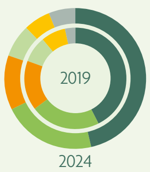


Source
GFK monthly consumer confidence index, 20 December 2019.

UK grocery market size forecast (£bn)

Source
Institute of Grocery Distribution (IGD).

Composition of UK grocery market size 2019 vs 2024 (% share)



	2019	2024 forecast
Supermarkets	**46.5%**	42.6%
Convenience	**21.4%**	22.2%
Discounters	**12.6%**	15.8%
Hypermarkets	**7.4%**	8.4%
Online	**6.0%**	7.7%
Other Retailers	**6.1%**	3.3%

Source
Institute of Grocery Distribution (IGD) (June 2019).

Grocery market and consumer confidence

The Institute of Grocery Distribution (IGD) forecasts modest growth in the grocery market over the next few years, with the UK grocery market expected to grow +12.5% by 2024. Online is set to be the fastest growing channel, driven by improving fulfilment options and multi-channel developments. Supermarkets will remain the largest channel, with marginal growth and a focus on competing harder on price and offering a differentiated customer experience.

UK consumer confidence has been declining since August 2018 and through much of 2019 was at a six-year low. The lack of confidence is particularly apparent with regards to the general economic situation.

Brexit continues to cause uncertainty for customers. While Brexit Day passed on 31 January 2020, uncertainty still remains around the conclusion of the transition period and detail of future trading relationship with the EU. The subsequent potential for price increases is causing concern for many. Media coverage of potential delays to imports and government contingency plans for food and medical shortages have added to existing fears.

Our vertically integrated supply chain means we are well placed to mitigate the potential impacts of different UK – EU trade scenarios, and we have been working hard to put plans in place to minimise the impact of all scenarios.

In these times of uncertainty we continue to focus on our priorities. Driven by our core purpose, we are seeking to find ways in which we can continue to improve and be more competitive.

Listening and responding to customers

Listening to customers and responding quickly is at the heart of our business. We must understand customers' constantly evolving needs and expectations in order to grow and compete.

In the last year, almost a quarter of a million of our shoppers gave us feedback regarding their experiences in our stores, while one and a half million customers got in touch with us via our customer service contact centre team. These interactions provide a rich and valuable source of data, feedback which we capture, analyse and share across the business.

In addition, more and more colleagues are spending more time in stores with customers, understanding their views on the shopping experience and learning how we can improve.

As a result of all this listening, we know that great value for money, good quality and a quick and easy shopping trip is important to customers. The IGD reports that 85% of shoppers are trying to improve their diet in some way, adopting a variety of techniques to achieve this. Our customer listening helps us understand these trends and how we can better serve customer needs.

Morrisons More Card continues to be popular with customers who enjoy earning points and money off their shopping trip. Through the More Card we capture millions of transactions a year, giving us a huge source of data which helps us further understand customer behaviours. This year, we developed tools which enable us to analyse data more quickly and easily, making this crucial information available to more colleagues around the business, so that we can continue to improve the shopping trip.

Truly integrated locally

Customers tell us how important 'local' is to them, particularly within produce, meat and dairy, and our local sales continue to grow. Our ambition is to become 'truly integrated locally' providing more locally produced food and drink to more stores and being more locally relevant and integrated in the communities we serve. See page 9 for detail on progress of Local Solutions.

Love index

18,256

We had 18,256 'love' reactions and 7,405 'love' mentions on social media this year.

The Love Index is all about sharing the reasons why customers love Morrisons.

85%

of shoppers are trying to improve their diet in some way[1]

Sustainability spotlight

Healthier choices: chilled ready meals

We relaunched our range of Morrisons chilled ready meals, comprising 100 new or improved products.

Based on 52 weeks of sales, the reformulated range now has over 679 million fewer calories, 58 tonnes less sugar, and 38 tonnes less fat compared with the previous range. The new products include a number of popular cuisines such as Chinese, Indian, Italian and Korean.

CR For further information, please see our 2019/20 Corporate Responsibility Report which can be found at www.morrisons-corporate.com/cr/corporate-responsibility/

Service and value

We have made improvements to the customer shopping experience this year, increasing our average customer satisfaction score by +3% pts across 2019/20, driven by improvements in item availability and presentation of fresh food.

Customers continue to tell us that they rate us highly for the expertise and friendliness of our colleagues, which they regard as important.

Value for money is one of the most important reasons customers choose a grocery retailer. We continue to reduce prices through 'Price Crunch' and a compelling promotional programme.

This year we launched an initiative to reduce prices and benchmark quality on 'Customer Favourites' (see case study on page 8). This has already driven increased sales and volumes.

Within own-brand, we also improved our entry price point brands with the launch of value brands which are primarily produced in our own fresh food sites including 'International Seafood Co' and 'Woodhead Bros'. In addition, January 2020 saw the early stages of a new brand direction within the rest of our entry price point range.

Offering healthier choices

Our listening programmes tell us that customers are more conscious than ever about their food choices. Free From and Veganism are important trends and growth areas, as is providing healthier choices, such as products with lower calorie, sugar and salt content.

We recognise that we have an important role to play in helping customers lead healthier lives, and this year we continued our nutritional reformulation removing more salt, sugar and fat from our own-brand products.

We have made, or are making, improvements to our brands which support customers with healthier eating or specific dietary requirements.

Our 'Counted' range, which provides a calorie controlled alternative to our customers' favourite meals, launched in January 2019. The range focuses on improved quality, new products, revised nutritional criteria and clearer on pack communication.

We have also extended our 'Fresh Ideas' brand, providing fresh and nutritious meals, meal components and 'on the go' solutions to help our customers enjoy eating well.

Free From is an important and rapidly growing area of our business and this year we continued to develop our offer in this area for customers.

Veganism and vegetarianism are growing trends, and many customers are consciously choosing to reduce meat consumption for health, sustainability and ethical reasons[2]. Having launched our 'V Taste' range in November 2018, we continue to develop our range of vegan and vegetarian products, to meet increased demand.

Customer service and Market Street

We have commenced a programme focussed on improving our customers' experiences. This programme is about listening hard and responding quickly to feedback from colleagues and customers; and by doing so, we have seen average customer satisfaction improve and colleague engagement increase.

Over 4,500 colleagues have completed additional customer service training, where the emphasis has been on putting customers first through teamwork to deliver great service for our customers.

Customers value the expertise of our food makers on Market Street, and we continue to provide training and development for our team. Since November 2018, over 3,000 Market Street colleagues have completed training sessions focussed on offering customers the very best service across our counters, including tastings and advice.

As well as the service we provide in store, we believe that Morrisons has an important role within local communities. In a number of stores, we have increased the hours our store teams can dedicate to supporting local causes each week, and we have also made more cafés available for use by community groups.

Minimising our environmental impact

Reducing packaging, particularly plastic, continues to be an important issue for customers.

Although plastic remains important to protect and preserve food, we have nevertheless made significant progress in reducing unnecessary plastic packaging by removing expanded polystyrene from all of our own-brand food and drink products. We also provide customers with more opportunities to reduce their plastic consumption by offering reusable paper bags and more loose products such as fruit, veg and eggs (see page 24 for more detail on our progress on plastic).

In addition, we are continuing to make recycling easier for customers by moving recycling information to the front of our packaging. Where a product is widely recyclable we have added a green logo to the front of packs to increase awareness among customers while also continuing to provide the usual icons on the back of packs.

1 IGD Report, June 2019.
2 Mintel Meat Free Foods, 2018.

Our colleagues

United by our ways of working, our team of talented food makers and shopkeepers are our biggest asset.

Outcomes for colleagues

Engaged and motivated colleagues

Colleagues sharing in the success of the business

A fair day's pay for a fair day's work

Our 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 across our stores, sites and central teams:

1 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.

2 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 those times of the year that mean the most to them, such as Christmas and Easter, all colleagues working in central roles help out in stores.

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

4 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.

5 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

We want all our people to have their say on what matters, so we are involving all 98,000 food makers and shopkeepers in delivering our Fix, Rebuild, Grow and Sustain plan.

Acting on their frontline insights means we can continually improve the business for all our stakeholders.

This year we were pleased that 79% of colleagues took the opportunity to complete our annual 'Your Say' survey. This was the highest ever proportion of colleagues to participate, and we recorded a strong overall engagement score of 77%, which was up on last year's result.

Highlights from the survey included colleagues telling us they are clear on what they are expected to achieve in their job (91%) and that they understand how their work contributes to the success of the business (88%). The survey also identified improvement areas where we have ways to improve, such as increasing the regularity of our 'Your Say' forums and providing colleagues with more opportunities for them to develop and progress.

77%

Colleague engagement index (2019: 76%)

Our 'Your Say' forum meetings take place monthly in stores and sites, as well as quarterly at a regional level and twice a year nationally. They provide a mechanism for colleagues to share opportunities to improve the business, and discuss these with local management, members of the Executive Committee and Non-Executive Directors. Recent improvements suggested by colleagues have included more time to complete product markdown in some stores to improve sell-through, additional messages on product shippers to highlight product protection, and increasing the number of locations that our office colleagues are able to support through 'Teamwork days' to include depots and manufacturing sites.

Managers who listen, help and support

By creating and developing the right culture and environment for all our colleagues, they are able to make the maximum contribution to our turnaround.

This year we invited store and people managers to attend our 'Leading with Purpose' programme, which incorporated specific additions to support the managers' work on workplace culture. The programme equips managers with the tools to lead their teams in solving increasingly complex business problems. It also enables them to adapt and lead in different situations, while continuing to provide high levels of support to get the best out of their teams.

Over half of our store and people managers attended the programme in 2019, with the remainder due to attend in 2020. This investment was complemented by our 'Teamwork Meeting' for leaders across the business at which we focussed on the 'Core Purpose' and how this is continuing to guide our plans into the future, including by increasing the involvement of all our colleagues in running the business.

Sustainability spotlight

'My Wellbeing' continues to provide helpful advice

'My Morri', our digital platform for colleagues, provides useful tools and resources. Recent additions include 'My Wellbeing' which gives colleagues helpful advice on topics such as nutrition, sleep, stress awareness and mental health.

my.morrisons.com/blog/lifestyle/

Social Mobility Employer Index

Top 30

In 2019, we were again placed in the top 30 in the Social Mobility Employer Index by the Social Mobility Foundation.

Working with greater purpose

During the year we also continued to listen hard to our colleagues about how we could enable them all to work with greater purpose.

In January 2020 we confirmed our plans to introduce a flatter management team structure into all our stores, focussed on taking end-to-end accountability for their department areas and more directly supporting their colleagues.

At the same time, we also described our plans to create more colleague roles in store, to better serve customers as well as improvements to colleague communications and the processes for involving colleagues in business improvement initiatives.

An opportunity to develop, progress and grow

Nurturing existing talent and bringing new talent into the business continues to be a priority. During the year, we were pleased to place a further 250 colleagues onto craft apprentice schemes in butchery, bakery and fish as we continue our tradition of growing real craft food makers. This number is in addition to the 45 colleagues who took up apprenticeships in areas as diverse as floristry, abattoirs and food science.

Our degree apprentice and graduate programmes continue to play an important role in attracting young talent and create a pipeline for management roles. This year, over 150 colleagues started on these schemes, with one in three joining through our 'Generations' campaign, which provides priority assessment for friends and families of existing colleagues.

We also expanded our 'Morrisons in schools' programme, partnering with almost 400 schools, as we work locally to offer opportunities and support social mobility. We were pleased to be recognised as the Top Retail Employer for school leavers for the second year running in the 'All About School Leavers' award scheme[1], and have again been placed in the top 30 in the Social Mobility Employer Index[2].

Tools and training to do the job

We have continued to invest in digital tools for colleagues, expanding our colleague platform 'MyMorri' to include resources for shrinkage, guidance on wellbeing and an improved electronic handbook.

We have also been listening to colleagues through our 'Company-wide effort' initiative. This has led to, for example, improved systems such as our 'Stock and Systems App' which, supported by training at the shelf edge, is saving colleagues time on core processes so they can focus on serving our customers.

Furthermore, we were pleased to introduce our new people, payroll and time and attendance system into Head Office and a small number of stores. This new, modern system simplifies existing people processes, allows colleagues to manage their own data and availability to work, and to swap shifts with other colleagues or pick up overtime electronically. We will roll out the system into all stores and sites, and expect to see significant colleague work-life balance and flexibility benefits.

A fair day's pay for a fair day's work

One of our ambitions for our people is ensuring everyone receives fair rewards for their contribution to our turnaround and business performance.

During the year we again improved our hourly rate of pay for frontline store colleagues, moving it from £8.70 to £9.00 per hour, with a further increase to £9.20 an hour from April 2020, maintaining our competitive position in the marketplace. Our frontline colleagues in stores and sites also shared in our annual colleague bonus scheme.

At the same time we reduced the weekly contract hours of our store management team, with no loss of pay, to support better work-life balance.

Very highly valued and treated with respect

Colleague wellbeing is very important, and this year we took significant strides to improve the support we offer.

For example, our new 'My Wellbeing' site provides guidance for mental, physical, social and financial wellbeing, as well as offering access to resources provided through our partnership with 'Retail Trust'.

During the year we supported a number of national campaigns, providing visibility and creating good conversations around topics such as mental health, the menopause and testicular cancer.

Responding to issues raised by colleagues in our 'Your Say' forums, we invested in our store staffrooms, introducing new hot and cold water fountains, reviewing and improving menus and providing dedicated fridges, so that colleagues are better able to manage their own hydration and nutrition.

Our work to celebrate diversity continues to progress. This year, our LGBT+ community attended more Pride events than in any previous year. We also developed plans to create more opportunities for Black Asian and Minority Ethnic (BAME) colleagues informed by listening, while our 'Women in Morrisons' events were attended by over 600 colleagues.

The 'Women in Morrisons' initiative supports our strong pipeline of female talent. Over the last few years, we have seen our proportion of female store managers increase from 7% to around 20%, female buying managers and senior buying managers increase from 44% to 55%, and female members of our leadership team increase from 17% to 33%.

'Your Say' Forum

79%

of colleagues completed the 'Your Say' survey this year, the highest proportion of participation yet. We also held many local, regional and national 'Your Say' forums, with suggestions, such as expanding 'Teamwork' days to depots and manufacturing sites, being just some of the recent improvements we have made based on colleague feedback.

1 'All About School Leavers Awards' 2019 Retail Industry winner.
2 Social Mobility Foundation, Social Mobility Employer Index 2019.

Working with suppliers

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

Outcomes for suppliers

Establishing lasting relationships

Working together with simplified terms

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

Listening and responding

Strong supplier relationships, based on mutual respect and benefit, continue to be 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 longer-term relationships with suppliers and developing a consistent framework for our ways of working together. Our progress was reflected in this year's scores in the industry survey carried out by the Groceries Code Adjudicator (GCA), which shows us continuing to be recognised for the overall improvement in the way we work with suppliers.

Listening is central to this progress. By regularly engaging with suppliers at all levels, and understanding their views, we can simplify how we work, and improve the areas that matter most to them. For example, during the year, we continued to focus on improving how we work together on promotional activity and planning. This included planning further in advance, simplifying the way we execute promotions in store and collaboratively agreeing forecasts with our suppliers.

In 2018/19, we introduced our supplier portal, a free-to-use platform that enables suppliers and buyers to document and store agreements. We have listened to suppliers' feedback and have continued to improve the tool to simplify the way we work together.

Food we are all proud of

We are food makers and shopkeepers, with our Market Street colleagues making a huge range of fresh products in store every day, that our customers truly value. We work closely with all our suppliers to ensure we provide products we are all proud of, and offer customers great quality, removing unnecessary cost to improve competitiveness.

We value innovation, and work together with suppliers to bring new and exciting products to our customers as well as ensuring the products we sell are sourced in a sustainable way. In the past 18 months, we removed over 4,000 tonnes of plastic by various means including an increase in the amount of loose fruit and veg we sell. This alone is saving around 160 tonnes of plastic packaging each year, while moving our 2019 Christmas cards from plastic to cardboard boxes, saved more than 42 tonnes.

Best of British

100%

of our own-brand fresh meat, milk and eggs are British. We work with around 3,400 UK farmers to give our customers the best and freshest produce all year round.

Direct sourcing, farmers and small suppliers

We are proud to be British farming's biggest supermarket customer, supporting farmers and the wider community throughout the British food supply chain. We remain committed to sourcing all of our fresh beef, pork, lamb, chicken, turkey, milk, eggs and cream from British farmers, and continue to strengthen our relationships by working directly with, for example, potato, onion and carrot growers.

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.

We continue to grow and expand our manufacturing division. This year we integrated our new Yorkshire egg packing business, focusing on delivering the best quality products while enhancing our efficiencies to improve costs for our customers.

This year also saw us again conduct our Local Food Makers events and to grow our range of locally supplied products. This helps us stay close to small British suppliers, giving them an opportunity to engage with us and to bring their products to our stores.

We continue to support British Farming and our smaller suppliers by offering shorter payment terms to these suppliers.

Paying suppliers on time is important to us, with 99.5% of our suppliers paid on time, as presented in the report covering 5 August 2019 to 2 February 2020 featured on the government website[1].

1 Government website www.gov.uk/check-when-businesses-pay-invoices/ for the period 5 August 2019 to 2 February 2020.

220

Local food makers and over 1,000 local products in 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 take our responsibilities to suppliers seriously and have established ways of working that enable us to build strong collaborative relationships. For more details see www.morrisons-corporate.com/suppliers/supplier-information/

We listen closely to ideas on how we can improve and, in response to supplier feedback, have continued to invest in our supply chain and commercial systems and processes. Over the last year we made further improvement to our promotional execution in stores, invested in a new improved Morrisons Supplier Database and provided further enhancements to our Supplier Portal.

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. As in previous years, our Code Compliance Officer (CCO) has provided support to the GCA to help familiarise new retailers designated to operate under the Code.

Effective compliance risk management is critical to delivering on our commitments to all our stakeholders. We have well established governance structures to support GSCOP compliance, which we discussed in detail with the GCA during the course of the year. This includes a group consisting of senior leadership team members from all relevant functions. Routine updates are also provided to our Executive Committee and to our Corporate Compliance and Responsibility Committee including developments about the operation of the Code. We formally report details of activity over the year as well as specific concerns raised with our CCO to the GCA and to the CMA at the financial year end.

Our Legal, Compliance and Internal Audit teams work closely together to provide colleagues across the business with the tools needed to comply with the Code. Using a range of formats, we provide training, guidance and support to all colleagues in our trading teams, together with bespoke training for relevant colleagues in our supply chain and finance teams. Throughout the year, we review and update all of our training activities and materials taking account of any new learnings, building in current real-life examples and reflecting additional guidance from the GCA.

The 2019 GSCOP supplier survey conducted by YouGov on behalf of the GCA placed Morrisons sixth overall and the fourth most improved of the 12 designated retailers. Suppliers rated Morrisons as complying with the Groceries Code 'mostly' or 'consistently well' with a score of 92%. Working with the GCA, we encouraged suppliers to complete the anonymous survey, and this led to more of our suppliers taking part than those of any other designated retailer.

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 2019/20 we were contacted by suppliers to review concerns including in the following areas:

- queries relating to goods and invoice receipting processes;
- requesting review of supplier de-listing decisions; and
- asking for clarification of contractual terms.

At all stages, we try to resolve the concern by talking to the supplier openly and honestly and this approach is generally successful in reaching a swift resolution. As at the end of the financial year there were two direct Code related complaints which were yet to be resolved. Contact details and up-to-date information can be found at www.morrisons-corporate.com/suppliers/meet-our-buyers/

92%

Suppliers rated Morrisons as complying with GSCOP 'mostly' or 'consistently' well

Sustainability spotlight

Free-range eggs

We have moved away from caged eggs after doubling the number of free-range farmers that supply our egg packing business.

This means that 100% of our fresh eggs will come from hens that have outdoor access for at least eight hours each day, as well as nest boxes with wide perches and spaces for scratching and dust bathing.

We are also working to ensure that 100% of eggs used as ingredients in our own-brand products are cage free by 2025.

www.morrisons-corporate.com/media-centre/corporate-news/free-range-eggs/

Our shareholders

A robust balance sheet with low debt, a strong maturity profile and significant cash flow generation.

"Our capital allocation framework has served the Company and its stakeholders well and remains unchanged. Free cash flow generation is significant and sustainable."

Michael Gleeson, Chief Financial Officer

Outcomes for our shareholders

A strong balance sheet

A cash generative business with low levels of debt

Strong financial performance and returns

Introduction

I am pleased to be your new CFO. Morrisons has a proud heritage, built on strong financial foundations and we remain focussed on maintaining our capital discipline principles.

2019/20 was another year of growth in profit, significant free cash flow and increased ordinary dividend, despite a tougher sales environment, demonstrating that Morrisons turnaround can be both consistent and sustained.

Momentum in building a broader, stronger business continued, with wholesale again expanding and further development of different Morrisons brands and store format innovations. As we enter our fifth year of turnaround, we are taking some important learnings and opportunities into 2020/21.

Summary income statement

	2019/20 £m	2018/19 restated[1] £m
Revenue	**17,536**	17,735
Operating profit	**521**	432
Net finance costs	**(87)**	(130)
Share of profit of joint ventures (net of tax)	**1**	1
Profit before tax	**435**	303
Profit before tax and exceptionals*	**408**	396
Basic earnings per share before exceptionals*	**13.18p**	12.85p
Basic earnings per share	**14.60p**	9.89p

1 Restated for application of IFRS 16 'Leases'.
* Defined in the Glossary on pages 152 to 154.

Revenue

Total revenue during the period was £17.5bn, down 1.1% year-on-year. Revenue excluding fuel was £13.9bn, down 0.8%. Group like-for-like (LFL) sales excluding fuel were down 0.8% over the year, including a negative contribution from supermarkets of 1.4% and a positive contribution from wholesale of 0.6%. Fuel sales were down 2.5% to £3.7bn, impacted by a highly promotional market.

For wholesale, sales grew with all our major partners during the year, and we remain on track for our target of £1bn of annualised wholesale supply sales.

Morrisons.com continues to grow. In addition to the Dordon customer fulfilment centre (CFC), we now store pick our customers' online orders from almost 40 Morrisons supermarkets, and have extended our coverage area to over 90% of British households. We have also begun a click & collect trial for customers in six stores.

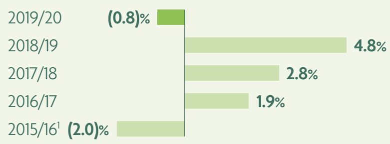
Operating profit

	2019/20 £m	2018/19 restated[1] £m
Operating profit	**521**	432
Adjustments:		
– Impairment and provision for onerous contracts	**(2)**	10
– Profit/loss on disposal and exit of properties	**(66)**	–
– Store restructuring and closure costs	**51**	–
– Other exceptional items	**9**	42
– Retirement benefit exceptional items	**–**	26
Operating profit before exceptionals*	**513**	510

1 Restated for application of IFRS 16 'Leases'.

We managed our costs well throughout the period, which offset some of the operating leverage impact of the lower sales. Operating profit before exceptionals was £513m (2018/19: £510m), with margin up 5 basis points year-on-year to 2.9%. EBITDA* margin before exceptionals was up 22 basis points, to 5.9%.

Group LFL sales (exc. fuel)



Definition
See the Glossary on page 152 for a definition.

1 2015/16 does not include wholesale contribution to LFL sales.

Net debt (£m)

Definition
See the Glossary on page 153 for a definition.

2019/20, 2018/19 and 2017/18 on post-IFRS 16 basis, 2016/17 and 2015/16 on pre-IFRS 16 basis.

£408m

Profit before tax and exceptionals*

Profit before tax

	2019/20 £m	2018/19 restated[1] £m
Profit before tax	**435**	303
Adjustments:		
– Impairment and provision for onerous contracts	**(2)**	10
– Profit/loss on disposal and exit of properties	**(66)**	–
– Store restructuring and closure costs	**51**	–
– Other exceptional items	**9**	42
– Costs associated with the repayment of borrowings	**–**	33
– Retirement benefit exceptional items	**–**	26
– Net retirement benefit interest	**(19)**	(18)
Profit before tax and exceptionals*	**408**	396
Profit before tax and exceptionals margin	**2.3%**	2.2%

1 Restated for application of IFRS 16 'Leases'.

Reported profit before tax was £435m (2018/19: £303m). Profit before tax and exceptionals was £408m (2018/19: £396m), up £12m or 3% year-on-year.

Exceptional items recognised outside profit before tax and exceptionals (as fully detailed in note 1.4 of the financial statements), were a net credit of £27m.

Of these, property disposal profit was £66m, the majority of which relates to our Camden store. Following a tender process, we sold Camden and our eight acre surrounding site to Berkeley Group for a total consideration of around £120m. Berkeley will pay £85m cash in stages over the years of the project, and will build a new Morrisons supermarket and convenience store on the site with a value of £34m. The consideration will be received over a number of years, so the proceeds have been discounted, resulting in a property disposal profit of £64m.

Restructuring costs were £51m, the majority of which relates to the announcement in January 2020 that we are investing in creating more frontline jobs, and reducing some team manager roles within stores.

Other exceptional items were £9m, mainly relating to costs associated with improvements in the Group's logistics network. A £2m net credit (2018/19: £10m charge) has been recognised in respect of impairment and provisions for onerous contracts following the Group's annual impairment review. Net retirement benefit interest income, which as usual was recognised outside of profit before tax and exceptionals, was £19m.

The net incremental profit before tax from wholesale, services, interest and online during 2019/20 was £14m, bringing the cumulative profit so far to £68m. We remain confident of our medium-term target of £75–£125m incremental profit from these four areas.

Net finance costs

Net finance costs were £87m (2018/19: £130m). Net finance costs before exceptionals were £106m (2018/19: £115m).

Earnings per share

Basic earnings per share increased to 14.60p (2018/19: 9.89p), and basic earnings per share before exceptionals increased to 13.18p (2018/19: 12.85p).

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 2019/20, Morrisons made net payments of £1,178m to the UK Government of which £611m was borne by Morrisons and the remaining £567m was collected on behalf of our colleagues, customers and suppliers. Corporation tax payments made during the year were £87m which was in line with the tax charge of £87m in the income statement.

Debt, cash flow and working capital

Summary cash flow

	2019/20 £m	2018/19 restated[1] £m
Cash generated from operations before onerous capital payments	**1,058**	983
Onerous capital payments*	**(41)**	(6)
Cash generated from operations	**1,017**	977
Proceeds from sale of property, plant and equipment and investment property	**34**	22
Capital expenditure	**(511)**	(461)
Dividends paid	**(302)**	(289)
Dividends received	**9**	7
Purchase of own shares	**(10)**	(9)
Tax and interest	**(190)**	(195)
Costs incurred on repayment of borrowings	**–**	(30)
Proceeds on settlement of share options	**12**	15
Debt acquired on acquisition of business	**–**	(2)
Leases non-cash	**(66)**	(53)
Other non-cash movements	**(57)**	10
Movement in net debt*	**(64)**	(8)
Opening net debt*	**(2,394)**	(2,386)
Closing net debt*	**(2,458)**	(2,394)

1 Restated for application of IFRS 16 'Leases'.

Group net debt remained low at £2,458m, compared to £2,394m at the end of 2018/19. Of the £64m increase, £57m related to non-cash movements ex-leases. On a pre-IFRS 16 basis (i.e. excluding lease liabilities), net debt was £1,082m, up £85m since the end of 2018/19 (£997m). Free cash flow was £238m (2018/19: £281m), or £295m prior to £57m non-cash movements, which is up £24m year-on-year.

Property disposal proceeds were £34m (2018/19: £22m), the majority of which relates to the initial instalment from the sale of our Camden store to Berkeley Group.

The cash outflow from ordinary and special dividends paid in the year was £302m, a £13m increase year-on-year (2018/19: £289m). The operating working capital* inflow was £18m (2018/19: £9m outflow).

* Defined in the Glossary on pages 152 to 154.

Capital expenditure (£m)

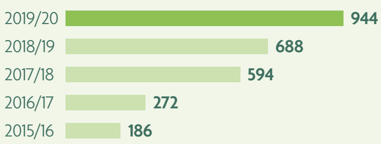
Definition
Measured as additions to property, plant and equipment, investment properties, intangible assets, assets held-for-sale and investments as per the cash flow statement.

Return on capital employed (ROCE)

Definition
See the Glossary on page 154 for a definition.

1 Restated for application of IFRS 16 'Leases'.

Net retirement benefit surplus (£m)



7.0%
Return on capital employed*

Summary balance sheet

	2019/20 £m	2018/19 restated[1] £m
Fixed assets and investments	**8,641**	8,581
Working capital*	**(2,038)**	(2,013)
Provisions and tax	**(548)**	(537)
Net retirement benefit surplus	**944**	688
Net debt*	**(2,458)**	(2,394)
Net assets	**4,541**	4,325

1 Restated for application of IFRS 16 'Leases'.

Retirement benefit

We recently completed the triennial pension valuation as at April 2019, with a funding surplus of £682m across the schemes. This compares to a surplus of £111m at the last valuation at April 2016.

At year end, the net retirement benefit surplus on the balance sheet was £944m, up from £688m in 2018/19. Net retirement benefit interest income was £19m, up £1m year-on-year, reported outside profit before tax and exceptionals.

Capital expenditure

Cash capital expenditure of £511m, (2018/19: £461m) is at a sustainable level and we maintained our capital discipline and adherence to our capital allocation framework.

In the year, a further 44 stores went through our Fresh Look programme, taking the total to almost 350. Four new stores were opened (including two replacements), and four stores were closed during the period, with an overall net reduction in space (including extensions), of 4,000 square feet.

Borrowings

The maturity profile of our remaining debt facilities is strong.

In September 2019, in advance of the upcoming maturity of our Euro Bond, the Group issued a £350m Sterling bond at a low fixed rate of 2.5%, which expires in October 2031. This was issued under the £3bn Euro Medium Term Note Programme. During the year, we also extended our revolving credit facility by a further year, resetting its five year term and resulting in a maturity date of June 2024. In addition, we also secured a further £100m 364 day committed revolving credit facility which matures in July 2020.

Return on capital employed (ROCE)*

Return on capital employed increased to 7.0%. The growth opportunities we are focussed on are capital light and accretive to profit and returns.

Key balance sheet metrics

	2019/20	2018/19 restated[1]
Interest cover*	**4.8 times**	4.4 times
Net debt*/EBITDA*[2]	**2.4**	2.4
Gearing*	**54%**	55%
ROCE*	**7.0%**	6.9%

1 Restated for application of IFRS 16 'Leases'.
2 EBITDA before exceptionals.

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 proposed final ordinary dividend is 4.84p, bringing the total ordinary dividend for the year to 6.77p. Including the 2.00p interim special dividend paid at the half year, the total dividend for the year is 8.77p.

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

Our capital discipline principles around low debt, well-funded pension schemes, sustainable capex and our overwhelmingly freehold store portfolio are fundamental, and our strong track record in all of these makes us distinct. Our capital allocation framework has served the Company and its stakeholders well and remains unchanged. Free cash flow generation is significant and, over the last six years, we have generated over £3.2 billion of free cash flow and paid or declared 64.7 pence per share in dividends, including four special dividends. With sales on an improving trend, profit growing for a fourth consecutive year, and free cash flow continuing to be strong, we had anticipated announcing another special dividend at year end. Instead, during the usual process of reviewing surplus capital payments, we determined it would be prudent to defer that announcement given current unprecedented events around COVID-19. This enables maximum future flexibility around how we prioritise uses of our strong cash flow and surplus capital, and we will keep our capital allocation options under review.

Michael Gleeson, Chief Financial Officer

* Defined in the Glossary on pages 152 to 154.

Supporting communities

We aim to make a positive contribution to the communities we serve, and to society more widely.

Outcomes for communities

Making a positive contribution to society

Respecting human rights and ethical trading practices

Supporting good causes and helping people in times of need

Making a positive difference to local communities

We are committed to being a positive force in the communities we serve.

We continue to source more locally produced food, which is good for our customers, the environment and local economies. We support local charities with donations and fundraising opportunities, and we share our spaces with community groups who need a place to meet.

We strive to be there for the communities we serve every day, but especially in times of need. During 2019, this included when flooding hit parts of South Yorkshire, when fires engulfed moorland between Huddersfield and Manchester, and when the dam failed at Toddbrook Reservoir in Whaley Bridge.

Our stores were at the heart of the community effort; arranging food parcels for people affected, helping keep the emergency services fed and watered and opening up our spaces to others – including to a bus company which parked its entire fleet on one of our store car parks following the flooding of their depot.

Community initiatives at our Bolsover store

Since opening in November 2019, our new store in Bolsover has donated £1,000 worth of products to local good causes.

Our Community Champion has spent time volunteering in the local area including helping paint the Parish Community Hall and has worked with the local foodbank to raise awareness and donations. She's also set up a relationship with a local care home that sees us donate our excess flowers for residents.

Community Champions

Community Champions across all our stores and sites lead the way in building relationships with local charities and groups.

In 2019/20, their work with local charities led us to donating £900,000 worth of products to good causes; helped to redistribute over five million items of unsold food; and conducted hundreds of tours for local school children.

We continue to increase the hours available to our Community Champions and add to the number of stores which have community rooms. These rooms are dedicated spaces for local community groups and charities to get together free of charge. In addition, we are encouraging the use of our cafés as a meeting place for social groups such as craft and parent and baby groups.

Charity

We support local good causes through the Morrisons Foundation, which has now donated £29m to charity since it was launched in 2015. In total more than 2,200 charities across England, Scotland and Wales have benefited from grant funding. This money has supported projects in a wide range of areas including social inclusion, homelessness, mental health, hospice care, environmental improvement and veterans. The Morrisons Foundation has also given a boost to our colleagues' efforts by providing match funding totalling over £350,000 in the last year alone.

Sustainability spotlight

Unsold food programme

Since 2016, our stores have worked with local community group partners to ensure that edible unsold food in our stores is redistributed to those who need it.

Our stores work with over 450 local community groups across the UK. Since the programme began, we've redistributed over five million unsold food products from our stores.

my.morrisons.com/community-and-charity/unsold-food-waste-programme/

In addition, we support a number of important national charities. Our charity partnership with CLIC Sargent raised £4m in 2019/20 and in doing so passed the milestone of £11m raised cumulatively since the start of the partnership. This money is being used to provide support for young cancer patients and their families, for example through financial grants, places 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 a long weekend in March, as well as £1.8m for the Poppy Appeal.

£11m

raised for CLIC Sargent

Modern slavery

At Morrisons, we are committed to playing an active role in tackling modern slavery, forced labour, human trafficking and exploitation which impacts workers across all aspects of our global supply chain and represents an unacceptable affront to human rights. We have continuously developed and improved our approach to these issues over the past three years.

CR Further details on the steps that Morrisons has taken to tackle modern slavery and human trafficking within our Group businesses and supply chains can be found in our 2019/20 Modern Slavery Act Statement on our corporate website at www.morrisons-corporate.com/cr/ethical-trading/tackling-modern-slavery-and-forced-labour/

Protecting the environment

It's important we minimise environmental risks to our business, protect natural capital and create efficiencies, respecting and valuing the food we serve to our customers.

Outcomes for the environment

Reducing, reusing and recycling the plastic we use

Reducing food waste

Supporting British farmers to be more sustainable

Tackling climate change

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 24 to 26;
- information on our colleagues is shown in Our colleagues section on page 16 and as part of the Directors' report on page 67;
- information on social matters is shown in the Supporting communities section on page 23;
- our respect for human rights is set out in our Corporate governance report on page 44;
- our approach to anti-corruption and anti-bribery matters is set out in our Corporate governance report on page 44;
- our business model is described on pages 2 and 3;
- our principal risks, and how we manage them, are described on pages 28 and 29; and
- other non-financial key performance indicators are shown on page 1.

Plastic

Changing the way we use plastics on our products and in our operations.

Reducing the impact plastic is having on the environment is important to our customers and society more generally. Our good progress to date is supported by strong commitments to further improve by 2025.

As a result of our efforts on plastics, in 2019 we were awarded Business in the Community's 'Responsible Business Award' for Environmental Sustainability[1]. The award recognises those companies taking an innovative approach to addressing the big environmental challenges facing society.

Reducing plastic

We are committed to reducing the plastic we use in our own-brand packaging by 50% by 2025. In 2019/20, we introduced a number of initiatives to remove plastic:

- offering the highest proportion of loose fruit and vegetables sales of any UK supermarket;
- launching a 100% unbleached and untreated recycled cotton string produce bag;
- introducing paper produce bags saving 176 million single-use bags, the equivalent of 269 tonnes of plastic; and
- increasing the price of our plastic bags for life from 10p to 20p to encourage customers to reuse them.

Improving recyclability

By 2025, all of the primary plastic packaging used on our own-brand products will be recyclable, reusable or compostable.

In 2019/20, we made progress against our commitment through a number of initiatives including:

- removing hard to recycle black plastic from all of Morrisons packaging;
- removing expanded polystyrene from all of Morrisons packaging; and
- ensuring front of pack 'recycle me' and 'recycle in store' logos now feature on 400 of the most popular Morrisons products.

Sourcing responsibly

Our customers care where their food comes from and want to know that it has been responsibly and sustainably sourced. This not only means being able to trace the origins of the food we buy, but also knowing the food that we buy has not had a negative effect on the environment which produced it.

Deforestation

Every year, 32 million acres of natural forest are destroyed due to illegal logging, poor forest management practices and increasing global demand for forest and agricultural products.

We have a new commitment in place to support zero deforestation by the end of 2025. This strengthens our position on the sourcing of key commodities including soy, palm, timber and beef.

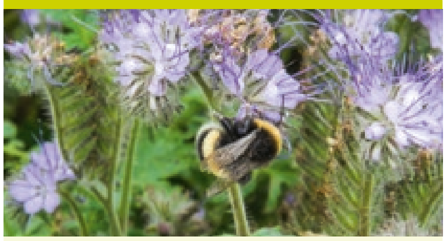
'Nutmeg' environmental plan

We have set a number of stretching environmental targets for our 'Nutmeg' clothing range to be delivered by 2025. These include 100% of the polyester used in 'Nutmeg' clothing to be from recycled sources and 100% of viscose to be sourced from responsibly managed forests and produced using closed-loop manufacturing.

CR For further information, please see our 2019/20 Corporate Responsibility Report which can be found at www.morrisons-corporate.com/cr/corporate-responsibility/

Sustainability spotlight

Award winning bee friendly eggs



Morrisons won the first ever 'Sustainable Food and Farming Award' from Compassion in World Farming for our bee-friendly eggs.

This award recognises those businesses that are taking steps to produce meat, dairy and eggs in ways that protect, improve and restore wildlife and the environment.

Since 2013, under a partnership with the Bumblebee Conservation Trust, farmers supplying eggs to our manufacturing site Chippindale Foods need to plant an acre of wildflower meadow for every laying hen range.

1 Business in the Community, Responsible Business Awards, 2019.

↓50%

targeted reduction in operational food waste by 2030

Food waste

Following the food waste hierarchy to reduce, reuse and recycle.

We have set a target to reduce our operational food waste by 50% by 2030. Working with third party data analysts, we have developed a methodology to accurately record food wasted in our stores by weight. We are also working with our manufacturing sites to accurately measure the amount of food wasted. Further information on our figures can be found in our latest Corporate Responsibility Report 2019/20.

Reducing food waste in stores

In all of our stores, customers can now buy discounted goods at risk of being wasted, thanks to the 'Too Good to Go' initiative. Customers use this app to buy a 'magic box' of Market Street products that are just past 'Best Before' date but still perfectly good to eat.

Surplus food redistribution to charity

In our manufacturing and distribution centres, we work with charities FareShare and The Bread and Butter Thing to redistribute edible surplus food. Since 2017, we've redistributed 3.4 million meals to FareShare.

Supporting British farming

Working with our suppliers to keep them competitive, profitable and sustainable.

Award winning bee friendly eggs

See the 'Sustainability spotlight' panel opposite.

Bull calves

We are guaranteeing a market for all male calves born on our dairy suppliers' farms. At present, any male calves are either killed at birth or exported.

Under our scheme, farmers will be required to rear the calves to a certain weight until 15–40 days of age, at which point they will be bought by our partner beef-rearing company and processed in our manufacturing sites.

Sustainability spotlight

Investing in electric vehicle charging points

In 2019, we installed 100 GeniePoint rapid charging points for electric vehicles in our stores' car parks allowing customers to charge their cars in as little as 20 minutes.

The GeniePoint charging points can charge an average family car's battery from flat to full in under 45 minutes which is at least three times quicker than the standard charging points at other supermarkets.

CR www.morrisons-corporate.com/cr/corporate-responsibility/ev-charging-points/

Tackling climate change

Reducing our impact and creating efficiencies.

Science-based carbon target

Working with the Carbon Trust, we have set an ambitious science-based carbon reduction target to reduce scope 1 and 2 (direct) emissions by 33% by 2025 and 53% by 2030 against a 2017 baseline.

In our first year, we've achieved a 28% reduction in emissions against our target.

↓33%

targeted reduction in operational emissions by 2025, 53% by 2030 and net zero by 2040 (2017 baseline)

Group greenhouse gas emissions for year ending 31 December 2019

Emission source (Scope 1)	2017/18 Baseline Year	2018/19 Prior Year	2019/20 Current Year	Change vs baseline	Change vs 2018/19
Combustion of fuel and operation of facilities					
Natural Gas[1]	166,154	156,348	141,572	15%	9%
Haulage[2]	135,029	141,002	139,164	(3%)	1%
Company Cars[3]	1,791	1,828	2,140	(19%)	(17%)
Fugitive Emissions					
Refrigerant	183,207	130,281	85,039	54%	35%
Energy purchased for Own Use (Scope 2)					
Electricity[4]	456,682	362,706	311,954	32%	14%
Total	**942,863**	**792,165**	**679,869**	**28%**	**14%**
Intensity Ratio: Tonnes of CO_2e per m^2 GIA	0.356	0.296	0.252	29%	15%
Underlying Energy Use (MWh)					
Electricity	1,299,017	1,281,330	1,220,479	6%	5%
Natural Gas	902,207	849,900	770,039	15%	9%
Haulage	508,955	453,654	455,917	10%	(0%)
Company Cars	7,308	7,402	2,866	61%	61%
Total	**2,717,487**	**2,592,286**	**2,449,301**	**10%**	**6%**

1 Data taken from most recent invoice data which includes subsequent adjustments for rebilling; re-baselining of site inclusions/exclusions; and adjustments to the way data is apportioned across the year to ensure ongoing consistency.
2 Haulage data includes well to tank emissions which takes into account the extraction and transportation of fuel bringing reporting in line with our science based targets.
3 Company car data does not include scope 3 – employee commuting.
4 Transmission and distribution, electricity excludes scope 3. Data taken from most recent invoice data which includes subsequent adjustments for rebilling; re-baselining of site inclusions/exclusions; and adjustments to the way data is apportioned across the year to ensure ongoing consistency.

Protecting the environment continued

Group greenhouse gas ('GHG') emissions methodology

We have reported for the calendar year 1 January to 31 December 2019 in order to remain consistent with our historical footprint report and baseline year verification. We have used the Government's Environmental Reporting Guidelines (2019) to prepare these numbers, and the emissions factors from the UK Government GHG Conversion Factors for Company Reporting (2019). 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, 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 their energy and carbon, and four sites which have fuel oil (less than 0.1% of the total footprint).

In line with Streamlined Energy and Carbon Reporting (SECR) requirements we have also reported on the underlying energy use used to calculate Group GHG gas emissions.

Where original data was provided in litres of diesel, petrol or gas oil it has been converted to kWh. The reporting boundary has been determined by operational control, whereby all emissions within operational control have been included within scope, i.e. scope 1 and 2.

Group greenhouse gas emissions verification

The review was based on the requirements of WRI GHG Protocol, Defra 'Environmental Reporting Guidelines: Including mandatory greenhouse gas emissions reporting guidance' 2013 and ISO 14064, in particular Part 3 Specification with guidance for the validation and verification of GHG assertions.

Verification was also carried out to ensure the reporting requirements of SECR were met, to ensure correct format and inclusion of relevant emissions sources and underlying energy use.

Carbon Trust and PricewaterhouseCoopers LLP (PwC) validated our 2017 baseline data, following ISAE – 3410 accounting standard. We then worked with the Carbon Trust to define our new carbon target, and continue to work with them for Scope 3.

Energy efficiency initiatives

We've carried out a number of energy efficiency initiatives in stores. This included LED lighting replacement; a voltage optimisation programme; and freezer door heater control installation across our stores.

We've achieved a further reduction in electricity consumption by ensuring energy efficient equipment is considered during the design phase of our Fresh Look and maintenance and replacement programmes. Fresh Look store upgrades currently include refrigeration, heating, ventilation, air conditioning, lighting and counter operations efficiencies.

We have improved the monitoring and control of heating, ventilation and air conditioning systems by upgrading controls and optimising software strategies. Reduction in gas consumption was also achieved through our boiler replacement programme.

We have improved the quality of gas measurement across the estate with the installation of Automated meter reading (AMR) devices.

ESOS Phase 2 was carried out during the summer of 2019, with compliance being registered in November 2019. As a direct result of the output of ESOS, we have begun carrying out a number of feasibility studies across refrigeration, motors, fans and onsite solar electricity generation.

During 2019 an increased focus was placed on behaviour change to reduce consumption at our manufacturing sites, giving site managers increased visibility of the site level energy budget and carbon footprint.

Our logistics division has continued to undertake a number of activities designed to reduce kilometres travelled and the fuel consumed while delivering food to our stores.

These initiatives include:

Longer semi-trailers – Increasing store deliveries that are carried out using longer semi-trailers, which helps to increase loads.

Increased pallet sizes – Reducing the number of pallets required to service each site.

Driving styles – By using our vehicle telematics system we have improved the average miles to the gallon of our drivers by reducing harsh braking, acceleration and engine idling time.

Fleet investment – All 463 units are compliant with Euro 6 technology, these new units have shown an improvement of miles to the gallon.

Network efficiency – Through rescheduling we have removed 700 trips and collaborated where possible with our manufacturing sites to include collecting goods using empty wagons returning to depot.

Reducing value chain emissions

We will be setting a science-based target for scope 3 (indirect) emissions including supply chain, purchased goods and services. Working with the Carbon Trust, we will establish baseline data during 2020/21.

We have a new and stretching target to be zero net emissions in our UK agriculture supply chain by 2030. This builds on the National Farmers' Union ambition to be net zero by 2040. We will achieve this through the work of the Farming Programme by supporting Morrisons UK farming suppliers to increase on-farm productivity, invest in farmland carbon storage and renewable energy utilisation.

Governance and climate-related risk management

The Corporate Compliance and Responsibility (CCR) Committee has delegated responsibility from the Board to oversee strategy and process in climate-related issues. Members of the CCR and its activities can be found on page 37.

Climate-related risks are identified and incorporated into the Company risk register and include an associated improvement plan. The improvement plan is embedded into annual business plans.

We monitor the issues that affect our business, engage with our stakeholders and take specialist advice. We analyse business risks and opportunities and raise this within our wider Leadership teams. Business leads are appointed to manage each area and reduce the risk or develop opportunities for progress. This is then upwardly reported through our formal governance process. We keep each commitment and KPI under review. Business leads are required to provide quarterly updates. Each commitment is mapped and reviewed as well as an overall end of year review.

We welcome the recommendations from the Task Force on Climate-related Financial Disclosures and plan to build the recommendations into our reporting process in 2020/21.

Risk
Managing our risks

The achievement of our seven 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.

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

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

Our established risk management framework has been built to identify, evaluate, mitigate and monitor those risks which threaten the achievement of our seven 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.

Risk registers for each of the key business functions sit at the heart of this process. These registers detail the main functional risks and are used to assess the gross level of risk (likelihood and impact), mitigating controls, and the resultant net level of risk, as well as risk mitigation plans with dates and target level of risk. The impact assessment of a risk includes considering its reputational, financial and operational effect. We assign targets 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 that 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.

This sub-group reviews coverage across the ten Group Principal risks, key controls already in place and the mitigating actions. The Executive Committee reviews the output from the sub-group at half year and reviews the Group risks at year end. Their review considers the completeness of risks captured in the detailed functional risk registers, strategic risks, external factors and any emerging risks. This year we have formalised our assessment of emerging risks in light of the new Corporate Governance Code.

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 the Group's 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 mitigating actions.

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 40 to 43.

UK – EU Trade

Throughout the year, uncertainty around the UK's future relationship with the EU has impacted customer confidence. At the half year, in light of this continued uncertainty and potential impact on the operational environment for Morrisons, and the United Kingdom generally, the decision was taken to create a separate Brexit Group Risk. This was approved by the Audit Committee in September and included in the risk disclosure in the Interim Statement. This risk has now been renamed as UK – EU Trade.

Whilst the UK left the EU on 31 January 2020, uncertainty still remains over the UK's future trading relationship with the EU and the implications for the movement of goods across borders when the transition period ends on 31 December 2020.

In February 2020, the UK government confirmed plans to introduce import controls on EU goods at the border after the transition period ends on 31 December 2020. There is also the potential for substantial extra costs if the objective of a zero tariff trade agreement is not achieved.

In our planning for the two previous Brexit deadlines in March 2019 and October 2019, we had evaluated a number of scenarios and will continue to respond as further details emerge. Actions previously taken include securing Authorised Economic Operator status, maintaining a robust Treasury Policy for foreign exchange transactions, actively engaging with our freight partners and suppliers to ensure their preparedness and considering alternative routes of supply. Potential impacts on the availability of labour are being mitigated by further investment in automation, particularly in our Manufacturing division and are being closely monitored on a site by site basis.

The business remains focussed on executing its plans to mitigate the identified risks arising from the UK's changing relationship with the EU. This will include the impact of a proposed new points based immigration system which is due to come into force on 1 January 2021, which may reduce access to EU labour. The Group is monitoring ongoing developments through the transition period and co-ordinating operational responses.

COVID-19

At the time of reporting, in March 2020, the Group continues to closely monitor the constantly changing risk of the global COVID-19 pandemic. Our response is being coordinated through a COVID-19 Business Continuity team with full time representatives from all business areas. The potential impact will depend on the severity and length of the UK outbreak. The key risks to our operations include:

- The impact on our colleagues, especially those who are at high risk and need to self isolate;
- Disruption to our global supply chain through restrictions on movement;
- The impact on our suppliers, who we are continuing to work closely with, especially those with smaller operations;
- Short-term spikes in customer demand and the impact on ongoing availability of key staple lines; and
- A prolonged significant outbreak in the UK resulting in geographical movement restrictions.

Risk continued
Principal risks

Principal risks

The Directors have carried out a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, the achievement of our seven priorities, solvency or liquidity.

The Directors consider these to be the most significant risks facing the business, however, they do not comprise all the risks that the business is facing. These principal risks are set out on the following pages.

Risk	Description	Mitigation
UK – EU Trade ⇔ 1 2 5	Brexit and continued trade negotiations with the EU and other countries, presents ongoing uncertainty to the UK economy and continues to impact consumer confidence. Failure to adequately prepare for a range of outcomes could have significant implications on business performance, including: supply chain disruption; availability of product; changes to taxes and tariffs; impact of pronounced currency fluctuations; and the ability to secure labour.	• A business-wide Stability Group is monitoring developments through the transition period and coordinating operational responses. We have focussed action plans in place, ready to implement as the political and economic environment evolves; • We continue to actively engage with key suppliers to assess specific impacts to our business and maintain a strong focus on UK sourcing; • We have achieved Authorised Economic Operator status to enable more straight forward border checks; • We have also been working with our suppliers and freight providers to identify alternative supply routes avoiding the busiest ports; • The Group has a treasury policy in place for hedging to mitigate risks on currency fluctuations. We have assessed, and continue to plan for, potential changes to taxes and tariffs; and • We continue to monitor any changes which may impact the availability of labour across the Group. Our manufacturing and logistics sites have specific people plans in place.
Business Interruption ⇔ #	There is a risk that a major incident, such as a significant failure of technology or a strategic third party, a natural disaster, a global pandemic such as COVID-19, 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.	• 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; • There has been continued investment in cloud technologies to provide further resilience to the Technology systems; and • We work alongside our strategic third party partners ensuring both parties' continuity plans are robust and aligned.
Competitiveness ↑ 1 7	The Grocery Sector continues to be highly competitive with considerable promotional activity. If we do not engage with our suppliers or effectively manage our trade plan to remain competitive there is a risk this will adversely impact like-for-like sales and financial performance.	• Our pricing, trade plan and promotional and marketing campaigns are actively managed; • Our strong balance sheet and strong cash flow 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.
Customer ⇔ 1 2 3 4 6 7	There is a risk that we do not meet the needs of our customers in respect of price, range, quality, service, responding to changes in eating habits and sustainability concerns. If we do not provide the shopping trip that customers want, both in store and online, we could lose sales and market share particularly in an environment of weaker customer sentiment.	• One of our seven priorities is 'to serve customers better' and we have a range of activities to support that; • The ongoing programme of customer listening helps us to gain a deep understanding of what our customers want and has informed key activities such as our store Fresh Look programme as well as changes to range and the introduction of more locally sourced products; • We closely monitor research on customer perceptions and respond quickly wherever possible, such as, plastics, palm oil, red meat and changes to eating habits; • We have reduced plastic in the products we supply and launched our 2025 own-brand plastic commitment; and • We have worked to make Morrisons products accessible to more customers by working with new wholesale partners and continuing 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 • Focussed 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.

Risk	Description	Mitigation
Financial and Treasury ⇔ #	The main areas of this principal risk are the availability of funding and management of cash flow, including liquidity requirements and debt maturity profiles, 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 could lead to some terms being reviewed. In addition, exposure to movement in foreign exchange rates continues to require management. The growth of wholesale supply contracts introduces credit risk which requires policies and monitoring to manage.	• The Group's Treasury function is responsible for the forward-planning and management of funding, interest rate, foreign currency exchange rates 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; • For livestock and produce, we track prices and forecasts and enter into long-term contracts where appropriate to ensure stability of price and supply; and • We have policies to control and monitor the credit risk across our increasing number of Wholesale customers.
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 production 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, such as the new allergen regulation which comes into force in 2021; • The process is supported by external accreditation and internal training programmes; and • We work closely with our supply chain to understand food provenance, sustainable and ethical practices.
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.	• 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; • We have worked to give colleagues increased visibility and flexibility of their hours and rotas with the introduction of a new People System and modernised working patterns; and • Colleague engagement surveys, listening sessions and networking forums are used to understand and respond to our colleagues.
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.	• 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.

Key

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

Link to our seven 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
- 7 Naturally digital
- # Underpins all seven priorities

Principal risks

Emerging Risk Disclosure

Our Risk Management process incorporates the identification and management of emerging risks, alongside our known principal risks.

We employ the following strategies to ensure that our business is adequately prepared for the potential threats or opportunities these present:

- strategic and operational horizon scanning across the business;
- working with our key strategic partners to share emerging consumer trends; and
- using third party experts to assist with the consideration of emerging risks and legislation.

A non-exhaustive list of emerging risks currently being monitored include:

- consumer eating habits and trends;
- sustainability and ethical trading;
- environmental and climate change; and
- continued innovation in technology.

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 2023. 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, business model (pages 2 and 3), opportunities for growth, performance of its strategy (including seven priorities (pages 8 to 11)), as well as the principal risks (pages 28 and 29). The latest strategic planning update with the Board was held in November 2019 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. The hypothetical scenarios are deliberately severe and designed to test the viability of the Group.

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.

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.

At the time of reporting, in March 2020, the situation around the COVID-19 pandemic is rapidly evolving. Whilst the current situation is unprecedented, we have considered the potential impacts of the pandemic with respect to the scenarios tested and in the light of the reverse stress testing performed. Based on the facts available at the time of reporting, the Directors believe the conclusions reached in the viability testing remain appropriate.

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) resulting in declining sales and profitability.
Business interruption or regulatory breach	Compliance	A serious data security or regulatory breach results in a significant monetary penalty and an impact on reputation among customers leading to an impact on sales and profit.
Banking crisis	Financial Treasury	A banking crisis leads to one or more of the members of the Group's banking syndicate choosing not to or being unable to honour the facility agreement, leading to a reduction in committed or uncommitted facilities.
Impact of Brexit	UK – EU trade Competitiveness, Customer, regulation, Financial 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 WTO rates in the case of a no deal Brexit and an impact on the labour market.

Section 172

The Board has provided a statement on page 33 explaining how it has had regard to the requirements in s.172 of the 2006 Companies Act. As part of the Board's decision making process, our Directors regard the likely consequences of any decision to the long-term success of the Company, our four stakeholder groups, the community and the environment.

Approval of the Strategic report

Pages 1 to 30 of the Annual Report form the Strategic report.

The Strategic report was approved by the Board on 17 March 2020 and signed on its behalf by:

Jonathan Burke, Company Secretary
17 March 2020

Corporate governance report
Chair's governance statement

"On behalf of the Board, I'm pleased to introduce Morrisons Corporate governance report for the financial year 2019/20."

Andrew Higginson, Chair

Dear Shareholder,

Corporate governance continues to be discussed and reviewed in ever greater detail. I'm proud of the work we have done and continue to do as a Board to ensure Morrisons remains committed to maintaining robust and effective standards of corporate governance. All decisions are made with the long-term benefits of all our stakeholders firmly on the Board's mind.

Corporate Governance Code

Throughout the year, the Company has applied the 2018 UK Corporate Governance Code ('the Code'). The Board has spent significant time ensuring that our corporate governance standards and processes remain aligned to the updated guidance, the changing environment in which we work, the needs of all our stakeholders and the delivery of our strategy.

The Board fully support Morrisons underlying strategy which aligns to our core purpose which is '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'. Throughout the year, the Board has ensured that we fully consider our four stakeholder groups, the community and the environment in every decision that we make.

Colleague voice at the Board

The culture of listening is well established throughout Morrisons and at the heart of everything we do. In addition to the appointment of Tony van Kralingen as the designated Non-Executive Director of workforce engagement, each member of the Board meets hundreds of colleagues every year through functional updates at Board meetings, store and site visits and personal shopping experiences. These encounters support and add richness to our annual 'Your Say' survey, which this year saw more than three-quarters of colleagues across the business share their thoughts about the Group.

Twice a year, representatives from each store region, manufacturing site, distribution centre and head office gather to discuss the issues that are most important to the colleagues they represent. Tony van Kralingen and David Potts each attended at least one of these forums, along with other senior members of the Group's management team, to hear colleague views for themselves.

More information on how we listen to colleagues can be found in Our colleagues section on pages 16 and 17.

Engaging with all stakeholders

We continue to review and improve our operating business model based on the listening activities we carry out across all our stakeholder groups. Our Corporate Responsibility Report outlines how we engage with these stakeholder groups to ensure that our responsibilities to wider society are understood and embedded in how we work.

The Board and the Group are committed to listening hard to all our stakeholders and responding quickly wherever we can.

Andrew Higginson

Andrew Higginson, Chair

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, save as described in the Directors' remuneration report regarding Executive Directors' pensions, complied with the detailed provisions of the 2018 UK Corporate Governance Code ('the Code') throughout the financial year 2019/20 and to the date of this Annual Report.

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 we comply with each of the provisions of the Code. It is available in the Investor Centre section of the Group's website, www.morrisons-corporate.com.

More details on how the Group has complied with these provisions is found throughout this Annual Report as referenced in the table.

How we have considered compliance with Section 172 of the 2006 Companies Act

Section 172 requires that Directors act in the way they consider, in good faith, would be most likely to promote the success of the Group for the benefit of its members as a whole.

In doing so the Directors should have regard (amongst other matters) to the likely consequences of any decision in the long term; the interests of employees; the need to foster relationships with suppliers, customers and others; the impact of its operations on the community and the environment; the maintaining of a reputation for high standards of business conduct; and the need to act fairly as between members of the Company.

Element	S172 factors	What we do		Examples of where the Board have considered these factors
Our Four Stakeholder Groups	Employee Interests	• Our annual 'Your Say' survey was completed by 79% of colleagues. • Overall colleague engagement score was 77%. • Hourly rate of pay for frontline store colleagues increased to £9.00 per hour during 2019/20.	p16 For more detail on what we do regarding colleagues	• Tony van Kralingen is the designated Non-Executive Director (NED) for workforce engagement. Tony attended the National 'Your Say' Forum and took part in discussions with representatives from each store region, manufacturing site and distribution centre. After attending this session, Tony reported back to the Board regarding the matters discussed and the thoughts of colleagues. This insight added further detail to the 'Your Say' results which were reviewed by the Board.
	Relationships with Customers	• We track customer complaints and customer satisfaction scores. • Identified around 1,300 own-brand 'customer favourites' and commenced a programme to reduce prices on them. • Looked to find ways to allow customers to make healthier choices through removing calories, sugar and fat from our ranges.	p14 For more detail on customers	• The Board receive regular updates on our customer listening activities including verbatim quotes, customer perception data and analysis from external sources.
	Act Fairly between Members	• We strive to act fairly between members by maintaining a strong balance sheet and a cash generative business with low levels of debt. • There are opportunities for all shareholders to have informal discussions with our Directors after the AGM each year.	p20 For more detail on financial results	• All shareholders are invited to the AGM and can ask questions of the Directors in the meeting. After the 2019 meeting, all Directors were available to discuss shareholder views in a more informal setting.
	Relationships with Suppliers	• Establishing lasting relationships with suppliers informed by listening. • Continuing to work together with simplified terms. • Complying with the Groceries Supply Code of Practice (GSCOP), promoting involvement in GCA Supplier Survey.	p18 For more detail on supplier relationships	• The Board receive regular updates on the Group's compliance to GSCOP. As Chair of the Corporate Compliance and Responsibility (CCR) Committee, Neil Davidson also meets with the Grocery Code Adjudicator (GCA) on an annual basis to discuss best practice and supplier views in more detail.
The Community and the Environment	Impact on Community, Environment and Wider Society	• Working hard to provide support for communities in times of need. • Donating £29m to charity since the launch of the Morrisons Foundation in 2015. • Redistributing 3.4 million meals of edible surplus food to FareShare and The Bread and Butter Thing, since 2017. • Reducing plastic packaging and improving recyclability. • Supporting British Farmers through initiatives such as bee-friendly eggs and providing a market for bull calves.	p23 For more detail on community, environment and wider society	• The Board and CCR Committee receive regular updates on the community and environmental initiatives within the Group. These include regular updates on the work to reduce the use of single use plastics.
Strong Corporate Governance	High standards of Business conduct	• Compliance with the 2018 UK Corporate Governance Code. • Clear divisions of responsibility and roles.	p32 For more detail	• The Board reviewed all requirements of the 2018 Code to ensure that the Group maintains high standards of business conduct.
	Long-Term Consequences of Decisions	• All decisions are aligned to our Core Purpose. • All decisions are made with long-term consequences in mind.		• The Board carefully reviewed the short and long-term consequences of providing Ocado with sole use of the new Erith Customer Fulfilment Centre (CFC) until January 2021 before concluding that such an agreement was in the long-term interests of all Morrisons stakeholders.

Corporate governance report continued
Board of Directors and Executive Committee

Composition of the Board

The Board is independent and comprises an appropriate mixture of skills and experience. The Board is satisfied that all Non-Executive Directors, including the Non-Executive Chair, 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 Centre 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. All current Directors submit themselves for re-election at the AGM to be held on 11 June 2020.

1. Andrew Higginson
Chair
C R N

3. Trevor Strain
Chief Operating Officer
C

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

7. Kevin Havelock
Independent Non-Executive Director
A C R N

2. David Potts CBE
Chief Executive
C

4. Michael Gleeson
Chief Financial Officer

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

8. Belinda Richards
Independent Non-Executive Director
A C R N

1. Andrew Higginson

Appointment
Andrew joined the Group as Deputy Chair and Chair Elect in October 2014 and became Chair at the end of January 2015. Andrew met the Independence criteria detailed in the Code upon appointment.

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 Tesco's Retailing Services business. His early career was with Unilever, Guinness, Laura Ashley and the Burton Group. Andrew was previously the Chair of Poundland Group PLC and N Brown Group PLC, Senior Independent Director of BSkyB PLC and a Non-Executive Director of the Rugby Football Union and Woolworths Holdings Limited.

External Roles
Non-Executive Director of Flutter PLC
Non-Executive Director of Majid Al Futtaim Group
Chair of the IGD
Chair of Evergreen Garden Care Limited
Adviser to Shore Capital
Adviser to Clearwater International

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. In December 2019, Trevor became the Chief Operating Officer.

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. Michael Gleeson

Appointment
Michael joined the Group in 2014 as Group Financial Controller. In 2015 he became the Supermarkets Financial Director before taking up post as Trading Director of Ambient, Frozen, Dairy, Fuel and Services. Michael joined the Board on 3 February 2020 as Chief Financial Officer.

Experience
Prior to joining Morrisons, Michael worked for Tesco PLC in a number of senior finance roles including Group Financial Planning and Analysis Director and CFO of Tesco.com. Michael began his career with Arthur Andersen and is a member of the Institute of Chartered Accountants in Ireland.

External Roles
None

5. 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 stepped down from this role last year.

External Roles
Chair of Purity Soft Drinks
Chair of the Casual Dining Group
Chair of WorldSkills UK
Chair of Away Resorts

6. Neil Davidson[1]

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
Neil's extensive career in manufacturing started with Northern Foods PLC where he rose to become Managing Director of its milk division. He was subsequently appointed CEO of Express Dairies PLC and then Arla PLC. He has also been a Non-Executive Director of Produce Investments PLC, Persimmon PLC and Northern Recruitment Group PLC.

External Roles
Chair of OptiBiotix Health PLC
Chair of the Youth Sports Trust

7. 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 as a member of the Executive Committee at Unilever and President of Global Refreshment, which comprises Unilever's drinks and ice cream brands.

External Roles
Non-Executive Director of Fevertree Drinks PLC
Trustee of The British Council
Trustee of The Eden Project

8. Belinda Richards[1]

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

Experience
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.

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

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
Trustee of the Youth Sports Trust

1 On 6 February 2018, Belinda Richards was appointed Trustee of the Youth Sports Trust, a national charity, of which Neil Davidson is Chair. The Board has considered this cross-directorship and is satisfied that it does not compromise the independence of Belinda or Neil.

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

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

9. 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, Group Director Human Resources, Chair and Managing Director SAB, and Chair and CEO: Plzensky Prazdroj.

External Roles
Chair of Crown Commercial Services
Honorary Professor of Global Corporate Strategy at Nottingham University

10. 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 was Group Chief Executive of the Post Office, a role she held from 2012 to 2019, 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.

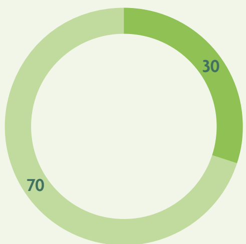
External Roles
Non-Executive Board Member of the Cabinet Office
Chair of Imperial College Healthcare NHS Trust
Non-Executive Director of Dunelm Group PLC

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.

Board composition



Executive Non-Executive

Attendance at meetings

	Main Board	Nomination Committee	Remuneration Committee	Audit Committee	CCR Committee
Andrew Higginson	10/10	3/3	6/6	–	5/5
David Potts	10/10	–	–	–	5/5
Trevor Strain	9/9[1]	–	–	–	3/3[2]
Michael Gleeson	0/0[3]	–	–	–	–
Rooney Anand	10/10	3/3	6/6	5/5	5/5
Neil Davidson[4]	9/10	3/3	5/6	4/5	4/5
Kevin Havelock	9/10[5]	3/3	6/6	5/5	5/5
Belinda Richards[6]	8/10	3/3	4/6	3/5	3/5
Tony van Kralingen	10/10	3/3	6/6	5/5	5/5
Paula Vennells	10/10	3/3	6/6	5/5	5/5

Committee key

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

Executive Committee

1. David Potts CBE
Chief Executive
C

4. Andy Atkinson
Group Commercial Director

2. Trevor Strain
Chief Operating Officer
C

5. Clare Grainger
Group People Director

3. Michael Gleeson
Chief Financial Officer

6. David Lepley[7]
Group Retail Director

1. David Potts
See Board of Directors on page 34.

2. Trevor Strain
See Board of Directors on page 34.

3. Michael Gleeson
See Board of Directors on page 34.

4. 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. In February 2020, Andy was appointed Group Commercial Director, retaining responsibility for Customer and Marketing on an interim basis.

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.

5. 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.

6. David Lepley

Appointment
David joined Morrisons in June 2016 as Store Replenishment Director. In February 2017, he became Operations Director for Central and took responsibility for a third of the Group's retail stores. David joined the Executive Committee as Group Retail Director on 3 February 2020.

Experience
David began his career at Asda in 2004 and rapidly worked his way up from Store Manager to Regional Director for North Supermarkets. In 2015, David was appointed Senior Strategy and Development Director for Grocery Home Shopping before becoming Vice President of Online Grocery Operations later that year.

1 To avoid potential conflicts of interest, Trevor was not invited to the meeting that was held to discuss and approve his appointment as Chief Operating Officer.
2 Trevor was appointed to the CCR committee on 10 September 2019.
3 Michael was appointed to the Board at the start of the 2020/21 Financial Year.
4 Neil was unable to attend one meeting date due to a family emergency. He received papers on all subjects to be discussed and provided the Board with his comments prior to the meeting.
5 Occasionally, Board meetings are arranged to deal with matters outside the normal meeting schedule and therefore at shorter notice. In this instance, Kevin was unable to attend a meeting that was arranged with shorter notice due to time zone issues. Prior to this meeting, Kevin received all paperwork and provided his views on the subject tabled for discussion to the Board.
6 Belinda was unable to attend one meeting due to a family bereavement and one due to another commitment. Prior to the meetings, Belinda read all the papers tabled for discussion and provided feedback to the Board. She also held calls between management, PwC and the designated deputy Audit Committee Chair prior to the meeting to allow all to understand and update the Committee on her views of the Audit Committee meeting content.
7 Gary Mills was Group Retail Director from August 2015 to 3 February 2020.

Corporate governance report continued
Structure of the Board and its Committees

The decisions delegated by the Board to its Committees during the financial year 2019/20 are shown in the table below and on the following page.

Function	Main Board	Executive Committee	Audit Committee
	p38 See page 38 for details of activities.	p39 See page 39 for details of activities.	p40 See page 40 for details of activities.
Members	Andrew Higginson (Chair) David Potts Trevor Strain Michael Gleeson[1] Rooney Anand Neil Davidson Kevin Havelock Tony van Kralingen Belinda Richards Paula Vennells	David Potts (Chair) Trevor Strain Michael Gleeson[2] Andy Atkinson Clare Grainger David Lepley[3]	Belinda Richards (Chair) Rooney Anand Neil Davidson Kevin Havelock Tony van Kralingen Paula Vennells
Key objectives	Overall conduct of the business and setting strategy.	Implementing 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; reviewing significant accounting judgements, assumptions and estimates; managing the relationship and appointment of the external auditor; monitoring and reviewing 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, interim financial report and trading statements; • Approving changes to the Group's capital structure and major expenditure; • Approving membership of the Board on recommendation of the Nomination Committee; and • Appointing and removing the Company Secretary.	• 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).	• 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; and – approval of Tax and Treasury policies.

	Chair	Chief Executive	Senior Independent Director
Role	• Providing leadership to the Board; • Taking responsibility for the Board's composition and development; • Planning and conducting Board meetings effectively; and • Ensuring all Directors are involved and focus on the key tasks.	• Developing strategic operating plans that reflect the longer-term objectives and priorities established by the Board; • Closely monitoring the operating and financial results against plans and budgets taking remedial action where necessary and informing the Board of significant changes; and • Putting in place adequate operational planning control systems.	• Acting as a sounding board for the Chair, supporting the delivery of their objectives and leading the Chair's evaluation on the Board's behalf; and • Meeting with the Non-Executive Directors to review the Chair's performance at least once a year.
Responsibilities	• Engaging the Board in assessing and improving its performance; • Overseeing the induction and development of Directors; and • Providing advice and assistance to the Chief Executive.	• Building and maintaining an effective executive management team; • Ensuring that the operating objectives and standards of performance are not only understood but owned by the management and other employees; and • Maintaining ongoing dialogue with the Chair of the Board.	• Being available to shareholders and other Non-Executive Directors to address any concerns or issues they feel have not been adequately dealt with through the usual channels of communications; and • Working closely with the Nomination Committee to support the succession of the Chair.

Chair
Key objective: Governance of the Board

Main Board

- Executive Committee
- Audit Committee
- Corporate Compliance and Responsibility Committee
- Remuneration Committee
- Nomination Committee

Corporate Compliance and Responsibility Committee

p44 See page 44 for details of activities.

Neil Davidson (Chair)
Andrew Higginson
David Potts
Rooney Anand
Andrew Clappen[4]
Kevin Havelock
Tony van Kralingen
Belinda Richards
Trevor Strain[5]
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;
  - environmental responsibilities, including energy usage, packaging and food waste;
  - cybersecurity;
  - ethical trading;
  - modern slavery;
  - competition compliance;
  - governance and reputation;
  - General Data Protection Regulation (GDPR); and
  - The Morrisons Foundation and charitable giving.

Remuneration Committee

p46 See page 46 for details of activities.

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, Chair, Executive Directors and Executive Committee;
- Reviewing workforce remuneration;
- Aligning incentives and rewards to the corporate culture and objectives;
- 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 Chair's expenses.

Nomination Committee

p45 See page 45 for details of activities.

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 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 45);
- Maintaining general oversight of people and capability within the business, and their diversity (more information can be found on page 45);
- Reviewing the talent pool for the Executive Committee and levels below Executive Committee; and
- Reviewing and setting policy on diversity.

1 Michael Gleeson was appointed to the Main Board on 3 February 2020.
2 Michael Gleeson was appointed to the Executive Committee on 9 December 2019.
3 Gary Mills was a member of the Executive Committee from August 2015 to 3 February 2020. David Lepley joined the Executive Committee on 3 February 2020.
4 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.
5 Trevor Strain was appointed to the Corporate Compliance & Responsibility Committee on 10 September 2019.

Leadership around the business


David Potts
Chief Executive


Clare Grainger
Group People Director


Michael Gleeson
Chief Financial Officer


Andy Atkinson
Group Commercial Director

Corporate governance report continued
Board and Committee Activities in 2019/20

Main Board

Activities in 2019/20

During the year, the Board has:

Strategy and Planning

- set the strategy and plans for the Group;
- approved the 2019/20 budget and commercial plans, including productivity savings required to invest in the customer offer;
- approved the Group's capital allocation framework; and
- reviewed the Core Purpose of Morrisons.

Operational Performance

- reviewed the annual business plan and received regular updates from the Executive Committee regarding its delivery and resource requirements;
- reviewed the performance of the Chief Executive; and
- reviewed the Group's continued operations and growth opportunities in online, wholesale and manufacturing.

Financial Performance

- reviewed the results and forecasts throughout the year and reviewed and approved regulatory announcements;
- approved the proposed dividends including special dividends;
- approved the issue of a bond; and
- approved the extension of the revolving credit facility.

Risk

- assessed the Group's emerging and principal risks; and
- monitored the Group's risk management and internal control systems.

Governance

- ensured that business is conducted in accordance with the Group's values;
- approved the formal Terms of Reference for the Senior Independent Director;
- reviewed the governance structure and activities of the sub-committees of the Board;
- appraised the performance of the Chair through a meeting of Non-Executive Directors;
- identified and managed any potential conflicts of interests as appropriate; and
- established the External Appointment Sub-Committee to approve requests from Directors to undertake external appointments.

Stakeholders

- ensured that the strategy is aligned to long-term success for all stakeholders;
- considered feedback received from customers, colleagues, suppliers, shareholders and other stakeholders; and
- reviewed the values and culture of the Group through 'Your Say' survey responses and feedback provided from the 'Your Say' forums.

Board evaluation

Each year, a review is undertaken to evaluate the performance of the Board, along with its Committees and Directors, in accordance with the requirements of the Code. The review is carried out externally every third year. The last external evaluation was facilitated by Consilium Board Review in 2017/18. Consilium Board Review has no connection to the Group.

Following last year's review, the Non-Executive Directors meet more frequently on an informal basis. Having gained a lot of value from these sessions, the frequency of these meetings will be increased as identified in this year's review outcomes.

This year, the evaluation was facilitated internally by the Company Secretary, who is considered by the Board to be suitably independent for this purpose. The review was conducted between November 2019 and January 2020 and covered each of the key aspects of the Board's performance. These aspects included, for example, the Board's structure, its composition and dynamics, and the extent to which it fulfils its role in terms of strategy development, assessment of operational performance, and risk management.

Overall, the 2019/20 review concluded that the performance of the Board, along with its Committees and individual Directors, continues to be effective and is well placed to lead the Group going forward. The following were highlighted as being particular strengths:

- the structure and composition of the Board, including the breadth of skills and experience that the Directors contribute to its operation;
- Board meeting papers that are accurate, timely, clear and comprehensive and provide a positive contribution to effective decision making;
- the leadership of the Chair and the contribution that he has made to the development of an effective and cohesive Board with a culture of openness and debate; and
- the effectiveness of the various Board Committees and the strength of the individual Committee Chairs.

The review also identified a number of possible opportunities to develop the Board's effectiveness further. These included:

- providing more opportunities for the Non-Executive Directors to spend more time with the Group's wider leadership team;
- providing the Non-Executive Directors with additional opportunities to meet on a more informal basis, outside of the normal Board timetable; and
- providing additional focus on discussions relating to succession planning for the Board.

The Board formally discussed the findings of the review in January 2020. Over the course of 2020/21, the Chair and Company Secretary will continue to review the progress of the related actions as they are put in place.

In addition to the review described above, the Senior Independent Director performed an evaluation of the Chair's performance, taking into consideration the views and inputs of each of the other Directors. The outputs of this exercise were shared and discussed with the Chair. The Chair also formally appraised the performance of each of the other Directors.

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 financial results;
- trading statements;
- regular meetings between institutional investors, the Chief Executive, the Chief Financial Officer and the Investor Relations team in the UK and overseas following the full and half year results;
- regular correspondence and meetings between the Chair and major shareholders to discuss any aspect of the Group or its governance arrangements;
- attending key investor conferences;
- communication between the Chair 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 2020 AGM will be held on 11 June 2020 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 2020 AGM of the Group is to be sent to shareholders with an accompanying letter from the Chair.

The format of the meeting is:

- a summary presentation of results is provided before the Chair deals with the formal business;
- all shareholders present can put questions to the Chair, 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.

Executive Committee

Activities in 2019/20

During the year, the Executive Committee has:

Strategy and Planning

- developed plans to implement the Group's strategy and seven priorities;
- agreed a plan for the seventh priority – naturally digital;
- determined the draft budget and long-term plan; and
- approved capital budgets.

Operational Performance

- continued to implement the Group's seven priorities;
- overseen the Group's continued development of its wholesale, online and manufacturing operations;
- periodically reviewed performance against strategic objectives;
- reviewed changes to speed up and simplify the business; and
- agreed improvements to the Group's technology infrastructure.

Financial Performance

- driven trading performance and reviewed financial performance throughout the period; and
- reduced the cost base of the organisation through productivity and procurement improvements.

Risk

- determined principal risks for the Group;
- reviewed functional risk registers; and
- reviewed the Group's risk management systems and the findings from the Internal Audit reports.

Governance

- overseen the Group's compliance with its obligations under the GSCOP; and
- reviewed GDPR compliance.

Stakeholders

- considered regular updates on customer views including attending customer listening sessions and shopping trips with customers;
- overseen the Group's commitment to corporate social responsibility, in particular the drive to minimise food waste, as well as its support for the Group's charity partner CLIC Sargent, and for the charitable Morrisons Foundation;
- continued to review the Group's reduction programme for energy and plastic;
- reviewed the talent, capabilities and capacity within the Group;
- listened to views of colleagues including reviewing the 'Your Say' survey results agreeing of improvement actions; and
- recommended the ordinary and special dividends to the Board.

Board and Committee Activities in 2019/20

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 2 February 2020, my fifth as Chair. 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 the 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 38 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 and estimates made by management, with particular focus on property assets and provisions, inventory and alternative performance measures. In addition, the Committee reviewed the Group's adoption of IFRS 16 'Leases' during the period and understood the key judgements made and the impact on the financial statements.

This report provides further detail on these areas and other key activities of the Committee during the year.

Activities in 2019/20

During the year, the Committee has:

- considered the appropriateness of the Group's Annual Report and Financial Statements and Interim 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 Group's internal controls and the work of the Risk and Internal Audit function;
- discussed principal risks (described in more detail on pages 28 and 29);
- 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 going concern and viability statements, reviewed assumptions made by management and challenged the scenarios modelled;
- considered the requirements and impact of new accounting standards, including the adoption of IFRS 16 'Leases' during the period; 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, right-of-use assets, intangible assets and provision for onerous contracts

Impairment and provision for onerous contracts continue to be focus areas for the Committee, on the basis of their materiality and level of inherent judgement and estimation.

The Group's policy is to assess impairment on an annual basis, or where changes in circumstances indicate impairment (or impairment reversal) as disclosed in note 3.1 of the financial statements. The impairment review is comprehensive, covering non-financial assets, principally the Group's store and 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 £15m recognised in 2019/20, 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 focussed on understanding the methodology, the basis of key assumptions (discount rate and growth rate) and understanding the outcomes of the impairment assessment performed by management. The Committee challenged how management had reflected expected future performance and potential changes in market conditions. The Committee has also reviewed management's key assumptions around the market valuation of the store portfolio.

In addition, for unused or closed properties where the expected future cash flows are less than the future commitments associated with those properties such as business rates, an onerous provision is recognised. This resulted in a net £2m charge in relation to amounts provided for onerous contracts. The key estimates relate to the discount and growth rates applied to future cash flows.

Having reviewed all key assumptions in respect of impairment and provision for onerous contracts 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.

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 scale, 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.

Inventories

Inventory is a material balance in the Group's financial statements, with inventories held across a large number of locations. As such, it remains an area of focus for the Committee. Store inventory counts are a key control of the Group's inventory balance. The Committee has reviewed outcomes of third party store inventory counts conducted during the year and understood trends concerning inventory loss (shrinkage) as well as other factors influencing loss levels.

Estimation is required in determining provisions, particularly in respect of inventory loss (shrinkage) risk. The Committee reviews these estimates as part of the twice-yearly review of judgements and estimates. The Committee has reviewed the level of provision and assumptions underpinning this assessment and considers them to be appropriate.

Leases

The implementation of the new leasing standard, IFRS 16 ' Leases', continued to be an area of focus for the Committee during the year, given the level of change to the Group's financial statements and the complexities of effecting the transition.

The Committee received regular progress updates during the year as the Group transitioned to the new standard. Many of the key decisions, including transition approach, judgements and estimation methods have been discussed and understood by the Committee in the prior year. These judgements and estimates included approaches to determining lease length and assessing discount rates. These were determined by management, working with external advisers. On implementing the change in accounting policy, management affirmed to the Committee its adherence to these principles, together with final assessment of the financial impacts. The Committee reviewed the Group's restated financials and assessed disclosures as part of its review of the Group's interim report and financial statements.

In addition, at the request of the Committee, the Board undertook a technical training session with its advisers, covering the principles and key considerations of the new standard, as well as the impact on the Group and more widely.

The Committee, having overseen the delivery of the implementation project, is satisfied that the transition had been conducted appropriately and that the key assumptions and estimates applied are appropriate.

Corporate governance report continued
Board and Committee Activities in 2019/20

Retirement benefit schemes

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, and considered the appropriateness and sensitivity of the assumptions used by the independent actuaries in the valuation, including the discount rate. The Committee is satisfied that the assumptions are appropriate.

The Committee reviewed 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 considers the treatment appropriate.

Presentation of financial statements

The Committee has considered the Group's use of Alternative Performance Measures (APMs) as set out in a Glossary on pages 152 to 154, and is satisfied that they adequately follow the Guidelines issued by the European Securities and Markets Authority (ESMA).

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 with the Group's policy and that the level of disclosure provided in note 1.4 is appropriate.

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 with the results presented to the Board. The Group's principal risks are set out on pages 28 and 29.

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 the 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 reports on 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 business 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 of internal control and risk management by each function of the business.

The Committee regularly reviews the Group's processes for risk management and internal control, carrying out a formal review annually. 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 improvement opportunities 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.

The Committee reviewed the effectiveness of the Internal Audit function through a survey which was completed by Non-Executive Directors, members of the Executive Committee and Leadership Team and other key stakeholders. The effectiveness assessment also included a review against the Institute of Internal Auditors International Professional Practices Framework and the principles outlined in the new Internal Audit Code of Practice released in January 2020. An external review of the effectiveness of Internal Audit is conducted every five years and last took place in 2018/19, concluding that the function performs well, with a small number of minor improvement opportunities.

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 five years. After a period of five years, rotation of audit partner is due for 2020/21. PwC have identified a replacement partner, John Ellis, who will replace Andrew for the 2020/21 audit. John has already met members of the Board, the Audit Committee Chair and members of management. He has also begun a handover with Andrew Paynter.

The Group confirms that it has complied with the provisions of the Competition and Markets Authority's (CMA) 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 auditor 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 Centre 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, in order 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.

Each year, the Internal Audit team facilitates an independent assessment of the effectiveness of the external auditor. This 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. The outcomes of this assessment is shared with and considered by the Audit Committee.

In line with the CMA Order, our intention is to put the external audit out to tender on or before 2024/25. Lead partner rotation is taking place in 2020/21, in line with the five year service guidance.

Board and Committee Activities in 2019/20

Corporate Compliance and Responsibility (CCR) Committee

Neil Davidson CBE,
Chair of the 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 the Groceries Supply Code of Practice (GSCOP) and General Data Protection Regulations (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 2019/20

During the year, the CCR Committee has:

- reviewed GSCOP compliance including training and results of internal reviews;
- considered cyber and technology security risk;
- assessed General Data Protection Regulations (GDPR) compliance;
- reviewed health and safety incidents, actions taken and progress of health and safety initiatives;
- assessed energy strategy and carbon reduction measures;
- reviewed Corporate Responsibility Strategy and approved publication of our Assured Corporate Responsibility Report;
- reviewed progress against ambitions for:
  - ethical trading;
  - redistribution of food waste;
  - food safety and improvements; and
  - fisheries and agriculture;
- evaluated Market Abuse Regulation compliance;
- reviewed policies and progress regarding;
  - food integrity and testing;
  - plastic waste;
  - supply chain human rights; and
  - modern slavery;
- reviewed non-financial whistleblowing reports.

Further details on the Group's corporate responsibility activities can be found on pages 23 to 26. We also publish a Corporate Responsibility Report that provides more details on these areas (see www.morrisons-corporate.com/cr/corporate-responsibility/).

For more detail on the Group's work to ensure compliance with GSCOP, see page 19.

Human rights policy

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.

Whistleblowing policy

The Company is committed to ensuring that all individuals have the ability to raise genuine concerns in good faith without fear of victimisation, subsequent discrimination or disadvantage, even if they turn out to be mistaken. More information on our whistleblowing policy can be found on our website (www.morrisons-corporate.com).

All Board members review the whistleblowing policy on an annual basis and receive detailed reports which include an analysis of whistleblowing trends.

Anti-bribery and anti-corruption policy

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,

The Nomination Committee's role is recognised as increasingly important by shareholders and other stakeholders. During the year, we have continued to drive focus on succession planning and improving diversity within the Group.

I am satisfied that the Group has an effective approach to ensuring that we have the right capability and capacity throughout the Group and that the correct level of focus is placed on increasing our diversity. The Board recognises the benefits of diversity throughout the Group, and ensures that clear processes and policies are adhered with to further increase our diversity within the Group as a whole.

The Committee receives comprehensive updates from David Potts and Clare Grainger, our Group People Director, on our colleagues twice a year, with one of these updates aligning with the Group's strategy discussions.

Each Director has a good understanding of our colleagues and culture provided by the 'Your Say' survey results, Tony van Kralingen's feedback from the 'Your Say' Forum, formal and information discussions with the Leadership of the Group, and day-to-day interactions with our colleagues in store.

From these various sources, the Board is able to confirm that the culture of our colleagues is aligned to the purpose, values and strategy that the Board has set.

Activities in 2019/20

During the year, the Committee has:

- scrutinised the performance of management;
- reviewed colleagues throughout the organisation, and considered issues including diversity, succession planning, capability and capacity;
- considered the Board's structure; including nominating Trevor Strain to the role of Chief Operating Officer; and
- nominated Michael Gleeson for appointment to the Board.

Board appointments

Following a rigorous process, the Committee recommended the appointment of Michael Gleeson to the Board as Chief Financial Officer. This appointment supports an ongoing programme to develop capability and talent within the Group.

The appointment process included:

- reviewing a gender balanced shortlist of candidates for the role;
- feedback from interviews with a carefully selected and sufficiently diverse Non-Executive Director recruitment panel; and
- the Committee's consideration of an external assessment of Michael's strengths and suitability for the role.

Diversity

The Group remains committed to the Diversity Policy that was approved last year. This policy fully supports the Hampton-Alexander recommendations that the Board should comprise at least one-third females and continues to work towards achieving these targets in the required timescale. It also supports the Parker recommendations that the Board should include at least one Black, Asian and Minority Ethnic (BAME) Director. Throughout the year, the Committee assisted the development of a pipeline of high-calibre candidates by encouraging a broad range of senior individuals within the business to take on additional roles to gain relevant experience.

For more details on the full Board, Executive Committee and Leadership Team Diversity Policy see www.morrisons-corporate.com/investor-centre/corporate-governance/

At the end of the 2019/20 financial year, the Board included two female members, representing 22% of its total composition and one BAME Director. Upon the appointment of Michael Gleeson at the start of the 2020/21 financial year, the female representation of the Board decreased to 20%.

Gender composition at 2 February 2020

	Male	Female	% Female
Main Board[1]	7	2	22%
Executive Committee	5	1	17%
Direct reports to Executive Committee	31	21	40%
Total Morrisons	**43,173**	**53,877**	**56%**

1 Michael Gleeson joined the Main Board on 3 February 2020. Upon his appointment, the percentage of females on the Main Board decreased to 20%.

Succession planning

Succession plans are developed using objective criteria, with the Committee meeting twice a year to discuss succession planning of the Board, Executive Committee and senior management. At these sessions, the Board is presented with profiles of key individuals, which are considered alongside diversity metrics including, but not limited to, gender, social and ethnic backgrounds, age and personal strengths.

Directors' remuneration report
Annual Statement by the Chair of the Remuneration Committee

> "A challenging year with sustained progress, despite a competitive market."

Tony van Kralingen, Remuneration Committee Chair

Dear Shareholder,

As Remuneration Committee Chair I enjoyed the interaction with a variety of shareholders during the course of last year and at the 2019 Annual General Meeting (AGM). The Committee was pleased with the 95% vote in favour of our 2018/19 Directors' remuneration report, and remains conscious of the views of our shareholders, through regular engagement, in particular, on the updated Directors' remuneration policy.

2019/20 was a challenging year; however, the management team showed strong leadership in balancing competing demands and particularly challenging market conditions, to deliver profit growth for the fourth consecutive year, an increased ordinary dividend and, as announced at the half year, another interim special dividend. The business continues to make progress against the seven priorities, which are summarised on pages 8 to 11. Despite a difficult trading environment, the business again delivered significant levels of free cash flow, a measure which shareholders continue to tell me is very important to them.

We have, of course, announced changes to the Executive team this year, with Trevor Strain promoted into the role of Chief Operating Officer (COO) managing our operations from suppliers to stores, as well as our manufacturing businesses and our growth platforms of online and wholesale. Michael Gleeson has been promoted and joins the Board as Chief Financial Officer (CFO). These moves strengthen our management team as we move into the next phase of fix, rebuild, grow and sustaining the turnaround of this great British business.

Pay for performance

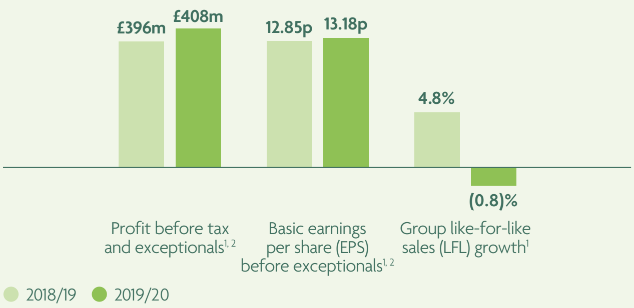
The Committee continues to be of the view that superior performance and reward are linked, and that the UK's food retail industry remains very competitive, providing great value for customers and good opportunities for talent.

Financial performance

Over the last 12 months, despite unprecedented and prolonged political and economic uncertainty, reduced customer confidence and an already competitive market increasing levels of promotional activity, management have delivered:

- Group LFL sales (excluding fuel) growth of (0.8)%;
- profit before tax and exceptional items of £408m, an increase of 3% on last year;
- further strong free cash flow, a total ordinary dividend of 6.77p, up 2.6%, together with the already paid interim special dividend of 2.00p, bringing the total dividend to 8.77p; and
- further progress in cost and productivity savings, resulting in cost reduction/productivity improvement of £147m.

Group performance



1 As defined in the Glossary on pages 152 to 154.
2 2018/19 restated for application of IFRS 16 'Leases'.

Policy changes

When reviewing the Policy, the Committee considered a wide range of inputs. The renewed Policy has been informed by the 2018 Corporate Governance Code changes, market practice, shareholder views, our risk appetite, the Morrisons culture and strategic plan, and the pay and conditions of the wider workforce.

Shareholders will be asked to approve our updated Directors' remuneration policy at the 2020 AGM. Here is a summary of the key changes we are introducing:

Element	Change
Pension allowance (new hires)	Reduced to 5% of salary
Post employment shareholding requirement[1]	Lower of actual shareholding or: • 250% in year one • 125% in year two
Annual bonus share deferral scheme	Reduced to two years from three years

1 See notes below for details of operation.

Pension allowance for new Executive Director hires (including the new CFO) will be at 5% – in line with what the majority of our workforce actually receive. We are very proud to have one of the higher company contributions in our industry, and are therefore able to take this simple and transparent approach. If the majority of workforce company contribution changes, this may be reviewed. Over the course of our consultations, we listened carefully to our shareholders. Whilst most were comfortable with our proposed approach and are pragmatic regarding the difficulties involved in reducing pensions for incumbents, some shareholders expected us to go further. The Committee has therefore formally committed to make further reductions to incumbent pension contributions over the life of the new remuneration policy. Further reductions will be disclosed in the relevant Directors' remuneration report.

Having already introduced a two year holding period on Long Term Incentive Plan (LTIP) vests last year, the Committee have decided to introduce a post employment shareholding requirement. Executive Directors will be required to hold the lower of their actual shareholding or 250% of base salary in the first year after leaving, and 125% (or the actual if lower) in the second. This will be achieved through the deferral period on annual bonus deferred shares, and the holding period on LTIPs from policy adoption, on grants made after the policy is approved.

Having the opportunity to step back and review the policy in its entirety, the Committee has decided to reduce the deferral period for the annual bonus, to be in line with the LTIP holding period and post employment requirement. This is felt to be appropriate as retail is a very fast paced industry, and it is likely that any issues generated in the performance year for an annual bonus, would become apparent in the following two years. There is no change in quantum of earnings potential.

How our Directors' remuneration report is structured

Governance developments

The Committee has considered 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.

We have always said our turnaround would be led by colleagues, and consequently the Committee has always paid close attention to wider workforce remuneration, being regularly briefed on employee pay and conditions.

In addition, the Committee is already responsible for setting the remuneration of the Executive Committee; and I have continued as the designated Non-Executive Director responsible for engagement with our colleagues.

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.

Colleague pay has continued to increase faster than the market, and we have retained our Colleague Bonus Scheme, which has paid out an average of £319 this year. 2019/20 saw a further increase in the hourly rate for store colleagues to £9.00 from £8.70, with a further increase to £9.20 from April 2020, whilst still retaining the annual colleague bonus.

Outcomes in 2019/20

Annual Bonus Plan

The Annual Bonus Plan is based on both business and personal performance. Performance against the targets for sales, profit and productivity, has resulted in a formulaic outcome of 30.7% of a maximum of 80% for these elements.

The Committee was satisfied that this represented a fair outcome, and no discretion needed to be applied. Further detail on the targets set and performance against them can be found on page 60.

Taking into account performance against personal objectives, the Committee has decided to award David Potts and Trevor Strain 18% of the maximum 20% for this element. This takes the total bonus achieved to a payout of 48.7% of maximum, half of which will be deferred into shares, which must be held for three years under the deferred share bonus plan.

Directors' remuneration report continued
Annual Statement by the Chair of the Remuneration Committee

LTIP 2017-20

The performance over the period is summarised below:

Measure[1]	Minimum (25%)	Maximum (100%)	Weighting	Actual performance
Total sales growth (excluding fuel)	£400m	£750m	40%	£899m
Adjusted free cash flow	£600m	£800m	40%	£1,005m[2]
Basic earnings per share (EPS) before exceptionals growth p.a.	5%	10%	20%	7.8%[2]

1 See the definitions on page 58.
2 Calculation of vesting on pre-IFRS 16 basis.

The original targets were set prior to the application of IFRS 16 'Leases'. As noted in the 2018/19 Directors' remuneration report, for the purposes of LTIP reporting, standards in place at the time of grant will be used in calculation of vesting. Accordingly, both the EPS and adjusted cash flow measures have been recalculated on a pre-IFRS 16 equivalent basis. See pages 58 and 63 for more detail.

As a consequence of the strong performance over the period as outlined above and shown on page 63, the 2017-20 LTIP is vesting at 93.5% of maximum. The Committee believe the formulaic outcome is reflective of the value created for shareholders over the period.

Key Committee activities during the year

Alignment to strategy and wider workforce	• Assessed the ongoing alignment of remuneration structures, measures and targets to the strategy. Regularly reviewed wider workforce remuneration.
Shareholder engagement	• Considered investor feedback and proposed changes to remuneration policy from the 2019 AGM and through ongoing dialogue.
Policy	• Consulted on executive remuneration, and proposed changes to remuneration policy.
Pay for performance	• Assessed performance against target sets for 2019/20 annual bonus and 2017-20 LTIP and considered whether any discretion should be used to adjust formulaic outcomes if necessary; • Reviewed and approved targets for 2020/21 annual bonus and 2020-23 LTIP; and • Reviewed the performance of the Executives.
Governance	• Reviewed and considered consequences of the changing investor, governance and reporting landscape following 2019 AGM season and issuance of the Code and updated Directors' remuneration reporting regulations; • Reviewed progress of Executives against shareholding requirements; • Approved the 2018/19 Directors' remuneration report; and • Approved the remuneration for the new CFO and COO.
Pay	• Reviewed Executive Director, Executive Committee and Company Secretary base salaries, in line with wider workforce.

Implementation in 2020/21

Base salary

The Committee awarded David Potts an increase of 2.3% in line with the wider workforce, which David has waived for the fifth consecutive year. For Trevor Strain, as a consequence of his strong performance and promotion to the Chief Operating Officer role, the Committee approved an increase of 2.3% in line with wider workforce to £665,000 effective 3 February 2020.

Michael Gleeson has been appointed as Chief Financial Officer on a salary of £490,000.

Pension allowance for incumbents: The Chief Executive has offered to reduce his pension allowance to 24% from 25%, in line with the Chief Operating Officer. The Committee has also decided to freeze 24% of current base salary as an absolute cash amount, with no increase to this amount as future base pay increases occur. If base pay increases are made and accepted in future, this will have the effect of reducing the pension allowance percentage over time.

Michael Gleeson will receive a pension allowance equivalent to 5% of base salary. This is in line with the majority of the workforce.

Chair and Non-Executive Director fees

The Chair's fees were increased in February 2019 and therefore fees for the Chair will next be reviewed in 2022.

Having last been reviewed in 2017, the non-executive base fee has been increased from £61,200 to £62,500.

Annual Bonus

The performance measures of the Annual Bonus Plan and their weightings remain unchanged from 2019/20 and are summarised on page 57. Subject to no longer being commercially sensitive, the performance against targets will be disclosed in next year's report. 50% of any bonus is deferred in shares under the deferred share bonus plan. The 2020/21 scheme is subject to a two-year vesting period for deferred shares (subject to policy approval).

LTIP

In line with the policy approved by shareholders in 2017, awards will be 300% of salary. Performance measures and weightings are unchanged from the 2019-22 LTIP award. Further detail on the targets can be found on page 57. This grant will be subject to a two year holding period at vest.

Looking forward

I have had valuable conversations with many of our shareholders this year, and was pleased to have so much support for the performance of the Committee and for management. 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 2020.

I look forward to your support at the 2020 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.

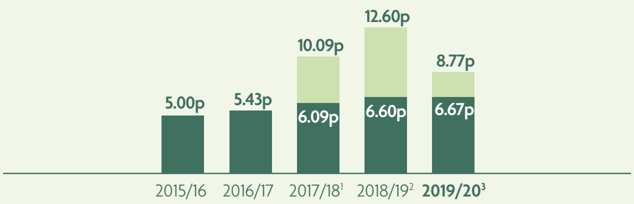
Summary of financial measures

Measure[1]	Post IFRS 16 basis 2019/20	Post IFRS 16 basis 2018/19[2]	Pre IFRS 16 basis 2017/18[3]
Profit before tax and exceptionals	**£408m**	£396m[2]	£374m[4]
Basic earnings per share (EPS) before exceptionals	**13.18p**	12.85p[2]	12.19p
Group like-for-like sales (excluding fuel) (%)	**(0.8)%**	4.8%	2.8%
Cumulative adjusted free cash flow (2015/16 onwards)	**£2,660m**	£2,339m	£2,053m

1 Definitions of these measures are set out on page 58.
2 Adjusted for application of IFRS 16 'Leases'. The impact of restatement for IFRS 16 was to reduce reported profit before tax and exceptionals by £10m and reduce basic EPS before exceptionals by 0.32p.
3 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.
4 For 2017/18 the adjusted profit measure was underlying profit before tax. There is no change in the reported numbers under the previous and current definition.

Stakeholder performance indicators

5 year dividend

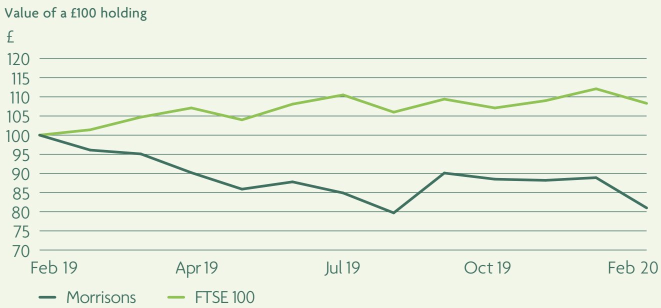


1 Including 4.00p special dividend.
2 Including 6.00p special dividend.
3 Including 2.00p special dividend.

● Ordinary ● Special

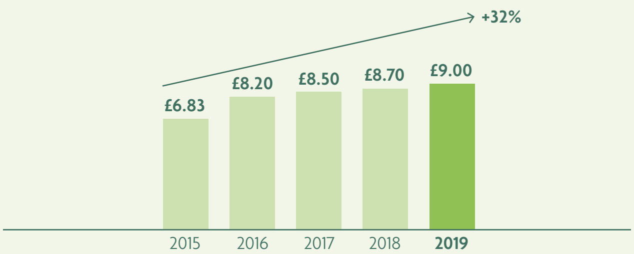
The graph above shows the Group's total dividend over the five year period to 2 February 2020.

12 month total shareholder return (TSR)



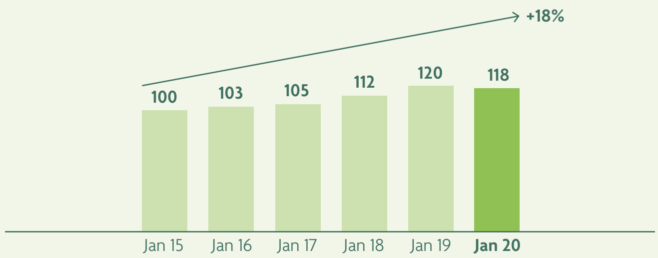
The graph above shows the Group's total shareholder return (TSR) compared with the TSR of the FTSE 100 indices over the 12 month period to 31 January 2020 (the last trading day before the year end).

Investment in colleague pay



Since 2016, we have continued to invest in colleague pay. In 2019/20, we increased the hourly rate for front-line store colleagues to £9.00 an hour, increasing colleague pay by almost a third in four years.

Customer satisfaction index



Customer satisfaction measured at January each year, index vs Jan 15 baseline.

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

Directors’ remuneration report continued
Directors’ remuneration policy

As outlined on page 47, the updated Directors’ remuneration policy will be subject to a vote at the 2020 AGM. The current Directors’ remuneration policy was approved by shareholders on 15 June 2017 at the AGM. The current full policy can be found at www.morrisons-corporate.com. The policy has been in operation for three years.

The principles that underpin our Directors’ remuneration policy are:

Drive a long-term sustainable business

Provide clear alignment of directors and shareholders

Incentivise a balanced approach to the needs of the four stakeholders – shareholders, suppliers, customers and colleagues

Sustainably secure the talent to lead our business, now and in the future

The Committee is committed to ongoing dialogue and consultation with shareholders and their representative bodies.

Alignment of remuneration to strategy and culture

The Annual Bonus Plan and Long Term Incentive Plan (LTIP) link to our seven priorities, five ways of working and four shareholder ambitions by driving profitable, sustainable growth. The choice of measures in the LTIP are designed to hold dynamic tension and create a long-term sustainably successful business. Drive for sales growth is incentivised, but must be profitable to achieve the basic earnings per share before exceptionals growth, which in turn creates the free cash flow which can then be reinvested into the business, shared with colleagues and returned to shareholders.

Equally, the Annual Bonus Plan measures create focus on the short-term health of a fast moving business in a rapidly changing industry. Sales growth is a key driver of health in a fresh food retailer – higher sales improve productivity, reduce waste and allow for more competitive pricing – a combination which again delivers in year profit and productivity benefits which can then be reinvested for the benefit of all stakeholders.

The personal objectives element, under the Annual Bonus Plan, allows us to include diverse but important other measures, and everyone in our business is evaluated equally both on what they do, and how they do it, in line with our five ways of working.

Everyone from store manager level and above participates in the Annual Bonus Plan and LTIP with the same measures, which creates strong alignment between those running our stores and sites and shareholders, and means all our colleagues are able to share in our financial success.

The Committee reviews incentives and rewards several times a year when setting targets, reviewing performance outturns, and takes time to step back outside the remuneration cycle to consider the alignment of executive remuneration to our purpose, strategy, desired behaviours and culture, and wider workforce remuneration.

Policy change rationale

The Committee agreed the policy remained aligned to strategy and the long-term success of the business; however we have reflected the shareholder feedback from consultation and changes to the Corporate Governance Code. The outcome of this review resulted in four changes:

Element for change	Change and rationale
1) Pension allowance for new Executive Director appointments	Executive Directors shall receive a contribution no higher than the majority of the workforce, which is currently 5%. Where an Executive Director receives a cash supplement only, the maximum supplement will also be limited to that of the majority of the workforce. If the majority of workforce company contribution changes, this may be reviewed.
2) Pension allowance for current Executive Directors	The Chief Executive has offered to reduce his pension allowance from 25% to 24% in line with the COO, with effect from the new policy and there will be no compensatory action for this voluntary reduction. The Committee has also decided to freeze the 24% pension allowance as an absolute cash amount, with no increase to this amount if future base pay increases occur. If base pay increases are made and accepted in future, this will have the effect of reducing the pension allowance percentage over time. Over the course of our consultations, we listened carefully to our shareholders. Whilst most were comfortable with our proposed approach and are pragmatic regarding the difficulties involved in reducing pensions for incumbents, some shareholders expected us to go further. The Committee has therefore formally committed to make further reductions to incumbent pension contributions over the life of the new remuneration policy. Further reductions will be disclosed in the relevant Directors' remuneration report.
3) Post employment shareholding requirement	We already have a shareholding requirement of 250% of salary, which both the CEO and COO have met. A two year holding period on vested LTIPs was also introduced last year. The Committee decided to adopt a policy as follows: • Year one post employment – the lower of the Director's shareholding or 250% of salary • Year two post employment – the lower of the Director's shareholding or 125% of salary Vested LTIP awards and bonus deferrals made from awards from 2021 onwards, will count towards the post employment shareholding requirement. Executive Director notice periods are 12 months, so the second year post employment is the third year after the start of the notice period. Given the fast moving nature of the industry and relative volatility, as well as the fact that those departing will not choose or appoint their successors, it is felt to be fair and equitable to reduce the exposure to share price movements in this third year.
4) Deferred bonus share holding period	The Company currently operates a deferred share bonus plan whereby 50% of earned bonus is deferred into shares for three years. The Committee decided to reduce the holding period for bonus deferred shares from three years to two. This is in light of the Corporate Governance Code's recommendation that the Remuneration Committee spend more time considering the strategic alignment of reward and business plans. It is also a reflection of the introduction of the LTIP holding period and a post employment shareholding requirement, and the Committee has significantly increased the alignment of Executive interests with shareholders, over a five-year period. While recognising the desire for long-term alignment with shareholders, given the short-term, cyclical nature of the retail industry, it has also been appropriate to consider the salience of shorter-term incentives, and reduce the holding period on what is intended to be a short-term reward for in year performance.

As outlined on page 47, the Directors' remuneration policy will be subject to a vote at the 2020 AGM. If approved, the changes will take effect following the AGM. In designing and setting the policy on Directors' remuneration, the Committee has considered the reward structure, market levels of pay and general pay increases throughout the Group.

Pay and conditions in the wider Group

In updating the policy, the Committee has considered our fix, rebuild, grow and sustain plan. The industry remains fiercely competitive, and therefore we are seeking to attract, motivate and retain the best talent at all levels of the market. For store colleagues, in 2019/20 we increased our hourly rate to £9.00 an hour, with a further increase to £9.20 an hour from April 2020, while retaining colleague bonus and other benefits such as a market leading default pension rate, subsidised canteens, three colleague discount cards, and facilities in colleague areas. Colleagues' views on pay form part of our engagement survey and colleague 'Your Say' forums. The results of the survey are communicated to the Board, and both Executive and Non-Executive Directors attend the national 'Your Say' forum.

Directors' remuneration policy

Remuneration policy table – new policy 2020

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 are 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 57.	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 (and other car/transport 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	**New Hires** Executive Directors are entitled to participate in the Morrisons Personal Retirement Scheme. Colleagues contribute 5% of salary and the Group also makes a contribution of 5% of salary. A 5% cash alternative in lieu of Group pension contributions is provided where the Group's pension provision is not appropriate, for example, where an Executive Director has reached the Lifetime Allowance. If the majority of workforce company contribution changes, this may be reviewed. **Current Executive Directors** Executive Directors appointed to the Board prior to the 3 February 2020 are entitled to participate in the Morrisons Personal Retirement Scheme or receive a cash alternative in lieu of Group pension contributions.	**New Hires** Executive Directors receive a contribution equal to a maximum of 5% of base salary. Where an Executive Director receives a cash salary supplement only, the maximum supplement payable is 5% of salary. **Current Executive Directors** The 24% cash alternative has been frozen for each Executive Director as an absolute cash amount, with no increase to this amount as future base pay increases occur. If base pay increases are made and accepted in future, this will have the effect of reducing the pension allowance percentage over time. The Committee has committed to make further reductions to incumbent pension contributions over the life of the new remuneration policy. Further reductions will be discussed in the relevant Directors' remuneration report.	Not applicable.

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 (DSBP), normally for a period of two years. The Committee has discretion to allow a differing 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, weightings and shape of the vesting curve are set by the Committee on an annual basis, and may be changed, including removing or introducing new measures 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 two 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.
Long Term Incentive Plan (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. A two year holding period applies 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 and with straight-line vesting in-between. 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 2019/20' section. The Committee has the discretion to amend the weightings and shape of the vesting curve, introduce new measures and exclude measures in order to best align to long-term shareholder interests. Malus and clawback policies apply.
Shareholding requirements	Executive Directors are required to hold 250% of base salary in shares, and have up to five years from appointment or any increase in requirement to achieve that. Deferred share and LTIP awards made following the approval of the policy are subject to a post-employment requirement as follows: • Year one – the lower of the Director's shareholding or 250% of salary • Year two – the lower of the Director's shareholding or 125% of salary	Not applicable.	Not applicable.

Directors' remuneration policy

Notes to Policy table

Annual Bonus Plan and Deferred Share Plan

The Annual Bonus Plan is measured over the financial year. The current measures are profit before tax and exceptionals (50%), a strategic scorecard (30%) and personal performance (20%). The weightings are reviewed each year to ensure strategic alignment and the Committee has the flexibility to adjust weightings and measures to ensure alignment to the strategy and our seven priorities. Weightings for each year are disclosed in the statement of implementation.

Profit before tax and exceptionals is a widely accepted measure of Group and Director performance and is in line with how the Board assesses financial performance. Directors are able to impact it within the year, and it is directly aligned to shareholder experience. The Committee has the discretion to adjust for material exceptional events or actions which were not contemplated at the time of target setting, to ensure that vesting is accurate and fair. As a point of principle, the Committee has decided that the threshold for profit targets will always be higher than actual profit achieved in the previous financial year.

Strategic scorecard measures are set annually in line with the Group's strategy and key objectives for the financial year. The Committee uses objective measures where possible (for example, achievement of productivity improvement/cost reduction) and exercises its judgement to assess the outcome of each element at the end of the year.

Personal objectives for the CEO are set by the Chair, in line with objectives for the next 12 months and the longer-term Group strategy. The CEO sets objectives for the other Executive Director(s).

The Committee assesses performance against objectives and personal bonus achievement at the end of each year. 50% of any bonus payable is paid in cash, with the other 50% deferred in shares under the Deferred Share Bonus Plan (DSBP). Deferred share awards are not subject to any further performance conditions.

LTIP

The Committee believes the mix of measures and weightings are appropriate for the Group's current strategy and aims. The current measures are:

- total sales growth (excluding fuel) (40%);
- adjusted free cash flow (40%); and
- basic earnings per share (EPS) before exceptionals growth (20%).

The Committee has the discretion to amend the weightings, shape of vesting curve, introduce new measures and exclude measures in order to best align to long-term shareholder interests.

Targets are determined by the Committee at the time of grant, and are based on the internal financial plan, external expectations and the need to ensure it is incentivised long-term sustainable value creation for shareholders. Definitions of the performance measures are set out on page 58.

The Committee uses a ROCE (Return on capital employed) underpin to ensure that ROCE exceeds weighted average cost of capital for the performance period. The calculation of ROCE is as described in the Glossary on page 154.

The Committee has discretion to amend the calculation of measures in the interests of fairness and accuracy. In this event, full disclosure will be given in the Directors' remuneration report.

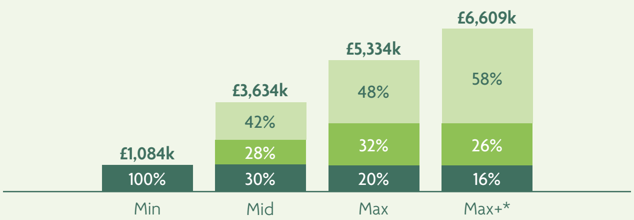
Application of the remuneration policy – Remuneration Scenarios

The below charts set out the minimum, mid and maximum total remuneration scenarios based on current salaries, and how they would vary subject to differing performance outcomes for Executive Directors under the proposed remuneration policy (subject to shareholder approval at the 2020 AGM). In addition a 'Max +' scenario has been included, which is the maximum scenario + 50% share price growth.

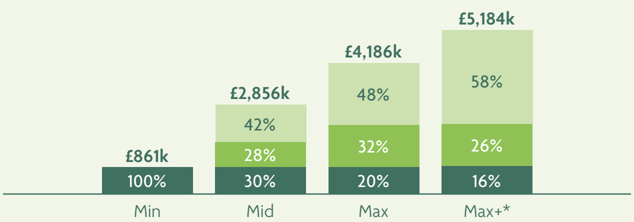
Notes

- Fixed pay includes 2020 base salaries, benefits and pension benefits (based on expected benefits for 2020/21).
- Minimum bonus opportunity is zero. Mid bonus opportunity is 60% of the Maximum bonus opportunity, 200% of salary.
- Minimum LTIP opportunity is zero. Mid LTIP opportunity is 60% of the Maximum LTIP opportunity, 300% of salary.
- Prospective Annual Bonus Plan and LTIP awards are based on 2020/21 salaries.

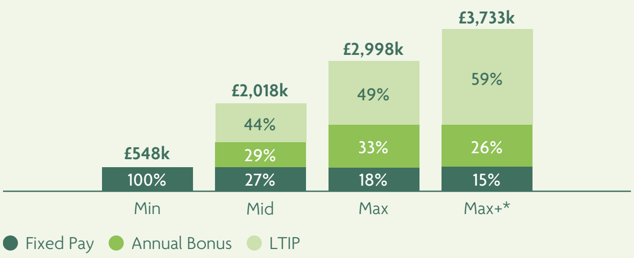
Chief Executive Officer
D Potts



Chief Operating Officer
T Strain



Chief Financial Officer
M Gleeson



* Maximum + 50% share price growth.

Remuneration for the wider Group

Everyone at store manager level and above participates in the Annual Bonus Plan, with the same measures and targets as the Executive Directors. The same population participate in the LTIP, again with the same measures and targets. This alignment within the organisation is an important part of 'Teamwork', one of our five ways of working. Further detail on pay and conditions in the wider Group is provided on page 58.

Statement of consideration of shareholder views

In reviewing the policy and making changes there has been significant consultation with shareholders and consideration of the varied views put forward.

The Committee carefully considered the insights from shareholders, along with their knowledge of the business and industry, in reaching this policy.

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.

Directors' service contracts, notice periods, termination payments and change of control

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.

Termination payments

The table below sets out the treatment of elements of remuneration that would normally apply for Executive Directors whose service with the Group terminates:

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	Awards lapse when employment ends	Awards lapse 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, normally calculated on a time pro-rata basis	Deferred shares are retained and will typically vest on the normal two 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, normally calculated on a time pro-rata basis
Negotiated termination at the discretion of the Committee	Paid to date of termination	As above	As above	As above

Directors' remuneration policy

Under the Annual Bonus Plan and LTIP rules, the Committee has discretion in relation to termination of employment, including:

- whether a bonus payment is made;
- whether unvested deferred shares and LTIP awards are retained or not;
- level of vesting; and
- timing of any payment arising from vesting.

In exercising discretion, the Committee will take into account factors such as personal performance and conduct, overall Group performance and the specific circumstances of the departure (including but not limited to whether it is by mutual agreement). The Committee may take into account payments it considers reasonable in consideration of potential legal claims, including reasonable reimbursement of legal fees. The Committee may also consider providing support related to the ending of employment, including outplacement support, continuation of benefits for a limited period or reimbursement of repatriation costs.

Change of control

In the event of a change of control, deferred share awards vest immediately. Annual bonus and LTIP awards vest to the extent that any performance conditions have been met and, unless the Committee decides otherwise, with a pro-rata reduction to reflect the performance period not yet completed.

Clawback and malus

All annual cash bonus, Deferred Share Bonus Plan (DSBP) and LTIP awards are subject to clawback and malus provisions. Clawback provisions apply for three years following payment of a cash bonus (malus applies to the deferred share element for a two year period) and two years following vesting of an LTIP award (i.e. five years from grant). Awards may be subject to a malus adjustment, or clawed back in the following circumstances:

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

The Committee can adjust clawback and malus periods as they deem appropriate.

Policy on remuneration for Non-Executive Directors

Fees

Fees for the Non-Executive Directors are determined by the Chair 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 Chair'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 chairship, Committee membership and for the appointed Senior Independent Director. The Chair receives a single fee only. Base Non-Executive Director fees have not changed since the last remuneration policy review in 2017, and are therefore being increased by 2.1%, to £62,500. No other fee changes have been proposed. Current fee levels are disclosed below:

Fee type	2020/21 £	2019/20 £
Chair	**420,000**	420,000
Senior Independent Director	**20,000**	20,000
Non-Executive Director base fee	**62,500**	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 Chair has use of a car with fuel and driver and receives private health provision. The Chair and Non-Executive Directors are entitled to normal colleague discount. Neither the Chair nor any of the Non-Executive Directors participate in any Group incentive scheme.

Directors' remuneration report continued
Implementation of remuneration policy in 2020/21

Base salary

The Committee awarded David Potts an increase of 2.3% in line with the wider workforce, which David has waived for the fifth consecutive year, and therefore remains unchanged at £850,000. Trevor Strain has been promoted to Chief Operating Officer, and has been awarded an increase of 2.3% in line with wider workforce, taking his base salary to £665,000.

As announced on appointment, Michael Gleeson's salary will be £490,000. The Committee decided on this salary level at the lower end of the market, taking into account the fact this is his first Executive Director appointment. The Committee would expect to award increases higher than the wider workforce in future years, to reflect his anticipated rate of progression as he develops in role.

Benefits and pension

David Potts and Trevor Strain each receive a pension supplement of 24%, frozen at their 2019/20 benefit level. Following the pay increase noted above, Trevor Strain's pension supplement now equates to 23% of base salary. Michael Gleeson will receive a pension supplement of 5% of base salary, in line with the new remuneration policy.

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 (pages 50 to 56).

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 58.

Scorecard measures for 2020/21 will continue to focus on strategic objectives in the areas of Group like-for-like sales growth excluding fuel (20%) and productivity improvement/cost reduction (10%). Personal objectives will be linked to strategy, and the areas under each Executive's 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.

The Committee sets bonus and LTIP targets for normal, highly competitive, food retailing conditions. However, as we finalise the report we are in abnormal times, coping with the COVID-19 pandemic. The Committee will monitor the situation from a remuneration targets perspective as it develops, retaining (as always) the discretion to amend formulaic outcomes in light of relevant context. Our primary responsibility remains making and providing food for our customers.

LTIP

2020-23 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 interests of any stakeholder.

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, 2019/20 was a difficult year for the wider retail industry and high street, and it is the opinion of many analysts that trading conditions are likely to remain challenging.

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 Directors' remuneration report.

There is a ROCE* (Return on capital employed) underpin which allows the Committee to adjust vesting options if ROCE is below weighted average cost of capital.

In line with the policy approved by shareholders, the LTIP awards for Executive Directors for 2020-23 will be 300% of salary. This grant will be subject to a two year post vest holding period.

LTIP targets 2020-23

The targets for the 2020-23 LTIP are in the table below:

Measure[1,2]	Weighting	Threshold (25% payout)	Mid point (50% payout)	Maximum (100% payout)
Total sales growth (excluding fuel)	40%	£630m	£780m	£1,065m
Adjusted free cash flow	40%	£800m	£850m	£950m
Basic EPS before exceptionals growth	20%	5%	6%	8%

1 Performance measures are defined on page 58.
2 Vesting is on a straight-line basis between points.

Sales growth

The range is equivalent to annual growth of +1.5% to +2.5%. Achieving maximum would require an increase of over 3% from actual performance in the base year. This level of annual growth would represent high performance in our industry. The target has been set above near years' consensus recognising the importance of top line growth.

The maximum target for sales growth has reduced from the previous year, as it assumes the roll out of wholesale supply to McColl's will now be to a total of c.1,100 stores versus an original plan of c.1,600, following McColl's ongoing store closure programme. The change also takes into account the strategic decision to delay our online operations launching from Ocado's Erith depot, which has created flexibility for the business. This means we reach capacity in Erith beyond 2023.

Adjusted free cash flow

The Committee appreciates that this remains a very important measure for shareholders, and Management continues to be very focused on delivering against it. Notwithstanding the strong progress of previous years, including a high level of property disposals and working capital improvements, the free cash target is set at levels consistent with last year taking into account the changes to timing of payments of corporation tax liabilities.

* Alternative Performance Measures as defined in the Glossary on pages 152 to 154.

Implementation of remuneration policy in 2020/21 continued

Basic EPS before exceptionals growth

EPS and profit are a function of sales and, as a proportion of sales, the level of stretch has increased from previous years, with profit having to grow more than three times as fast as sales to achieve the stretch target. The Committee is very mindful of balancing sales and profit growth, investing in improving the shopping trip for customers, and sustaining performance for shareholders. Given challenging industry trading conditions, this range is very stretching.

Chair and Non-Executive Director fees

The base fee for Non-Executive Directors has not been reviewed since 2017, and therefore an increase of 2.1% was awarded, taking the fee from £61,200 to £62,500. Having been increased last year, the fees for the Chair will next be reviewed in 2022.

Directors' remuneration report – Performance Measures Definitions

Annual Bonus Performance Measures

Measure		Definition
Group financial	Profit before tax and exceptionals	As defined in the Glossary on page 152
Strategic scorecard	Group like-for-like sales growth (exc. fuel)	As defined in the Glossary on page 152
	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 growth (excluding fuel and VAT) is defined in the Glossary on page 152
Adjusted free cash flow[1]	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 • Less: capital repayment of leases (exc onerous)[1]
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 153

1 Whilst the overall cash flows do not change on application of IFRS 16 'Leases', the presentation does and therefore the adjustment to deduct capital repayments of leases is required to ensure consistency with targets and performance.

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

One of our people ambitions 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. We have continued to invest each year, with a further increase to £9.20 from April 2020. Our total package including colleague bonus and cash long service award (paid every five years) remains market leading as additional cash benefits such as bonus are equivalent to a further 32p an hour.
- Colleagues are sharing in the value they create, with over one in five of our people in a Sharesave scheme (providing colleagues with the opportunity to purchase the Company's shares at a discount).
- Colleagues continue to share in the success they create via our Colleague Bonus Scheme. This year's average payment was £319.
- We have reorganised our store management teams to remove colleague tasks from manager roles, invested in additional colleague hours, and freed managers up to realise our ambition of everyone having a 'manager who listens, helps and supports me'.
- Our colleague discount portal 'My Perks' 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 £17 per month per user, equivalent to nearly two hours extra pay.
- 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 have a monthly meeting, a regional quarterly and a national meeting twice a year. Tony van Kralingen, along with other Non-Executive Directors, attends the national meeting, to hear views from colleagues on a range of issues, not just remuneration. Successes from the last year include: changing the markdown times on Food to Go items to reduce waste, changing store opening times to meet local demand, one of our distribution centres suggesting that our Rathbones bakery use flour bags to wrap waste saving on salvage costs, and automatic receipts being generated at self-scans for anything over £5 to improve customer returns. We also made significant investments in staff facilities for stores – installing hot and cold water fountains and fridges in staff rooms, offering healthier menu choices, and introducing a £3.50 meal deal in our cafés for colleagues to purchase a hot meal after the staff room has closed.

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 – 2019/20
Audited information

Single total figure of remuneration

The table below sets out the single total figure of remuneration and breakdown for each Director for 2019/20 and the comparative figure for 2018/19. Michael Gleeson was appointed as Chief Financial Officer on 3 February 2020, and his remuneration will be reported in the 2020/21 Directors' remuneration report.

	2019/20						2018/19					
	Salary/fees £000	Benefits[1] £000	Annual bonus[2] £000	LTIP[3] £000	Pension benefits[4] £000	Total £000	Salary/fees £000	Benefits £000	Annual bonus[2] £000	LTIP[5] £000	Pension benefits[4] £000	Total £000
Executive Directors												
D Potts	**850**	**28**	**828**	**2,270**	**213**	**4,189**	850	27	1,037	2,375	213	4,502
T Strain	**650**	**46**	**633**	**1,593**	**156**	**3,078**	622	35	759	1,607	149	3,172
Non-Executive Directors												
A Higginson	**420**	**84**	**–**	**–**	**–**	**504**	400	38	–	–	–	438
R Anand	**109**	**–**	**–**	**–**	**–**	**109**	103	–	–	–	–	103
N Davidson	**102**	**–**	**–**	**–**	**–**	**102**	102	–	–	–	–	102
K Havelock	**89**	**–**	**–**	**–**	**–**	**89**	89	–	–	–	–	89
CA van Kralingen	**102**	**–**	**–**	**–**	**–**	**102**	102	–	–	–	–	102
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 and private health provision. The Chair previously had use of a car and driver. In 2018/19, he moved to company car only. Whilst this change has the appearance of increasing the Chair's benefit provision (because he has full use of the car), it actually reduces the overall cost to the business. 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 the deferred elements other than continued service.

3 Awards granted under the LTIP in March 2017 are due to vest in March 2020. The performance conditions relating to the 2017-20 LTIP award ended on 2 February 2020 and the vest value of the 2017-20 award is therefore calculated on the three month average closing price of £1.955 up to 31 January 2020 (the last trading day before year end). The 2019/20 figures also include the value of dividends accrued on the 2017-20 LTIP award at the time of vesting. Further detail in the 2017-20 LTIP is provided on page 63.

4 D Potts received cash in lieu of pension, equal to 25% of base salary. T Strain received cash in lieu of pension of 24% of base salary. None of the Executive Directors have a prospective entitlement to a defined benefit pension by reason of qualifying services.

5 The value of the 2016-19 LTIP vest that was disclosed in the 2018/19 Directors' remuneration report was based on an indicative price at 1 February 2019. The value of the 2016-19 LTIP vest has been restated to reflect the actual April 2019 vest value.

Annual Report on remuneration – 2019/20

Audited information continued

Annual Bonus Plan

Annual bonus achieved 2019/20

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 2019/20 (£000)
D Potts	200%	97.4%	828	50%	414
T Strain	200%	97.4%	633	50%	317

Group financial and strategic scorecard

Performance measure[1]	Weighting (as a % of total annual bonus opportunity)	Achieved as a % of maximum		Actual achievement	Payout (as a % of total annual bonus opportunity)
		Threshold	Maximum		
Group financial		**20% payout**	**100% payout**		
Profit before tax and exceptionals	50%	£397m[2]	£437m[2]	£408m	20.7%
Strategic scorecard		**20% payout**	**100% payout**		
Productivity improvement/cost reduction	10%	£100m	£130m	£147m	10.0%
Group LFL sales growth (exc. fuel)	20%	1%	3%	(0.8)%	0%
Other measures					
Personal objectives	20%				18.0%

1 Performance measures are defined on page 58.
2 Targets for profit before exceptionals reflect the application of IFRS 16 'Leases'.

Profit before tax and exceptionals

As disclosed in the restated financial statements, 2018/19 has been impacted by the application of IFRS 16. In 2019/20, profit before tax and exceptionals was £408m, up 3% year-on-year. This is towards the lower end of the target range and reflects the challenging trading environment retailers have faced. Despite the challenging consumer context, and the subsequent impact on sales, management have balanced the competing demands of growing profit and investing in the shopping trip, to deliver a fourth year of profit growth, 20.7% out of a maximum of 50% has been delivered.

Productivity improvement/cost reduction

Following three years of strong delivery against stretching targets, the maximum was set slightly lower than 2018/19, given the performance in accelerating benefits since 2016/17. The maximum of £130m 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 £147m being delivered meaning 10% was achieved for this element.

Group LFL sales growth (excluding fuel)

The Committee set a target range of 1% to 3% growth, which was felt to be very stretching given the industry context at the time. Performance did not meet threshold and therefore nothing is earned for this element.

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. Some specific targets have been removed as they are commercially sensitive.

D Potts

Objective	Summary of Performance	Weighting
Deliver key actions against the improvement plan, and continued implementation of fix, rebuild and grow strategy for profitable growth, i.e. the six priorities, five ways of working and four sets of ambitions	• Four new stores opened, including new format innovations with our first Market Kitchen stores and first new style community store • 44 'Fresh Look' stores completed and outperforming control group • 'Outstanding in Service' trials completed in a higher number of stores than originally planned • On GSCOP, Morrisons was the fourth most improved Retailer in the GCA's 2019 supplier survey (out of 12), with a net improvement score of 7% and strong positive feedback from the GCA • Stretch customer satisfaction target achieved	4%
Morrisons price list – further improvement relative to competitor prices	• In 2019 prices on hundreds of items cut, including eggs, seafood, core grocery and household items	4%
Develop capability: • Continue to develop leadership team capability through development and talent hires • Maintain succession plans for Executive Committee and leadership team • Finalise roll out of Team manager 'My Job' • Roll out 'leading with purpose' to store, site and people managers	• Planned gradual renewal of Executive team executed, as well as changes to store leadership, to set Company up for next phase of turnaround, plus key leadership team appointments • Robustness of internal talent pipeline and smooth implementation shows strength of succession plans • All Team manager 'My Jobs' were completed as well as the planned number of store and people managers for 'Leading with Purpose'	4%
Continue to reach 'more and more people' through convenience, online, wholesale and popular & useful services businesses: • Increase reach to Amazon customers • Start trading with two new wholesale partners • Increase reach of online/Morrisons.com	• Four new stores opened, including new format innovations with our first Market Kitchen stores and first new style community store • Now offer Amazon Prime Now in eight cities • Over 50 'Morrisons Daily' format stores opened • Over 90% of British households now covered by Morrisons.com	4%
Lead the business through the challenges driven through Brexit	Strong plans in place regarding Brexit in terms of trade, supply chain and resourcing	4%

Annual Report on remuneration – 2019/20

Audited information continued

T Strain

Objective	Summary of Performance	Weighting
Improve Commercial • Simplify and speed up the function • Create value for stakeholders with suppliers	• Detailed review and improvements implemented • Invested in sustained price cuts • Improved all aspects of the shopping trip for customers • New innovations such as 'Party' concept	5%
Build capability	• Continued to develop the team's capability • Internal successor developed and appointed to CFO role	5%
Control costs • Improve productivity • Plan to improve availability • Reduce stock loss	• Productivity cost savings target exceeded • Availability and stock loss improved with future detailed plans developed	5%
Deliver growth	• Improving existing own-brand ranges and introducing new products and ranges • Fresh Look 'modular' improvements introduced across the estate • Wholesale and online business met or exceeded plan	5%

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. Individual objectives were achieved in full and often exceeded, and while the LFL sales target in the financial element was not achieved, the Committee are satisfied that strong progress was made on longer-term strategic objectives.

Taking into account performance against personal objectives, the Committee has decided to award David Potts and Trevor Strain each 18% of this element. This takes the total bonus achieved to a payout of 48.7% 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 subject to continued service. 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

2017-20 LTIP

Awards granted under the LTIP in March 2017 are scheduled to vest in March 2020. The performance period relating to these awards ended on 2 February 2020.

The Committee believe the formulaic outcome is reflective of the value created for shareholders over the period.

The original targets for the 2017-20 LTIP awards were set prior to the application of the IFRS 16 'Leases'. As noted in the 2018/19 Directors' remuneration report, for the purposes of LTIP reporting, standards in place at the time of grant will be used in the calculation of vesting. Accordingly, Basic EPS before exceptionals has been restated on a pre-IFRS 16 basis.

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

Measure[1]	Weighting	(25%) Threshold performance required	(100%) Maximum performance required	Reported outcome	LTIP 2016-19[4] vesting and IFRS 16 adjusted outcome	Actual LTIP vesting (% of maximum)
Total sales growth (excluding fuel)	40%	£400m	£750m	£899m	£899m	40.0%
Adjusted cumulative free cash flow[2]	40%	£600m	£800m	£1,005m	£1,005m	40.0%
Basic earnings per share (EPS) before exceptionals growth p.a.[3]	20%	5% p.a.	10% p.a.	6.7% p.a.	7.8% p.a.[4]	13.5%

1 Performance measures are defined on page 58.
2 Cumulative adjusted free cash flow over the vesting period. Adjusted free cash flow as defined on page 58.
3 Basic earnings per share (EPS) before exceptionals growth rate p.a. over the vesting period. Baseline basic EPS before exceptionals of 10.86p based on 2016/17 profit before exceptionals of £337m.
4 Basic EPS before exceptionals adjusted to reflect pre IFRS 16 in line with standards in place at date of grant and to remove the dilutive impact of shares issued to settle Group's LTIPs, during the vesting period.

2019-22 LTIP

The table below sets out the share awards made to the Executive Directors during 2019/20 under the Group's LTIP:

Director	Grant date	Award type	Basis on which award made	Face value of award (£000)[1]	Percentage of award vesting at threshold performance	Performance period end date	Performance conditions
D Potts	17 April 2019	Conditional award	300% of salary	2,550	25%	30 January 2022	see table below
T Strain	17 April 2019	Conditional award	300% of salary	1,950	25%	30 January 2022	see table below

1 The value of the award is based on the five day average close price of the trading days prior to grant: £2.2278.

The table below sets out the performance conditions attached to the awards made during the year. These awards were granted in April 2019.

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	40%	£650m	£1.5bn
Adjusted free cash flow	Three year performance period	40%	£800m	£950m
Basic earnings per share (EPS) before exceptionals growth p.a.	Three year performance period	20%	5%	10%

1 Performance measures are defined on page 58.
2 Vesting is on a straight-line basis between points.

As noted in the 2018/19 Directors' remuneration report, the 2019-22 LTIP targets were set based on accounting standards in place for the financial period ended 3 February 2019, prior to the application of IFRS 16 'Leases'. Accordingly for the purposes of LTIP reporting, standards in place at the time of grant will be used in calculation of vesting. As such this will require an adjustment to a comparable pre-IFRS 16 basis.

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 Directors' remuneration report. There is a ROCE underpin which allows the Committee to adjust vesting options if ROCE is below weighted average cost of capital.

Sharesave

D Potts has an option to buy 7,078 shares for a fixed price of £1.78p on 1 July 2022 under the Morrisons Sharesave award subject to continued service.

Annual Report on remuneration – 2019/20

Unaudited information

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 and Trevor Strain have met their respective shareholding requirement.

Executive Director	Shareholding requirement (% salary)	Shareholding as at 31 January 2020 (% salary)[1,2]	Shares owned outright	Deferred shares not subject to performance[3]	Sharesave options not subject to performance	LTIP shares subject to performance[4]	Total interests in shares
D Potts	**250%**	**657%**	**2,322,134**	**992,153**	**7,078**	**3,436,632**	**6,757,997**
T Strain	**250%**	**270%**	**528,911**	**693,891**	**–**	**2,503,603**	**3,726,405**

1 Includes shares held under the deferred share bonus plan (DSBP) on an after tax basis. DSBP awards are conditional awards.
2 For the purpose of calculating the shareholding as a percentage of salary, the three month average share price of £1.955 up to 31 January 2020 (the last trading day of the financial year ended 2 February 2020) has been used.
3 The number of shares awarded in respect of the 2018/19 Annual Bonus Plan (deferred element) was D Potts 230,045 and T Strain 168,322 shares. These were awarded based on a share price of £2.25.
4 1,074,589 and 753,824 shares represent LTIP awards granted to D Potts and T Strain respectively in March 2017 which are due to vest in March 2020. Performance targets for these awards and associated outcomes are provided in the section headed '2017-20 LTIP' on page 63. 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. 40% of the award is linked to a total sales growth target. 25% of this element vests for achieving £1.1bn over the performance period, and 100% vests for achieving £2bn over the period. 40% of the award is linked to an adjusted free cash flow target. 25% of this element will vest for achieving £730m against this measure, and 100% will vest for achieving £1bn 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. 1,144,627 and 875,302 shares granted to D Potts and T Strain respectively represent LTIP awards made in April 2019 which are due to vest in April 2022. Performance targets for these awards are disclosed in the section headed '2019-22 LTIP' on page 63. Each LTIP award is a conditional award.

All shares are exercised at vest, details of which are included in the notes to the Group Financial Statements, notes 9.3 and 9.4.

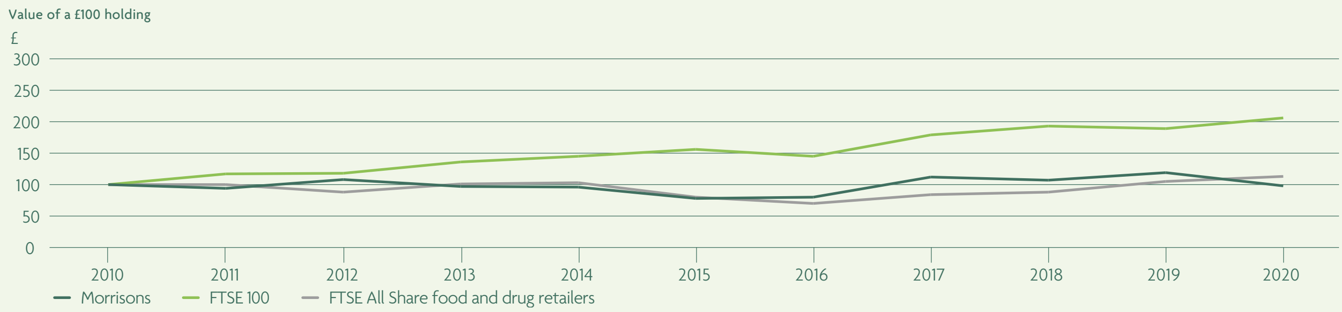
Non-Executive Director shareholdings as at 31 January 2020 (the last trading day of the financial year ended 2 February 2020) are set out in the table below.

Non-Executive Directors	31 January 2020 Total (owned outright)	Shareholding Met
A Higginson	**63,560**	**No**
R Anand	**22,500**	**Yes**
N Davidson	**12,800**	**No**
K Havelock	**100,000**	**Yes**
C A van Kralingen	**13,000**	**No**
B Richards	**14,014**	**No**
P Vennells	**12,475**	**No**

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

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 31 January 2020 (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.

Chief Executive remuneration

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	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16[3]	2016/17	2017/18	2018/19[4]	2019/20
Total remuneration (£000)	D Potts	–	–	–	–	–	2,252	2,794	5,957	**4,502**	**4,189**
	D Philips	3,328[2]	2,502	1,089	1,089	2,101	50	366	–	–	–
	M Bolland	304	–	–	–	–	–	–	–	–	–
Annual bonus payment (% of maximum opportunity)	D Potts	–	–	–	–	–	73%	100%	98.7%	**61%**	**48.7%**
	D Philips	70%	90%	0%	0%	60%	–	–	–	–	–
	M Bolland	–	–	–	–	–	–	–	–	–	–
LTIP vesting level achieved (% of maximum opportunity)	D Potts	–	–	–	–	–	–	–	96.3%	**94.6%**	**93.5%**
	D Philips	–	–	0%	0%	0%	0%	50%	–	–	–
	M Bolland[1]	–	–	–	–	–	–	–	–	–	–

1 M Bolland was not treated as a good leaver and therefore lost any eligibility to shares that may have otherwise vested following his departure.
2 Total remuneration includes value of unrestricted share award over 319,401 shares and restricted share award over 120,965 shares granted on recruitment.
3 D Potts was appointed on 16 March 2015 and D Philips stepped down from the Board on 16 February 2015.
4 2018/19 total remuneration has been updated. The value of the 2016-19 LTIP vest that was disclosed in the 2018/19 Directors' remuneration report was based on an indicative price at 1 February 2019. The value of the 2016-19 LTIP vest has been restated to reflect the actual April 2019 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 2018/19 to 2019/20 and the average percentage change from 2018/19 to 2019/20 for employees of the Group as a whole.

	% increase in element between 2018/19 and 2019/20		
	Salary and fees	Taxable benefits	Annual bonus
D Potts	**0%**	**4%**	**(20)%**
All Group employees[1]	**2.6%**	**0%**	**(9)%[2]**

1 Reflects the change in average pay for all Group employees employed in both 2018/19 and 2019/20.
2 Reflects the increase in the average bonus payout for eligible employees.

Pay ratios

The below table sets out the ratio of the Chief Executive's pay (as outlined on page 66), to the median, 25th and 75th percentile full-time equivalent remuneration of Morrisons UK employees.

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2019/20	Option B	230:1	217:1	180:1

Option B under the reporting requirements has been chosen to identify the colleagues at the median, 25th and 75th percentiles as it provides the most effective method to identifying the reference colleagues for calculation purposes. The reference colleagues' annual pay has been calculated from their hourly rate, benefits and pension eligibility (annualised) at the close of the financial year. Bonus figures have been calculated using the business median, 25th and 75th percentile payouts rather than the bonus payments to the reference colleagues as bonus payments vary across the business dependent upon business unit performance. The business is satisfied these are the right reference colleagues based upon their role in the business and frequency of similar rates across the organisation.

Annual Report on remuneration – 2019/20

Unaudited information continued

In line with the regulations, the following table sets out the total pay and benefits, and the salary element for the CEO, and colleagues at each percentile.

	Base salary	Total pay and benefits
CEO	£850,000	**£4,189,520**
75th percentile colleague	£21,591	**£23,321**
50th percentile colleague	£18,055	**£19,340**
25th percentile colleague	£17,100	**£18,202**

The ratio reflects the goal of rewarding the achievement of short and long-term financial and strategic objectives under Morrisons remuneration policy.

This is the first time Morrisons has disclosed its pay ratio.

Relative importance of spend on pay

The table below sets out the total spend on remuneration in the 2018/19 and 2019/20 financial years compared with distributions to shareholders.

	2019/20 £m	2018/19 £m	Difference £m
Total cost of remuneration for all Group employees	**1,845**	1,900	(55)
Profit distributed by way of dividends	**302**	289	13

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 Operating Officer, the Group People Director and other People Team 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 £50,500 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 2019 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	**1,790,715,172**	**95.16%**	**91,085,559**	**4.84%**	**6,124,872**	**1,887,925,603**

Tony van Kralingen, Remuneration Committee Chair
17 March 2020

Directors' report
Statutory disclosures

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

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

Political donations

No political donations were made in the financial year, in line with the Group's 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 28 and 29 and the other matters discussed in connection with the viability statement on page 30, 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 unless otherwise approved by the Company by ordinary resolution.

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 2 February and 16 March 2020, 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 2 February 2020		As at 16 March 2020	
	Number of shares	% of share capital	Number of shares	% of share capital
Silchester International Investors LLP	**290,371,673**	**12.08**	**310,779,289**	**12.92**
Schroders PLC	**269,219,152**	**11.20**	**261,018,636**	**10.85**
Amerprise Financial Inc	**177,966,342**	**7.62**	**177,966,342**	**7.62**
BlackRock Inc	**162,136,599**	**6.84**	**162,136,599**	**6.84**
Majedie Asset Management Limited	**119,982,348**	**5.00**	**119,982,348**	**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 6.6 of the financial statements.

At the AGM held in June 2019, a special resolution was passed to renew the authority given at the AGM held in June 2018 for the purchase by the Group of up to 239,230,467 ordinary shares, representing approximately 10% of the issued ordinary share capital at that time.

During the period, 36,699,143 (2019: 12,440,132) ordinary shares were issued to employees exercising share options and under the LTIP scheme. In addition, 551,491 (2019: 1,721,480) share 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, age, sex, marital or civil partnership status, disability, religion or belief, sexual orientation, gender re-assignment or trade union membership are offered the opportunity to be their best, using their individual talents and abilities.

Applications for employment are encouraged from all people and differences embraced. Every application, including those from people with disabilities, people who are transgender, or those who have particular religious beliefs will be given full and fair consideration. Respect underpins behaviour towards all candidates and all our colleagues. A full review of individual needs is undertaken and the Group will make reasonable adjustments to the selection process, work environment or practices in order to help those who require it. With a heightened awareness of the impact of mental health on society, the Group is more mindful than ever that through our practices we should ensure the same respect and support is provided to every candidate and colleague, and to treat them equally in respect of recruitment, promotion, training, pay and other employment policies and conditions. Decisions are made based on relevant merits and abilities, and made free from bias.

Remaining receptive to the needs of customers and the wider communities is a priority – Morrisons operates in an inclusive and respective manner where everyone is welcome.

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. The Group's health and safety policy is approved by the Executive Committee. In order to deliver our policy, each division has a comprehensive Health and Safety management system across the Group and subsidiary companies within the Group. The management systems contain 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 activities across the Group. To drive continuous improvement in performance and practices, each division has a schedule of audits completed by our central Health and Safety team as well as nine divisional health and safety improvement plans.

By order of the Board

Jonathan Burke, Company Secretary
17 March 2020

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 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 coordination by the Chief Financial Officer to ensure consistency across sections;
- an extensive verification process is undertaken to ensure factual accuracy; and
- comprehensive reviews of drafts of the report are undertaken by members of the 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
17 March 2020

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 2 February 2020 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 and Company statement of financial position as at 2 February 2020; the consolidated income statement and consolidated statement of comprehensive income; the consolidated statement of cash flows; the consolidated and 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

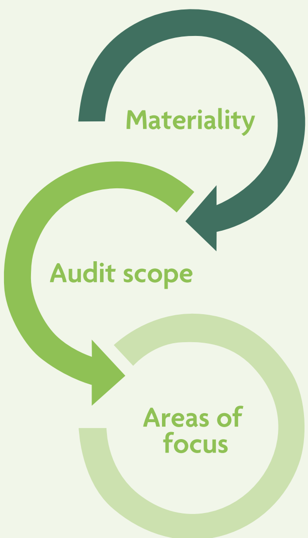
We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities 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 4 February 2019 to 2 February 2020.

Our audit approach

Overview



Materiality

- Overall Group materiality: £20.4 million (2019: £20.0 million), based on 5% of profit before exceptional items and net retirement benefit interest.
- Overall Company materiality: £18.3 million (2019: £18.0 million), 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 the Group audit, which accounted for 99% of total Group revenue and 93% 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.

Key Audit Matters (Group and Company)

- Impairment of property, plant and equipment and right-of-use assets
- Inventory provisions
- Exceptional items
- Pension accounting
- Commercial income and manual promotional funding
- IFRS 16 – lease accounting
- Impairment of intangible assets

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.

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 Companies Act 2006, the Listing Rules, Pensions legislation, UK tax legislation, health and safety legislation, employment law and Grocery Supply Code of Practice, 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 identifying and testing journal entries, in particular those posted with unusual account combinations, 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 non-compliance with laws and regulation, or 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 and right-of-use assets (Group and Company) Refer to page 84 (sources of estimation uncertainty), note 3.1 (accounting policies), notes 3.3 and 11.7 (property, plant and equipment) and notes 3.4 and 11.8 (Right-of-use assets). The Group has a large freehold store estate recognised within property, plant and equipment (Group: £5,756m, Company: £1,542m) at 2 February 2020, and for the first time following the adoption of IFRS 16, the Group and Company has recognised right-of-use assets of £888m and £1,009m respectively of leasehold land and buildings on the balance sheet. 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 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 judgement required in applying various estimations when testing for impairment and impairment reversals and the significant carrying value of freehold and leasehold 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 relating to certain key inputs including, for example, discount rates and future growth rates. Fair value less costs of disposal Fair value less costs of disposal is estimated by management based on market knowledge of individual stores and likely demand from grocers or other retailers in the event these stores were for sale. The key judgements made by the Directors relate to the estimated rental values and yields for these stores.	Value in use In relation to the value-in-use assessment we have: • obtained the Group's and Company's Board approved FY21 budget and medium term financial plans (upon which the forecasts underpinning the value in use calculations are based); • challenged management's forecasts and compared future cash flow performance to historic levels to ensure that the planned performance is considered reasonable; • assessed the accuracy of management's discounted cash flow model including testing the mathematical accuracy of the calculations included within the model and the application of the requirements of IAS 36 'impairment of assets' and impact of IFRS 16; • assessed the discount rate applied, with the support of our internal valuations specialists; and • considered the sensitivity of the model to changes in these key assumptions. We found, based on our audit work, that the key assumptions and calculations used by management were supportable and appropriate. Fair value less costs of disposal We evaluated and challenged the estimates of store rental values and yields used by management in their calculation of store market values. This involved using our own internal valuation experts, with a particular focus on the assumptions and methodology used, obtaining third party evidence and market data to corroborate the assumption. We determined that the valuations performed by management were reasonable. In addition, we evaluated the adequacy of the disclosures made in notes 3.3, 3.4 (Group) and notes 11.7, 11.8 (Company) of the financial statements, including disclosures regarding the key assumptions and sensitivities as required by IAS 36 'Impairment of assets' and found them to be appropriate.

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

Key audit matter	How our audit addressed the key audit matter
Impairment of property, plant and equipment and right-of-use assets (Group and Company) (continued) Fair value less costs of disposal (continued) The Group has recognised a net impairment reversal of £35m (£117m impairment reversal offset by £82m impairment charge). The £82m impairment charge includes £59m in relation to property, plant and equipment, £23m in relation to right-of-use assets. The £117m impairment reversal includes £93m in relation to property, plant and equipment, £24m in relation to right-of-use assets. The Company has recognised a net impairment reversal of £11m (£58m impairment reversal offset by £47m impairment charge). The £47m impairment charge includes £32m in relation to property, plant and equipment, £15m in relation to right-of-use assets. The £58m impairment reversal includes £39m in relation to property, plant and equipment, £19m in relation to right-of-use assets.	
Inventory provisions (Group and Company) Refer to page 84 (sources of estimation uncertainty), note 5.1 (accounting policies), note 5.2 (inventory). Inventory of £660m is recognised on the balance sheet of the Group and £409m on the Company balance sheet. The inventory valuation is reduced by provisions including those relating to estimated losses due to shrinkage (note 5.1). The inventory valuation is further reduced for commercial income and promotional funding (where inventory which this income and/or funding relates to, is yet to be sold). When the inventory is sold, the commercial income and/or promotional funding is recognised in the income statement. Also, inventory is reduced for provisions related to estimated obsolescence and other known specific risks. We focused on this due to the estimation uncertainty and judgements involved in determining the level of provisions required, in particular those relating to shrinkage (inventory loss).	In assessing the adequacy of the inventory provisions, we have: • assessed the assumptions included in the shrinkage provision, including testing the key inputs to supporting evidence; • challenged the reasonableness of management's estimates of shrinkage through review of recent count results and other available information to ensure that the year-end provision adequately reflects the best estimate of current levels of inventory loss; and • attended inventory counts and performed sample counts at a number of the Group's supermarkets, petrol forecourts and depots throughout the period. Based on the work performed, we satisfied ourselves that the year-end shrinkage provision adequately reflected the levels of stock loss experienced. For other provisions applied to inventory we have: • assessed the amounts deducted in respect of unearned commercial income and promotional funding, by verifying the inputs to, and the methodology of, the provision calculation; and • considered the adequacy of the obsolescence provision including challenging management on key assumptions, taking into account the current profile of stock and expected stock life. We have assessed the other specific provisions with reference to the risks identified by management and noted no issues.
Exceptional items (Group only) Refer to page 83 (critical accounting judgements) and note 1.4 (profit before exceptionals). The Group's Alternative Performance Measure is 'Profit before exceptional items and net retirement benefit interest'. Management use this measure to improve the transparency and clarity of the Group's financial performance. The Group's profit before exceptional items and net retirement benefit interest of £408m is stated before £19m of IAS 19 retirement benefit interest income and net income from exceptional items of £8m, representing: • £66m of profit on disposal and exit of properties; • £51m of store restructuring and closure costs; • £2m net reversal of impairment and provision for onerous contracts; and • £9m of other exceptional items. The determination of which items are to be excluded from profit before exceptionals is subject to judgement and therefore users of the Group financial statements could be misled if amounts are not classified and disclosed in a transparent manner and consistently with the Group's accounting policy.	We considered whether the presentation of profit before exceptional items and net retirement benefit interest was appropriate. We performed the following procedures: • reviewed management's definition and classification of exceptional items, including the sub-categorisation of these items; • obtained supporting evidence to corroborate the accuracy and completeness of exceptional items; • where estimation uncertainty exists (e.g. restructuring costs), we challenged the key assumptions in light of information available and historic assessments made for similar circumstances; and • challenged management on the classification of exceptional items through consideration of the application of the accounting policy, including those items classified as 'other exceptional items'. We did not identify any material issues in respect of those items presented as exceptional. We reviewed management's disclosures relating to exceptional items and consider these to be appropriate and consistent with work performed.

Key audit matter	How our audit addressed the key audit matter
Pension accounting (Group and Company) Refer to page 83 (critical accounting judgements), page 84 (sources of estimation uncertainty), note 8 (retirement benefits) and note 11.20 (pensions). We have focused on the valuation of the Group and Company's defined benefit pension schemes because of the level of estimation required in determining the year end valuation. In addition, the size of the gross assets (Group: £5,402m and Company: £1,857m) and liabilities (Group: £4,458m and Company £1,509m) within the schemes are significant and material. The net surplus position of the schemes at 2 February 2020 was £944m for the Group and £348m for the Company. Where a defined benefit scheme is in a surplus position, management needs to consider whether the Group and Company has the right to recognise a surplus, or whether it is necessary to restrict the amount of surplus recognised. This requires judgement as to the rights of the Group, Company and Trustees in each of the Group's schemes.	We performed the following procedures: • obtained the IAS 19 valuation reports produced by the Group's independent actuaries; • used our internal pensions experts to assess the judgemental assumptions used in calculating the valuation of the pension schemes' liabilities, including discount rates, inflation and mortality rates; • obtained the detailed reports relating to the valuation of the schemes' assets and agreed the valuations to third party confirmations; • assessed the membership data used in valuing the schemes' liabilities and tested any significant changes since the last valuation; and • agreed a sample of contributions made by the Group to bank statements. Based on our work performed, the actuarial assumptions used in calculating the pension surplus were within an acceptable range. We considered management's assessment of the Group's right to recognise the net surplus in two of the three schemes by reference to the requirements of IFRIC 14 'Limit on defined benefit asset', including reviewing legal advice provided to management, and satisfied ourselves that it is appropriate to recognise the net surplus on the balance sheet.
Commercial income and manual promotional funding (Group and Company) Refer to page 84 (sources of estimation uncertainty), note 1.1 (accounting policies) and note 1.6 (operating profit). Commercial income The Group and Company 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 accounting policies (note 1.1). 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 and Company is entitled to where transactions span the financial period end. As such we have identified this as a key audit matter, recognising also that there could be a potential for fraud through possible manipulation of this income. Manual promotional funding The Group and Company 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. However, 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 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.	We performed the following procedures in relation to both commercial income and manual promotional funding: • understood, evaluated and tested management's key controls, including the monitoring of invoices raised and the accuracy of confirmations received from suppliers; • tested a sample of items to supporting documentation including supplier agreements and confirmations direct from suppliers; • used data analytics to identify any unusual items, where such items were identified these were agreed to supporting documentation; • tested the settlement of a sample of supplier arrangements recognised in the income statement, which included settlement in cash or by off-set to accounts payable; • agreed a sample of accrued income to evidence of post-year end invoicing and tested credit notes raised after the period end in order to identify any subsequent reversals; • assessed the recoverability of unsettled balances included within trade receivables in note 5.3 to the financial statements (where the Group does not have the right of offset against trade creditors); and • considered the adequacy of related disclosure within the Group's financial statements. No significant issues were identified as a result of this work.

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

Key audit matter	How our audit addressed the key audit matter
IFRS 16 – Lease Accounting (Group and Company) Refer to page 82 (new accounting standards, amendments and interpretations adopted by the Group), page 83 (critical accounting judgements), notes 3.1 and 6.1 (accounting policies), notes 3.4 and 11.8 (right-of-use assets) and notes 6.4 and 11.16 (lease liabilities) and notes 10.3 and 11.25 (changes in accounting policies). The transition to IFRS 16 'Leases' took place on 4 February 2019 and the Group and Company has adopted the fully retrospective transition approach. Right-of-use assets of £942m for the Group and £1,093m for the Company have been recognised on the Group balance sheet, relating to leasehold land and buildings (Group: £888m, Company £1,009m) and leased plant, equipment, fixtures and vehicles (Group: £54m, Company £84m) with corresponding lease liabilities of £1,376m for the Group and £1,483m for the Company. The transition to IFRS 16 is reliant upon a number of key estimates and judgements including determining the appropriate discount rate for each lease and assessing lease extension options. Additionally, there is a risk that the lease data which underpins the IFRS 16 transition is incomplete or inaccurate.	We have assessed the design and implementation of key controls in relation to the transition to IFRS 16. We have performed the following procedures to assess the key estimates and completeness/accuracy of the underlying lease data: • tested the mathematical accuracy of the schedules obtained; • assessed the discount rates used to calculate the lease obligation, with support from our internal valuation specialists; • confirmed the accuracy of the lease data by agreeing supporting lease documentation for a sample of leases; • tested the completeness of the lease data by reconciling the Group's and Company's existing lease commitments to the lease data underpinning the model; • considered management's assessment for impairment both in the restated prior year opening balance sheet (5 February 2018) and at 2 February 2020 as part of overall impairment assessment for property, plant and equipment and right-of-use assets; • assessed the tax impact, with support from our internal tax specialists; and • reviewed relevant disclosures to ensure in line with requirements of IFRS 16. No significant issues were identified as a result of this work. We consider that the key estimates and judgements underpinning the Group's and Company's adoption of IFRS 16, and related disclosures, are appropriate.
Impairment of intangible assets (Group and Company) Refer to page 84 (sources of estimation uncertainty), note 3.1 (accounting policies) and notes 3.2 and 11.6 (goodwill and intangible assets). Intangible assets of £381m are recognised on the Group balance sheet and £361m on the Company, of which the majority relates to software development costs incurred in connection with the Group's technology improvement programme. 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 £15m for the Group and £15m for the Company has been recognised in relation to intangible assets.	We have performed the following procedures: • 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; • reviewed management's assessment of the future expected benefit from capital projects; and • applied our own understanding of both new and existing projects and challenged management as to whether, in our view, any existing software was no longer in use or whether its life had been shortened by development activity. No significant issues were identified as a result of this work.

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 93% 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	£20.4 million (2019: £20 million).	£18.3 million (2019: £18 million).
How we determined it	5% of profit before exceptional items and net retirement benefit interest income.	Allocated to the Company as part of the Group audit.
Rationale for benchmark applied	We applied this benchmark because, in our view, this is the most relevant metric against which the performance of the Group is most commonly measured.	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 £18.3m.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £1m (Group audit) (2019: £1m) and £913,500 (Company audit) (2019: £900,000) 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 twelve 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 of the United Kingdom's withdrawal from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the Group'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 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 2 February 2020 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 27 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 30 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 69, 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 pages 40 to 43 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, 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 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 6 years, covering the years ended 1 February 2015 to 2 February 2020.

Andrew Paynter (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
17 March 2020

Consolidated income statement

52 weeks ended 2 February 2020

	Note	2020 Before exceptionals £m	2020 Exceptionals (note 1.4) £m	2020 Total £m	2019 restated[1] Before exceptionals £m	2019 restated[1] Exceptionals (note 1.4) £m	2019 restated[1] Total £m
Revenue	1.2	**17,536**	**–**	**17,536**	17,735	–	17,735
Cost of sales		**(16,855)**	**(52)**	**(16,907)**	(17,039)	(44)	(17,083)
Gross profit		**681**	**(52)**	**629**	696	(44)	652
Other operating income		**94**	**–**	**94**	88	–	88
Profit/loss on disposal and exit of properties		**–**	**66**	**66**	–	–	–
Administrative expenses		**(262)**	**(6)**	**(268)**	(274)	(34)	(308)
Operating profit	1.6	**513**	**8**	**521**	510	(78)	432
Finance costs	6.2	**(111)**	**–**	**(111)**	(120)	(33)	(153)
Finance income	6.2	**5**	**19**	**24**	5	18	23
Share of profit of joint venture (net of taxation)	4.2	**1**	**–**	**1**	1	–	1
Profit before taxation		**408**	**27**	**435**	396	(93)	303
Taxation	2.2	**(94)**	**7**	**(87)**	(93)	23	(70)
Profit for the period attributable to the owners of the Company		**314**	**34**	**348**	303	(70)	233
Earnings per share (pence)							
Basic	1.5			**14.60**			9.89
Diluted	1.5			**14.44**			9.67

1 For further details on the restatement of the reported results for the 52 weeks ended 3 February 2019 from adopting IFRS 16 'Leases', see note 10.3.

All of the results shown above relate to continuing operations.

Consolidated statement of comprehensive income

52 weeks ended 2 February 2020

Other comprehensive income/(expense)	Note	2020 £m	2019 restated[1] £m
Items that will not be reclassified to profit or loss			
Remeasurement of defined benefit schemes	8.2	**231**	100
Tax on defined benefit schemes	2.3	**(38)**	(17)
		193	83
Items that may be reclassified subsequently to profit or loss			
Cash flow hedging movement		**(57)**	9
Exchange differences on translation of foreign operations		**(2)**	–
Tax on items that may be reclassified subsequently to profit or loss	2.3	**10**	(1)
		(49)	8
Other comprehensive income for the period, net of tax		**144**	91
Profit for the period attributable to the owners of the Company		**348**	233
Total comprehensive income for the period attributable to the owners of the Company		**492**	324

1 For further details on the restatement of the reported results for the 52 weeks ended 3 February 2019 from adopting IFRS 16 'Leases', see note 10.3.

Consolidated statement of financial position

As at 2 February 2020

	Note	2020 £m	2019 restated[1] £m	2018 restated[1] £m
Assets				
Non-current assets				
Goodwill and intangible assets	3.2	**381**	404	428
Property, plant and equipment	3.3	**7,147**	7,094	7,027
Right-of-use assets	3.4	**942**	929	970
Investment property	3.6	**58**	60	69
Retirement benefit surplus	8.2	**960**	730	612
Investment in joint venture	4.2	**39**	47	53
Trade and other receivables	3.7	**71**	8	8
Derivative financial assets	7.3	**–**	15	16
		9,598	9,287	9,183
Current assets				
Inventories	5.2	**660**	713	686
Trade and other receivables	5.3	**353**	344	247
Derivative financial assets	7.3	**1**	19	15
Cash and cash equivalents	6.5	**305**	264	327
		1,319	1,340	1,275
Assets classified as held-for-sale	3.5	**3**	39	4
		1,322	1,379	1,279
Total assets		**10,920**	10,666	10,462
Liabilities				
Current liabilities				
Trade and other payables	5.4	**(3,051)**	(3,070)	(2,921)
Borrowings	6.3	**(237)**	(178)	(72)
Lease liabilities	6.4	**(72)**	(69)	(59)
Derivative financial liabilities	7.3	**(36)**	(5)	(13)
Current tax liabilities		**–**	(27)	(15)
		(3,396)	(3,349)	(3,080)
Non-current liabilities				
Borrowings	6.3	**(1,108)**	(1,110)	(1,245)
Lease liabilities	6.4	**(1,304)**	(1,328)	(1,354)
Derivative financial liabilities	7.3	**(7)**	(2)	(1)
Retirement benefit deficit	8.2	**(16)**	(42)	(18)
Deferred tax liabilities	2.3	**(472)**	(414)	(415)
Provisions	5.5	**(76)**	(96)	(99)
		(2,983)	(2,992)	(3,132)
Total liabilities		**(6,379)**	(6,341)	(6,212)
Net assets		**4,541**	4,325	4,250
Shareholders' equity				
Share capital	6.6	**240**	237	236
Share premium	6.6	**192**	178	159
Capital redemption reserve	6.7	**39**	39	39
Merger reserve	6.7	**2,578**	2,578	2,578
Retained earnings and other reserves	6.7	**1,492**	1,293	1,238
Total equity attributable to the owners of the Company		**4,541**	4,325	4,250

1 For further details on the restatement of the reported results for the 52 weeks ended 3 February 2019 from adopting IFRS 16 'Leases', see note 10.3.

The notes on pages 85 to 126 form part of these financial statements. The financial statements on pages 78 to 126 were approved by the Board of Directors on 17 March 2020 and were signed on its behalf by:

Michael Gleeson, Chief Financial Officer

Consolidated statement of cash flows

52 weeks ended 2 February 2020

	Note	2020 £m	2019 restated[1] £m
Cash flows from operating activities			
Cash generated from operations	5.6	**1,017**	977
Interest paid		**(104)**	(120)
Taxation paid		**(87)**	(76)
Net cash inflow from operating activities		**826**	781
Cash flows from investing activities			
Interest received		**1**	1
Dividends received from joint venture	10.1	**9**	7
Proceeds from the disposal of property, plant and equipment, investment property, right-of-use assets and assets held for sale		**34**	22
Purchase of property, plant and equipment, investment property and right-of-use assets		**(429)**	(381)
Purchase of intangible assets		**(81)**	(77)
Acquisition of business (net of cash received)		**(1)**	(3)
Net cash outflow from investing activities		**(467)**	(431)
Cash flows from financing activities			
Purchase of trust shares	6.6	**(10)**	(9)
Settlement of share awards	6.6	**(2)**	(5)
Proceeds from exercise of employee share options	6.6	**14**	20
New borrowings		**347**	275
Repayment of borrowings		**(278)**	(306)
Costs incurred on repayment of borrowings		**–**	(30)
Repayment of lease obligations		**(87)**	(69)
Dividends paid	1.8	**(302)**	(289)
Net cash outflow from financing activities		**(318)**	(413)
Net increase/(decrease) in cash and cash equivalents		**41**	(63)
Cash and cash equivalents at start of period		**264**	327
Cash and cash equivalents at end of period	6.5	**305**	264

Reconciliation of net cash flow to movement in net debt[2] in the period

	Note	2020 £m	2019 restated[1] £m
Net increase/(decrease) in cash and cash equivalents		**41**	(63)
Cash inflow from increase in borrowings		**(347)**	(275)
Debt acquired on acquisition of business		**–**	(2)
Cash outflow from repayment of borrowings		**278**	306
Cash outflow from repayment of lease liabilities		**87**	69
Non-cash movements on lease liabilities		**(66)**	(53)
Other non-cash movements		**(57)**	10
Opening net debt[2]		**(2,394)**	(2,386)
Closing net debt[2]	6.5	**(2,458)**	(2,394)

1 For further details on the restatement of the reported results for the 52 weeks ended 3 February 2019 from adopting IFRS 16 'Leases', see note 10.3.
2 Net debt is defined in the Glossary on page 153.

Consolidated statement of changes in equity

52 weeks ended 2 February 2020

	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 4 February 2019 (reported)		**237**	**178**	**39**	**2,578**	**10**	**1,589**	**4,631**
Adjustment on the adoption of IFRS 16	10.3	**–**	**–**	**–**	**–**	**–**	**(306)**	**(306)**
At 4 February 2019 (restated[1])		**237**	**178**	**39**	**2,578**	**10**	**1,283**	**4,325**
Profit for the period		**–**	**–**	**–**	**–**	**–**	**348**	**348**
Other comprehensive (expense)/income:								
Cash flow hedging movement		**–**	**–**	**–**	**–**	**(57)**	**–**	**(57)**
Exchange differences on translation of foreign operations		**–**	**–**	**–**	**–**	**–**	**(2)**	**(2)**
Remeasurement of defined benefit schemes	8.2	**–**	**–**	**–**	**–**	**–**	**231**	**231**
Tax in relation to components of other comprehensive income	2.3	**–**	**–**	**–**	**–**	**10**	**(38)**	**(28)**
Total comprehensive (expense)/income for the period		**–**	**–**	**–**	**–**	**(47)**	**539**	**492**
Purchase of trust shares	6.6	**–**	**–**	**–**	**–**	**–**	**(10)**	**(10)**
Employee share option schemes:								
Share-based payments charge	1.7	**–**	**–**	**–**	**–**	**–**	**26**	**26**
Settlement of share awards	6.6	**–**	**–**	**–**	**–**	**–**	**(2)**	**(2)**
Share options exercised	6.6	**3**	**14**	**–**	**–**	**–**	**(3)**	**14**
Tax in relation to components of equity	2.3	**–**	**–**	**–**	**–**	**–**	**(2)**	**(2)**
Dividends	1.8	**–**	**–**	**–**	**–**	**–**	**(302)**	**(302)**
Total transactions with owners		**3**	**14**	**–**	**–**	**–**	**(293)**	**(276)**
At 2 February 2020		**240**	**192**	**39**	**2,578**	**(37)**	**1,529**	**4,541**

	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 5 February 2018 (reported)		236	159	39	2,578	2	1,531	4,545
Adjustment on the adoption of IFRS 16	10.3	–	–	–	–	–	(295)	(295)
At 5 February 2018 (restated[1])		236	159	39	2,578	2	1,236	4,250
Profit for the period (restated[1])		–	–	–	–	–	233	233
Other comprehensive income/(expense):								
Cash flow hedging movement		–	–	–	–	9	–	9
Remeasurement of defined benefit 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	316	324
Purchase of trust shares	6.6	–	–	–	–	–	(9)	(9)
Employee share option schemes:								
Share-based payments charge	1.7	–	–	–	–	–	34	34
Settlement of share awards	6.6	–	–	–	–	–	(5)	(5)
Share options exercised	6.6	1	19	–	–	–	–	20
Dividends	1.8	–	–	–	–	–	(289)	(289)
Total transactions with owners		1	19	–	–	–	(269)	(249)
At 3 February 2019 (restated[1])		237	178	39	2,578	10	1,283	4,325

1 For further details on the restatement of the reported results for the 52 weeks ended 3 February 2019 from adopting IFRS 16 'Leases', see note 10.3.

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 00358949). 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 2 February 2020 (2019: 52 weeks ended 3 February 2019) 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, as such, the reporting date for the current period is 2 February 2020.

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 2 February 2020:

- IFRS 16 'Leases';
- IFRIC 23 'Uncertainty over income tax treatments';
- Amendments to the following standards:
  - IAS 19 'Employee Benefits';
  - IAS 28 'Investments in Associates';
  - IFRS 9 'Financial Instruments'; and
  - Improvements to IFRSs (2015-2017).

The Group has considered the above new standards, and amendments to published standards, and has concluded that only IFRS 16, IFRIC 23, and the amendment to IAS 19 are relevant to the Group. Only IFRS 16 has a material impact on the Group's consolidated financial statements.

IFRS 16 'Leases'

IFRS 16 'Leases' was published in January 2016 and has become effective for the Group for the period beginning 4 February 2019. The standard replaces IAS 17 'Leases', IFRIC 14 'Determining whether and Arrangement contains a lease', SIC-15 'Operating Leases-Incentives' and SIC-27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'. The standard applies a single recognition and measurement approach for all applicable leases under which the Group is the lessee.

The Group has lease contracts for property and equipment. Before the adoption of IFRS 16, leases in which substantially all the risks and rewards of ownership were retained by the lessor were classified as operating leases; all other leases were classified as finance leases. Under the previous standard, lease payments on operating leases were recognised as rental costs in the consolidated income statement. There was no recognition of the associated assets or liability in the consolidated statement of financial position, except to the extent that there were any prepaid or accrued rents.

Upon adoption of IFRS 16, for all leases where the Group is a lessee, the Group recognises a right-of-use asset and a lease liability in its consolidated statement of financial position. The consolidated income statement includes depreciation in relation to the right-of-use assets and a finance charge in relation to the lease liabilities.

Lessor accounting is substantially unchanged under IFRS 16, except for sub-leases previously classified as operating leases. These leases have been re-assessed as to whether they are operating or financing in nature, using the requirements of IFRS 16.

The transition to IFRS 16 for the Group took place on 4 February 2019 and the Group has adopted the fully retrospective transition approach. In accordance with this transition method, the Group has applied IFRS 16 at the date of initial application as if it had been effective at the commencement date of the existing lease contracts. Accordingly, the comparative information in these financial statements has been restated, unless otherwise stated. The nature and effect of these changes are disclosed in note 10.3.

On transition the Group elected to use the practical expedient allowing the standard to be applied only to contracts that were previously identified as leases when applying IAS 17 and IFRIC 4 'Determining whether an Arrangement contains a Lease' at the date of initial application.

IFRIC 23 'Uncertainty over income tax treatments'

IFRIC 23 'Uncertainty over income tax treatments' was issued in June 2017 and has become 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 HM Revenue & Customs 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.

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

IFRIC 23 'Uncertainty over income tax treatments' continued

The Group adopted the modified retrospective approach to transition on 4 February 2019. Under this approach, no restatement of comparative financial statements was required.

The Group has referred to the IFRIC guidance, including Draft Interpretation DI/2015/1 in previous periods, resulting in the accounting policy prior to the adoption of IFRIC 23 applying similar principles for selecting measurement methods as in the new interpretation. Accordingly, the impact of IFRIC 23 has had an immaterial impact on the consolidated financial statements and there has been no adjustment necessary to the opening statement of financial position as at 4 February 2019.

Amendment to IAS 19 'Employee Benefits'

An amendment to IAS 19 'Employee Benefits' was published in February 2018 and has become 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 impact of this amendment has had an immaterial impact on the consolidated financial statements.

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, there are none that are expected to have a material impact on the Group's consolidated financial statements.

Basis of consolidation

Subsidiaries (including partnerships) are all entities over which the Group has control. The Group has control 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 where necessary, adjustments are made to bring the accounting policies in line with those used by the Group. 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 reporting date, monetary assets and liabilities that are denominated in foreign currency are retranslated at the rates of exchange at the reporting date. Gains and losses arising on retranslation are included in the income statement for the period.

Fair value measurement

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation at the end of each reporting 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 152 to 154.

Critical accounting judgements and key sources of estimation uncertainty

In the process of applying its accounting policies the Group is required to make certain judgements, estimates and assumptions that it believes are reasonable based on the information available. These judgements, estimates and assumptions affect the carrying amounts of assets and liabilities at the date of the financial statements and the amounts of revenues and expenses recognised during the reporting periods presented. Changes to these could have a material effect on the financial statements.

The judgements, estimates and assumptions are evaluated on an ongoing basis and are based on historical experience, consultation with experts and other factors that the Directors believe to be reasonable. Actual results may differ significantly from the estimates and assumptions made, the effect of which is recognised in the period in which the facts become known.

Critical accounting judgements

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

Profit before exceptionals

Profit before exceptionals is defined as 'Profit before exceptional items and net retirement benefit interest'. For further details, see the Glossary on page 152.

Critical accounting judgements continued

Profit before exceptionals continued

The Directors consider that this 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 Directors.

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 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 statement of financial position, movements in impairment and other property-related provisions would typically be included as exceptional items, as would significant impairments or impairment reversals of other non-current assets.

Despite being a recurring item, the Group has chosen to also exclude net retirement benefit 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.

Leases

In determining the value of lease liabilities and associated right-of-use assets, the Group must make an assessment of the lease term. This assessment requires judgement with regard to the likelihood that any extension or break options included in a lease will be exercised. The duration of the lease term can have a significant impact on the amounts recognised in the financial statements for the lease.

During the period the Group has applied IFRS 16 'Leases' for the first time which requires that an assessment is made for all existing leases at the implementation date, without the use of hindsight.

To assess whether the Group is reasonably certain to extend a lease, or to not exercise a break, all relevant facts and circumstances that create an incentive to continue that lease are considered.

Currently only the Group's leases of stores and depots contain major extension and break options. For these the main factors considered are the lease specific terms and the business forecasts for these stores.

At both the implementation date and subsequently for new leases, this has typically led to periods after breaks, which are exercisable in the short-to-medium term, being included in the lease term. The periods covered by extension options, which are normally exercisable in the longer-term, are generally excluded from the lease term.

These judgements are re-assessed as required by the Group's accounting policies for lease liabilities. Further detail is provided in note 6.1.

Retirement benefit schemes in surplus

Where a defined benefit scheme is in a surplus position, consideration is made as to whether the Group has the right to recognise a surplus or whether it is necessary to restrict the amount of surplus recognised. This requires judgement as to the rights of the Group and Trustees under the terms of the Group's Schemes. The Directors have concluded that the Group has the right to recognise a surplus, following legal advice received. Further details are provided in note 8.5.

Sources of estimation uncertainty

The areas of estimation uncertainty the Group believes to have the most significant risk of causing a material adjustment to the carrying value of assets and liabilities within the next financial year are detailed below:

Impairment of property, plant and equipment, right-of-use assets and intangible assets and onerous contracts

Property, plant and equipment, right-of-use assets and intangible assets are reviewed annually for impairment or where changes in circumstances indicate impairment (or impairment reversal). This requires the carrying value of assets to be compared to the recoverable amount, where the recoverable amount is based on the higher of value-in-use and fair value less costs of disposal. The assessment of value-in-use in the calculation requires expected future cash flows discounted using an appropriate discount rate. 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, 3.3, and 3.4.

Where contracts exist for which expected future cash flows are less than the future contract commitments, an onerous contract provision is recognised. Judgement is required when determining whether a contract meets the definition of being onerous and in making estimates in relation to discount rates of future cash flows. 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 for certain agreements 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.

Inventories

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

Retirement benefit schemes

Accounting for defined benefit retirement schemes requires the application of a number of assumptions which have an impact on the valuation of the schemes' assets and obligations. The significant assumptions include discount rate, inflation, rate of salary increases and longevity. The Group uses an independent actuary to calculate defined benefit obligations. Details of these assumptions are provided in note 8.4.

Notes to the Group financial statements

52 weeks ended 2 February 2020

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 sales proceeds 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 history of 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. 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 reporting 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 dependent on the terms of the specific supplier agreement in line with when performance obligations in the agreement are met. 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.

1 Performance in the period continued

1.1 Accounting policies continued

Commercial income continued

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

- Trade and other payables: 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 reporting date is included within trade payables. Any amounts received in advance of income being recognised are included in accruals and deferred income.
- Trade and other receivables: Where the trading terms described above do not exist, the Group classifies outstanding commercial income within trade receivables. Where commercial income is earned and not invoiced to the supplier at the reporting date, this is classified within accrued commercial income.
- Inventories: The carrying value of inventories is adjusted to reflect unearned elements of commercial income when it relates to inventory 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 statement of financial position 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

	2020 £m	2019 £m
Sale of goods in-store and online	**13,065**	13,265
Other sales	**800**	705
Total sales excluding fuel	**13,865**	13,970
Fuel	**3,671**	3,765
Total revenue	**17,536**	17,735

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 focussed 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 statement of financial position containing assets and liabilities.

1 Performance in the period continued

1.4 Profit before exceptionals

'Profit before exceptionals' is defined as profit before exceptional items and net retirement benefit interest. Further detail on the definition of profit before tax and exceptionals, profit before exceptionals after tax and earnings per share before exceptionals is provided in the Glossary on pages 152 to 154.

The Directors consider that these adjusted profit and adjusted earnings per share measures referred to in the results provide useful information on ongoing trends and performance. The adjustments made to reported profit are to: exclude exceptional items, which are significant in size and/or nature; exclude net retirement benefit interest; and to apply a normalised tax rate of 23.1% (2019: 23.5%).

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 statement of financial position, movements in impairment and other property-related provisions would typically be included as exceptional items, as would significant impairments or impairment reversals of other non-current assets.

Despite being a recurring item, the Group has chosen to also exclude net retirement benefit 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.

	2020 £m	2019 restated[1] £m
Profit after tax	**348**	233
Add back: tax charge for the period[2]	**87**	70
Profit before tax	**435**	303
Adjustments for:		
Impairment and provision for onerous contracts[2]	**(2)**	10
Profit/loss arising on disposal and exit of properties[2]	**(66)**	–
Store restructuring and closure costs[2]	**51**	–
Other exceptional items[2]	**9**	42
Costs associated with the repayment of borrowings[2]	**–**	33
Retirement benefit exceptional items[2]	**–**	26
Net retirement benefit interest (note 8.2)[2]	**(19)**	(18)
Profit before tax and exceptionals	**408**	396
Normalised tax charge at 23.1% (2019: 23.5%)[2,3]	**(94)**	(93)
Profit before exceptionals after tax	**314**	303
Earnings per share before exceptionals (pence):		
Basic (note 1.5.2)	**13.18**	12.85
Diluted (note 1.5.2)	**13.03**	12.57

1 For further details on the restatement of the reported results for the 52 weeks ended 3 February 2019 from adopting IFRS 16 'Leases', see note 10.3.
2 Adjustments marked 2 decrease post-tax adjusted earnings by £34m (2019: increase of £70m), as shown in the reconciliation of earnings disclosed in note 1.5.2.
3 Normalised tax is defined in the Glossary, see page 153 for details.

Impairment and provision for onerous contracts

Following the Group's annual impairment and onerous contract review a net credit of £2m has been recognised. This includes a net impairment reversal of £15m (£123m impairment reversal offset by £108m impairment charge). The £108m impairment charge includes £59m in relation to property, plant and equipment, £23m in relation to right-of-use assets, £11m in relation to investment property and £15m in relation to intangible assets (see notes 3.3, 3.4, 3.6 and 3.2 respectively). The £123m impairment reversal includes £93m in relation to property, plant and equipment, £24m in relation to right-of-use assets and £6m in relation to investment property (see notes 3.3, 3.4 and 3.6 respectively). A net £2m charge has been recognised in relation to provisions for onerous contracts (see note 5.5). A £10m credit has been recognised following changes to estimates in respect of lease terms. In addition, there has been a charge in respect of amounts provided for onerous commitments and receivables in respect of contract payments of £21m.

Impairment and provision for onerous contracts in the 52 weeks ended 3 February 2019 totalled a net charge of £10m. This comprised of a net impairment reversal of £2m (£175m impairment reversal offset by £173m impairment charge), a net £11m charge relating to provisions for onerous contracts, a release of accruals for onerous commitments of £6m, and an increase in other property provisions of £7m.

1 Performance in the period continued

1.4 Profit before exceptionals continued

Profits/loss arising on disposal and exit of properties

Profits/loss arising on disposal and exit of properties, net of fees incurred, amounted to £66m (2019: £nil). Of this amount, £64m was realised following the sale of land and buildings in respect of the Camden store (see note 3.5).

Store restructuring and closure costs

Store restructuring and closure costs recognised in the 52 weeks ended 2 February 2020 totalled £51m (2019: £nil). This includes £46m in respect of restructuring of store management teams (2019: £nil) and £5m of restructuring costs relating to the closure of four stores during the period (2019: £nil).

Other exceptional items

Other exceptional items include:

- a £6m 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 (2019: £12m); and
- a net charge of £3m relating to costs incurred in relation to legal cases in respect of historic events and costs associated with other restructuring activity (2019: £2m).

In the 52 weeks ended 3 February 2019, other exceptional items also included a £28m charge in relation to increased inventory provisioning as the Group continued to automate its ordering systems; leading to operational changes, additional information regarding stock levels, and a change in methodology for estimating inventory provisions.

Costs associated with the repayment of borrowings

The costs incurred in the 52 weeks ended 3 February 2019 comprised £30m relating to financing charges on redemption of financial instruments (primarily premiums) and £3m of fees and premiums written off on the repayment of bonds. 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.

Retirement benefit exceptional items

In the 52 weeks ended 3 February 2019, the retirement benefit exceptional items included costs of £19m in relation to an exceptional curtailment charge following the closure of the Group's Retirement Saver Plan to future accrual in September 2018. In addition, there was a charge of £7m in relation to the estimated cost of the equalisation of guaranteed minimum retirement benefits for men and women, following a ruling by the High Court in October 2018 (see note 8.2).

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 potentially dilutive ordinary shares.

The Company has two (2019: 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:

	2020			2019 restated[1]		
	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	**347.9**	**2,382.5**	**14.60**	233.1	2,356.8	9.89
Effect of dilutive instruments						
Share options and LTIPs	**–**	**26.3**	**(0.16)**	–	53.2	(0.22)
Diluted EPS	**347.9**	**2,408.8**	**14.44**	233.1	2,410.0	9.67

1 For further details on the restatement of the reported results for the 52 weeks ended 3 February 2019 from adopting IFRS 16 'Leases', see note 10.3.

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 retirement benefit 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:

	2020			2019 restated[1]		
	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	**347.9**	**2,382.5**	**14.60**	233.1	2,356.8	9.89
Adjustments to determine profit before exceptionals (note 1.4)	**(34.0)**	**–**	**(1.42)**	69.8	–	2.96
	313.9	**2,382.5**	**13.18**	302.9	2,356.8	12.85
Effect of dilutive instruments						
Share options and LTIPs	**–**	**26.3**	**(0.15)**	–	53.2	(0.28)
Diluted EPS before exceptionals	**313.9**	**2,408.8**	**13.03**	302.9	2,410.0	12.57

1 For further details on the restatement of the reported results for the 52 weeks ended 3 February 2019 from adopting IFRS 16 'Leases', see note 10.3.

1.6 Operating profit

	2020 £m	2019 restated[1] £m
The following items have been included in arriving at operating profit:		
Employee costs (note 1.7)	**1,845**	1,900
Depreciation and impairment:		
Property, plant and equipment (note 3.3)	**371**	348
Right-of-use assets (note 3.4)	**60**	58
Investment property (note 3.6)	**3**	2
Net impairment reversal (notes 1.4, 3.3, 3.4 and 3.6)	**(30)**	(13)
Amortisation and impairment:		
Intangible assets (note 3.2)	**91**	93
Net impairment charge (notes 1.4 and 3.2)	**15**	11
Other lease expenses:		
Short-term leases longer than one month	**5**	7
Leases of low-value assets, excluding short-term	**2**	2
Variable lease payments	**–**	1
Value of inventories expensed	**13,608**	13,772

1 For further details on the restatement of the reported results for the 52 weeks ended 3 February 2019 from adopting IFRS 16 'Leases', see note 10.3.

Commercial income

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

	2020 £m	2019 £m
Marketing and advertising funding	**78**	51
Volume-based rebates	**113**	135
Total commercial income	**191**	186

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:

	2020 £m	2019 £m
Audit services		
Fees payable to the Group's auditor for the audit of the Group and the Company financial statements	**0.8**	0.6
Fees payable to the Group's auditor for the audit of the Group's subsidiaries pursuant to legislation	**0.3**	0.2
Non-audit services		
Other services	**0.1**	0.1
	1.2	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

	2020 £m	2019 £m
Employee benefit expense for the Group during the period		
Wages and salaries	**1,605**	1,643
Social security costs	**126**	129
Share-based payments	**24**	34
Retirement benefit costs	**90**	94
	1,845	1,900

In the 52 weeks ended 2 February 2020, there was £49m of restructuring costs in addition to the employee benefit expenses shown in the table above (see note 1.4). This amount included £2m in the form of share-based payments.

	2020 No.	2019 No.
Average monthly number of people, including Directors		
Stores	**81,092**	86,552
Manufacturing	**9,373**	8,799
Distribution	**5,763**	6,004
Centre	**2,391**	2,275
	98,619	103,630

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 59). There are no Executive Directors (2019: none) who have retirement benefits accruing under any of the Group's defined benefit retirement 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.

	2020 £m	2019 £m
Senior managers		
Wages and salaries	**19**	17
Social security costs	**4**	4
Share-based payments	**8**	12
Retirement benefit costs	**1**	1
	32	34

1 Performance in the period continued

1.8 Dividends

Amounts recognised as distributed to equity holders in the period:

	2020 £m	2019 £m
Final dividend for the period ended 3 February 2019 of 4.75p (2018: 4.43p)	**113**	104
Special final dividend for the period ended 3 February 2019 of 4.00p (2018: 4.00p)	**95**	94
Interim dividend for the period ended 2 February 2020 of 1.93p (2019: 1.85p)	**46**	44
Special interim dividend for the period ended 2 February 2020 of 2.00p (2019: 2.00p)	**48**	47
	302	289

The Directors propose a final ordinary dividend in respect of the financial period ended 2 February 2020 of 4.84p per share which will absorb an estimated £116m of shareholders' funds. Subject to approval at the Annual General Meeting (AGM), the final dividend will be paid on 29 June 2020 to shareholders who are on the register of members on 22 May 2020.

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

2 Taxation

The Group takes a compliance-focussed 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 £0.7m were paid during 2020 (2019: £1.6m);
- Hong Kong: Offices in Hong Kong were established in 2011 and source many of the Group's non-food products. Local corporation taxes of £0.5m were paid during 2020 (2019: £0.4m); and
- Isle of Man, Jersey and Guernsey: The Group's insurance company was based in the Isle of Man for regulatory reasons but is no longer active. Companies based in Jersey and Guernsey hold UK property assets with a net book value of £53m 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

Uncertain tax positions are assessed in line with IFRIC 23 'Uncertainty over income tax treatments' which provides guidance on the determination of taxable profit and tax bases. The Group uses in-house tax specialists, professional advisers and relevant previous experience to assess tax risks.

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.

2 Taxation continued

2.2 Taxation

2.2.1 Analysis of charge in the period

	2020 £m	2019 restated[1] £m
Current tax		
UK corporation tax	**60**	79
Foreign tax	**3**	4
Adjustments in respect of prior periods	**(4)**	7
	59	90
Deferred tax		
Origination and reversal of timing differences	**22**	(25)
Adjustments in respect of prior periods	**6**	5
	28	(20)
Tax charge for the period	**87**	70

1 For further details on the restatement of the reported results for the 52 weeks ended 3 February 2019 from adopting IFRS 16 'Leases', see note 10.3.

2.2.2 Tax on items charged in other comprehensive income and equity

	2020 £m	2019 £m
Remeasurements of defined benefit retirement schemes	**38**	17
Cash flow hedges	**(10)**	1
Share-based payments	**2**	–
Total tax on items included in other comprehensive income and equity (note 2.3)	**30**	18

2.2.3 Tax reconciliation

The reconciliation below shows how the tax charge of £87m (2019: £70m) has arisen on profit before taxation of £435m (2019: £303m).

The tax for the period is higher (2019: higher) than the standard rate of corporation tax in the UK of 19% (2019: 19%). The differences are explained below:

	2020 £m	2019 restated[1] £m
Profit before taxation	**435**	303
Profit before taxation at 19% (2019: 19%)	**83**	58
Effects of:		
Recurring items:		
Expenses not taxable/deductible for tax purposes	**(5)**	(1)
Disallowed depreciation on UK properties	**24**	18
Deferred tax on Safeway acquisition assets	**(6)**	(2)
Non-recurring items:		
Profit on property transactions	**(3)**	(1)
Adjustments in respect of prior periods	**2**	12
Exceptional costs	**(8)**	(14)
Tax charge for the period	**87**	70

1 For further details on the restatement of the reported results for the 52 weeks ended 3 February 2019 from adopting IFRS 16 'Leases', see note 10.3.

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 20.0% (2019: 23.1%). The normalised tax rate for the year (excluding the impact of property transactions, store restructuring and other adjustments) was 23.1% (2019: 23.5%).

The normalised tax rate was 4.1% 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 predominantly 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 a previous period. Accordingly, deferred tax has been provided at 19% or 17% depending upon when the temporary difference is expected to reverse (2019: 19% or 17%).

The March 2020 Budget cancelled the planned reduction to 17% so the UK statutory tax rate will remain at 19% from 1 April 2020. The legislation was not enacted during the year so deferred tax has been provided using the 17% rate. If deferred tax was calculated using the 19% rate, the net deferred tax liability recognised at the reporting date would be increased from £472m to £527m.

2.3 Deferred tax liabilities

	2020 £m	2019 restated[1] £m
Deferred tax liability	**472**	414

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	Retirement benefit obligation £m	Other short-term temporary differences £m	Total £m
Current period				
At 4 February 2019 (restated)[1]	349	117	(52)	**414**
Charged to profit for the period	3	4	21	**28**
Charged/(credited) to other comprehensive income and equity	–	38	(8)	**30**
At 2 February 2020	352	159	(39)	**472**
Prior period				
At 5 February 2018 (restated)[1]	355	101	(40)	**416**
Credited to profit for the period (restated)[1]	(6)	(1)	(13)	**(20)**
Charged to other comprehensive income and equity	–	17	1	**18**
At 3 February 2019	349	117	(52)	**414**

The analysis of deferred tax liabilities are as follows:

	2020 £m	2019 restated[1] £m
Deferred tax liability/(asset) to be settled within 12 months	**12**	(3)
Deferred tax liability to be settled after more than 12 months	**460**	417
	472	414

1 For further details on the restatement of the reported results for the 52 weeks ended 3 February 2019 from adopting IFRS 16 'Leases', see note 10.3.

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 is charged from when the asset is available to use. Depreciation rates used to write off cost less residual value on a straight line basis:

Freehold land	0%
Freehold buildings	2.5%
Leasehold property improvements	2.5% or the lease term if shorter
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.

Right-of-use assets

Right-of-use assets are stated at cost less accumulated depreciation and accumulated impairment losses. Costs include the initial amount of the lease liability, any initial direct costs incurred, and an estimate of any applicable dilapidation costs. Also included are the costs of lease payments made, less any lease incentives received, at or before the commencement date.

Depreciation is charged from the commencement date which is when the underlying asset is made available for use. Depreciation rates used to write off cost on a straight line basis:

Leasehold land	The lease term
Leasehold buildings	2.5% or the lease term if shorter
Leased plant, equipment, fixtures and vehicles	10% to 33% or the lease term if shorter

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

Subsequent to initial measurement, the right-of-use asset is also adjusted for certain remeasurements of the associated lease liability and provision for dilapidations, details of which are provided in note 6.1 and note 5.1 respectively.

Investment property

Property held to earn rental income is classified as investment property and is held at cost less accumulated depreciation and impairment. This includes leasehold properties which are held as right-of-use assets. 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.

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.

Trade and other receivables

Leases – Group is the lessor

Where the Group is a lessor, the Group classifies each lease at lease inception either as a finance lease or an operating lease. Leases in which substantially all the risks and rewards of ownership are retained by the Group 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. The risks and rewards of ownership considered for sub-leases are those granted by the underlying lessee agreement rather than the underlying assets.

Operating lease payments are recognised as income on a straight-line basis over the term of the lease.

At the commencement date of finance leases the Group recognises a receivable equal to the discounted contractual lease payments receivable and any residual value of the asset. The discount rate uses the interest rate implicit in the lease or, if that rate cannot be readily determined for a sub-lease, a rate based on the head-lease discount rate. Each lease payment is allocated between the capital repayment of the receivable and the finance income element. The finance income is recognised over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the receivable for each period.

Other receivables

Other receivables that are financial assets are initially recognised at fair value and subsequently held at amortised cost. Provision for impairment of other receivables is based on expected credit losses (ECL) at each reporting date. Other receivables that are non-financial assets, such as deferred non-cash sale consideration, are recognised at fair value.

3.2 Goodwill and intangible assets

Current period	Goodwill £m	Other intangibles £m	**Total £m**
Cost			
At 4 February 2019	10	741	**751**
Additions	–	82	**82**
Interest capitalised	–	2	**2**
Disposals	–	(32)	**(32)**
Fully written down assets	–	(58)	**(58)**
At 2 February 2020	10	735	**745**
Accumulated amortisation and impairment			
At 4 February 2019	–	347	**347**
Amortisation charge for the period	–	91	**91**
Impairment	–	15	**15**
Disposals	–	(31)	**(31)**
Fully written down assets	–	(58)	**(58)**
At 2 February 2020	–	364	**364**
Net book amount at 2 February 2020	10	371	**381**

3 Operating assets continued

3.2 Goodwill and intangible assets continued

Other intangibles include software development costs and licences. Within this asset class, there are assets under construction of £73m (2019: £30m). The net book amount of licences at 2 February 2020 was £15m (2019: £16m).

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 £15m (2019: £11m) 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.

Software development costs

The cumulative interest capitalised in respect of software development costs included within other intangibles is £43m (2019: £42m). 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 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

3 Operating assets continued

3.3 Property, plant and equipment

Current period	Freehold land £m	Freehold buildings £m	Leasehold property improvements £m	Plant, equipment, fixtures and vehicles £m	Total £m
Cost					
At 4 February 2019 (restated[1])	3,846	4,153	629	1,947	**10,575**
Additions	2	56	17	323	**398**
Transfers to assets classified as held-for-sale	(2)	(4)	–	–	**(6)**
Disposals	(5)	(1)	(8)	(28)	**(42)**
Fully written down assets	–	(12)	(2)	(123)	**(137)**
At 2 February 2020	3,841	4,192	636	2,119	**10,788**
Accumulated depreciation and impairment					
At 4 February 2019 (restated[1])	479	1,769	378	855	**3,481**
Depreciation charge for the period	–	107	16	248	**371**
Impairment	11	9	8	31	**59**
Impairment reversal	(50)	(32)	(7)	(4)	**(93)**
Transfers to assets classified as held-for-sale	–	(3)	–	–	**(3)**
Disposals	(1)	–	(8)	(28)	**(37)**
Fully written down assets	–	(12)	(2)	(123)	**(137)**
At 2 February 2020	439	1,838	385	979	**3,641**
Net book amount at 2 February 2020	3,402	2,354	251	1,140	**7,147**
Assets under construction included above	3	6	–	19	**28**

1 For further details on the restatement of the reported results for the 52 weeks ended 3 February 2019 from adopting IFRS 16 'Leases', see note 10.3.

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.

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 (2019: £199m).

Impairment

The Group considers that each store is a separate 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;
- discount the cash flows using a pre-tax rate of 9.0% (2019: 9.0%). The Group takes into account a number of factors when assessing the discount rate, including the Group's WACC and other wider market factors. The Group has evaluated its discount rate following application of IFRS 16 and has concluded that the discount rate applied is appropriate. The Group will continue to assess this as market practice as this area develops; and
- consideration is given to any significant one-off factors impacting the stores during the current year and any strategic or market factors which may impact future store performance.

3 Operating assets continued

3.3 Property, plant and equipment continued

'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 £34m (£93m impairment reversal offset by £59m impairment charge) during the year in respect of property, plant and equipment (2019: net £63m impairment reversal; £155m impairment reversal offset by £92m impairment charge). This movement reflects fluctuations from store level trading performance and local market conditions.

At 2 February 2020, the assumptions to which the value in use calculation is most sensitive are the discount and growth rates. The Group has estimated a reasonably possible change of +/- 1% in either would result in a change in impairment of c.£60m.

Prior period (restated[1])	Freehold land £m	Freehold buildings £m	Leasehold property improvements £m	Plant, equipment, fixtures and vehicles £m	Total £m
Cost					
At 5 February 2018	3,898	4,189	625	1,736	10,448
Acquisition of business	–	4	–	1	5
Additions	3	7	12	375	397
Reclassifications	(2)	–	7	(5)	–
Transfers to right-of-use assets	(13)	–	–	–	(13)
Transfers from investment property	6	–	–	–	6
Transfers to assets classified as held-for-sale	(28)	(26)	–	–	(54)
Disposals	(18)	(13)	(3)	(44)	(78)
Fully written down assets	–	(8)	(12)	(116)	(136)
At 3 February 2019	3,846	4,153	629	1,947	10,575
Accumulated depreciation and impairment					
At 5 February 2018	572	1,737	381	731	3,421
Depreciation charge for the period	–	102	15	231	348
Impairment	15	13	6	58	92
Impairment reversal	(85)	(55)	(10)	(5)	(155)
Reclassifications	–	–	1	(1)	–
Transfers to right-of-use assets	(13)	–	–	–	(13)
Transfers to assets classified as held-for-sale	(2)	(11)	–	–	(13)
Disposals	(8)	(9)	(3)	(43)	(63)
Fully written down assets	–	(8)	(12)	(116)	(136)
At 3 February 2019	479	1,769	378	855	3,481
Net book amount at 3 February 2019	3,367	2,384	251	1,092	7,094
Assets under construction included above	2	1	0	4	7

1 For further details on the restatement of the reported results for the 52 weeks ended 3 February 2019 from adopting IFRS 16 'Leases', see note 10.3.

3 Operating assets continued

3.4 Right-of-use assets

Current period	Leasehold land and buildings £m	Leased plant, equipment, fixtures and vehicles £m	Total £m
Cost			
At 4 February 2019 (restated[1])	1,739	78	**1,817**
Additions	39	36	**75**
Transfers from investment property	14	–	**14**
Disposals	(17)	(5)	**(22)**
Fully written down assets	(6)	(12)	**(18)**
At 2 February 2020	1,769	97	**1,866**
Accumulated depreciation and impairment			
At 4 February 2019 (restated[1])	844	44	**888**
Depreciation charge for the period	44	16	**60**
Impairment	23	–	**23**
Impairment reversal	(24)	–	**(24)**
Transfers from investment property	14	–	**14**
Disposals	(14)	(5)	**(19)**
Fully written down assets	(6)	(12)	**(18)**
At 2 February 2020	881	43	**924**
Net book amount at 2 February 2020	888	54	**942**

1 For further details on the restatement of the reported results for the 52 weeks ended 3 February 2019 from adopting IFRS 16 'Leases', see note 10.3.

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.

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.

Impairment

Having applied the same methodology and key assumptions as for property, plant and equipment as set out in note 3.3, the Group has recognised a net impairment reversal of £1m (£24m impairment reversal offset by £23m impairment charge) during the year in respect of right-of-use assets (2019: net £49m impairment; £69m impairment charge offset by £20m reversal of impairment). This movement reflects fluctuations from store level trading performance and local market conditions.

At 2 February 2020, the assumptions to which the value in use calculation is most sensitive are the discount and growth rates. The Group has estimated a reasonably possible change of +/- 1% in either would result in a change in impairment of c.£15m.

3 Operating assets continued

3.4 Right-of-use assets continued

Prior period (restated[1])	Leasehold land and buildings £m	Leased plant, equipment, fixtures and vehicles £m	Total £m
Cost			
At 5 February 2018	1,694	56	1,750
Additions	39	27	66
Transfers from property, plant and equipment	13	–	13
Disposals	(2)	–	(2)
Fully written down assets	(5)	(5)	(10)
At 3 February 2019	1,739	78	1,817
Accumulated depreciation and impairment			
At 5 February 2018	757	23	780
Depreciation charge for the period	44	14	58
Impairment	57	12	69
Impairment reversal	(20)	–	(20)
Transfers from property, plant and equipment	13	–	13
Disposals	(2)	–	(2)
Fully written down assets	(5)	(5)	(10)
At 3 February 2019	844	44	888
Net book amount at 3 February 2019	895	34	929

1 For further details on the restatement of the reported results for the 52 weeks ended 3 February 2019 from adopting IFRS 16 'Leases', see note 10.3.

3.5 Assets classified as held-for-sale

	2020 £m	2019 £m
At start of period	**39**	4
Transfers from property, plant and equipment at net book value	**3**	41
Disposals	**(39)**	(6)
At end of period	**3**	39

On 13 December 2019, the Group disposed of £38m of assets previously classified as held-for-sale in relation to its Camden site. The consideration includes £85m in cash (£25m received in the period, with a further £20m due in 2020 and the remaining £40m due in 2025) together with £34m in non-cash consideration due by 2024 (representing the undiscounted value of the future lease of a new store on part of the same site). The total consideration has been discounted, resulting in a profit on disposal of £64m after disposal costs in the 52 week period ended 2 February 2020. Consideration receivable as at the period end is included within both current and non-current trade and other receivables, on a discounted basis.

Assets with a cost of £6m and accumulated depreciation of £3m were transferred from property, plant and equipment to assets classified as held-for-sale in the 52 weeks ended 2 February 2020 (2019: £54m and £13m respectively).

3 Operating assets continued

3.6 Investment property

Current period	Freehold £m	Leasehold £m	Total £m
Cost			
At 4 February 2019 (restated[1])	45	172	**217**
Additions	–	7	**7**
Transfers to right-of-use assets	–	(14)	**(14)**
Disposals	(2)	(2)	**(4)**
Fully written down assets	–	(2)	**(2)**
At 2 February 2020	43	161	**204**
Accumulated depreciation and impairment			
At 4 February 2019 (restated[1])	19	138	**157**
Depreciation charge for the period	1	2	**3**
Impairment	4	7	**11**
Impairment reversal	(3)	(3)	**(6)**
Transfers to right-of-use assets	–	(14)	**(14)**
Disposals	(1)	(2)	**(3)**
Fully written down assets	–	(2)	**(2)**
At 2 February 2020	20	126	**146**
Net book amount at end of period	23	35	**58**

1 For further details on the restatement of the reported results for the 52 weeks ended 3 February 2019 from adopting IFRS 16 'Leases', see note 10.3.

Included in other operating income is £15m (2019: £12m) of rental income generated from investment properties. At the end of the period the fair value of freehold investment properties was £37m (2019: £44m), with leasehold investment properties supported by their value in use. Freehold investment properties are valued by independent surveyors on a vacant possession basis using observable inputs (fair value hierarchy level 2).

Prior period (restated[1])	Freehold £m	Leasehold £m	Total £m
Cost			
At 5 February 2018	52	191	243
Additions	–	1	1
Transfers to property, plant and equipment	(6)	–	(6)
Disposals	(1)	(20)	(21)
At 3 February 2019	45	172	217
Accumulated depreciation and impairment			
At 5 February 2018	19	155	174
Depreciation charge for the period	–	2	2
Impairment	–	1	1
Disposals	–	(20)	(20)
At 3 February 2019	19	138	157
Net book amount at end of period	26	34	60

1 For further details on the restatement of the reported results for the 52 weeks ended 3 February 2019 from adopting IFRS 16 'Leases', see note 10.3.

3 Operating assets continued

3.7 Trade and other receivables – non-current

	2020 £m	2019 restated[1] £m
Finance leases – Group is lessor	8	8
Other receivables	63	–
	71	8

1 For further details on the restatement of the reported results for the 52 weeks ended 3 February 2019 from adopting IFRS 16 'Leases', see note 10.3.

The Group is the lessor on a number of property leases – many of which contain rent review terms that require rents to be re-assessed on a periodic basis. The rent re-assessments are normally based on changes in market rents or capped increases in measures of inflation.

Finance leases

The table below summarises the maturity profile of undiscounted finance lease payments due to the Group.

	2020 £m	2019 restated[1] £m
Less than one year	1	1
After one year but not more than five years	4	4
More than five years	7	8
Total undiscounted lease payments	12	13
Unearned finance income	(4)	(5)
Net investment in the lease	8	8

1 For further details on the restatement of the reported results for the 52 weeks ended 3 February 2019 from adopting IFRS 16 'Leases', see note 10.3.

Finance lease income of £1m (2019: £1m) has been recognised in the 52 weeks ended 2 February 2020.

Operating leases

The table below summarises the maturity profile of undiscounted minimum operating lease payments due to the Group.

	2020 £m	2019 restated[1] £m
Less than one year	10	12
One to two years	9	10
Two to three years	6	9
Three to four years	5	5
Four to five years	4	4
More than five years	17	21
Total undiscounted lease payments receivable	51	61

1 For further details on the restatement of the reported results for the 52 weeks ended 3 February 2019 from adopting IFRS 16 'Leases', see note 10.3.

Operating lease income of £15m (2019: £12m) has been recognised in the 52 weeks ended 2 February 2020. This includes £1m (2019: £1m) relating to variable lease payments that do not depend on an index or rate.

Other receivables

Other receivables comprise deferred consideration due after more than one year in relation to the disposal of the Camden site (see note 3.5). The amount includes £33m of deferred cash consideration on a discounted basis and £30m representing the fair value of a future lease of a newly constructed supermarket and convenience store on part of the site.

As at 2 February 2020, none of the other receivables were past due and have not been impaired. The carrying value of the deferred cash consideration approximates to its fair value. The fair value of the future lease is based on the net present value of observable market rentals for similar developments in the surrounding locality (fair value hierarchy level 2).

3.8 Capital commitments

	2020 £m	2019 £m
Contracts placed for future capital expenditure not provided in the financial statements (property, plant and equipment, right-of-use assets and intangible assets)	37	36
Contracts placed for future leases not provided in the financial statements	34	–

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 (2019: 51.1%). Decisions regarding MHE JVCo Limited require the unanimous consent of both parties. The Directors have considered the requirements of IFRS 11 and determined that the Group continues to jointly control MHE JVCo Limited.

MHE JVCo Limited	2020 £m	2019 £m
Non-current assets	**55**	71
Current assets	**22**	22
Current liabilities	**(1)**	(1)
Net assets	**76**	92
Group's share of net assets	**39**	47
Profit	**2**	2
Group's share of profit	**1**	1

4.3 Business combinations

There were no new business combinations in the 52 weeks ended 2 February 2020. During the period, the Group paid £1m deferred consideration relating to the prior year acquisition of Chippindale Foods Limited. This was part of the total consideration of £5m.

During the 52 weeks ended 3 February 2019, 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.

5 Working capital and provisions

5.1 Accounting policies

Inventories

Inventories represent 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 inventory losses relating to shrinkage and obsolescence. Losses relating to shrinkage in stores are based on historical losses, verified by physical inventory counts conducted by an independent third party. Provision is made for obsolete and slow moving items.

Trade and other receivables

Trade and other receivables are initially recognised at fair value, which is generally equal to face value, and subsequently held at amortised cost. Provision for impairment of trade receivables is recognised based on lifetime expected credit losses at each reporting date, 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, bank overdrafts and deposits readily convertible to known amounts of cash. In the statement of financial position, 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 payables

Trade and other payables are initially recognised at fair value, which is generally equal to face value of the invoices received, and subsequently held at amortised cost. Trade payables 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.

Supply chain financing

The Group offers suppliers the option to access supply chain financing through certain third party providers. These facilities allow suppliers to receive payments earlier than the contractual payment terms. The Group does not receive any fees or rebates from the providers where the suppliers choose to utilise these facilities. Payment terms continue to be agreed directly between the Group and suppliers, and is independent of supply chain financing being available.

The Group makes an assessment of its supply chain finance arrangements to determine if the associated balance is appropriately presented as trade payables or as borrowings. This assessment considers factors such as the commercial purpose of the facility, the nature and specific terms of the arrangements and the credit terms in place with the banks and suppliers. Based on this assessment, the Group has determined that it is appropriate to present amounts outstanding through the supply chain financing arrangement as trade payables.

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 a requirement for repairs or reinstatement is identified. Provisions for 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 Inventories

	2020 £m	2019 £m
Finished goods	**660**	713

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

5 Working capital and provisions continued

5.3 Trade and other receivables

	2020 £m	2019 restated[1] £m
Commercial income trade receivables	**7**	4
Accrued commercial income	**28**	28
Other trade receivables	**175**	167
Less: provision for impairment of trade receivables	**(4)**	(4)
Trade receivables	**206**	195
Prepayments and accrued income	**116**	132
Other receivables	**31**	17
	353	344

1 For further details on the restatement of the reported results for the 52 weeks ended 3 February 2019 from adopting IFRS 16 'Leases', see note 10.3.

The carrying amounts of trade and other receivables approximates to their fair value at 2 February 2020 and 3 February 2019.

Current period	Current %/£m	1 to 30 days past due %/£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%	6%	22%	51%	100%	
Gross carrying amount – trade receivables	191	15	2	1	1	**210**
Provision for impairment of trade receivables	–	(1)	(1)	(1)	(1)	**(4)**

Prior period	Current %/£m	1 to 30 days past due %/£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%	6%	25%	41%	100%	
Gross carrying amount – trade receivables	192	2	1	1	3	**199**
Provision for impairment of trade receivables	–	(0)	(0)	(1)	(3)	**(4)**

As at 2 February 2020 and 3 February 2019, trade receivables 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 receivables do not contain impaired assets.

As at 15 March 2020, £6m of the £7m commercial income trade receivables balance had been settled and £20m of the £28m accrued commercial income balance had been invoiced and settled.

5.4 Trade and other payables

	2020 £m	2019 restated[1] £m
Trade payables	**2,467**	2,449
Less: commercial income due, offset against amounts owed	**(21)**	(27)
	2,446	2,422
Other taxes and social security payable	**131**	113
Other payables	**58**	109
Accruals and deferred income	**416**	426
	3,051	3,070

1 For further details on the restatement of the reported results for the 52 weeks ended 3 February 2019 from adopting IFRS 16 'Leases', see note 10.3.

Included within accruals and deferred income is £1m (2019: £1m) in respect of deferred commercial income. Amounts accrued in relation to store restructuring activity are included within accruals and deferred income at 2 February 2020.

As at 15 March 2020, £17m of the £21m commercial income due above had been offset against payments made.

5 Working capital and provisions continued

5.5 Provisions

	Onerous contracts £m	Other provisions £m	Total £m
At 4 February 2019 (restated[1])	74	22	**96**
Charged to profit for the period	16	9	**25**
Utilised during the period	(30)	(3)	**(33)**
Released during the period	(14)	–	**(14)**
Unwinding of discount	2	–	**2**
At 2 February 2020	48	28	**76**

1 For further details on the restatement of the reported results for the 52 weeks ended 3 February 2019 from adopting IFRS 16 'Leases', see note 10.3.

Included with the above balance at 2 February 2020 is £16m (2019: £33m) relating to a balance due within one year. The provision is revised regularly in response to market conditions. During the period, a net £2m charge (£16m charge offset by £14m release) has been recognised in respect of onerous contract provisions due to changes in circumstances or performance relating to certain contracts.

Other provisions include a petrol filling station decommissioning reserve for the cost of decommissioning petrol tanks, a provision for costs relating to recent store closures and provisions for dilapidations on certain leased buildings, for the cost of restoring assets to their required condition.

5.6 Cash generated from operations

	2020 £m	2019 restated[1] £m
Profit for the period	**348**	233
Net finance costs	**87**	130
Taxation charge	**87**	70
Share of profit of joint venture (net of tax)	**(1)**	(1)
Operating profit	**521**	432
Adjustments for:		
Depreciation and amortisation	**525**	501
Impairment	**108**	173
Impairment reversal	**(123)**	(175)
Profit/loss arising on disposal and exit of properties	**(66)**	–
Gain arising on reduction of lease terms	**(10)**	–
Defined benefit scheme contributions paid less operating expenses	**(5)**	21
Share-based payments charge	**26**	34
Decrease/(Increase) in inventories[2]	**53**	(27)
Increase in Trade and other receivables[2]	**(14)**	(89)
Increase in Trade and other payables[2]	**29**	114
Decrease in provisions[2]	**(27)**	(7)
Cash generated from operations	**1,017**	977

1 For further details on the restatement of the reported results for the 52 weeks ended 3 February 2019 from adopting IFRS 16 'Leases', see note 10.3.

Total working capital inflow (the sum of items marked [2] in the table) is £41m in the year (2019: £9m outflow). This includes £2m (2019: £12m) as a result of the current year charges in respect of onerous contracts and accruals of onerous commitments and £63m of non-cash exceptional charges (2019: £nil), net of £41m (2019: £6m) of onerous payments and other non-operating payments of £1m (2019: £5m). When adjusted to exclude these items, the operating working capital inflow is £18m (2019: £10m outflow).

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 and fees. Subsequent to initial recognition they are measured at amortised cost, with 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% (2019: 5%). Capitalised interest is included within interest paid in cash flow from operating activities.

Lease liabilities

For leases where the Group is a lessee, the Group recognises a right-of-use asset and a lease liability at the commencement date of the lease. Lease liabilities are initially measured at the present value of the lease payments due during the lease term but that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the lessee's incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise fixed payments and applicable variable lease payments (which depend on an index or a rate). The exercise price of purchase options are also included if reasonably certain to exercise the option.

The lease term includes periods covered by extension and break options if the Group is reasonably certain to extend the lease or to not exercise the break.

The incremental borrowing rates are determined through a build up approach, starting with a risk-free rate specific to the term and economic environment of the lease, adjusted for both the credit risk of the lessee and other characteristics of the lease (for example the quality of the underlying assets). The inputs used to determine the rates are regularly re-assessed, based on historical experience and other factors which the Directors believe to be reasonable.

Each lease payment is allocated between the capital repayment of the liability and the finance cost element. The finance cost is charged to the consolidated income statement over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Lease liabilities are remeasured when there is a change in future lease payments arising from a change in an index, rate or a lease modification. When purchase, extension or break options are exercised, (or not exercised) in a way inconsistent with the prior assessments of those options, or if those assessments are changed, then lease liabilities will also be remeasured. The likelihood of options being exercised will only be re-assessed on the occurrence of a significant event or change in circumstance within the control of the Group (for example when a final decision to close or vacate a site is made).

The Group has elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets'). Lease payments on short-term leases and leases of low-value assets are recognised as an expense in the consolidated income statement on a straight-line basis over the lease term.

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 statement of financial position 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, lease liabilities and derivative financial instruments (stated at current fair value).

6 Capital and borrowings continued

6.2 Finance costs and income

	2020 £m	2019 restated[1] £m
Interest payable on short-term loans and bank overdrafts	**(4)**	(3)
Interest payable on bonds	**(43)**	(48)
Interest on lease liabilities	**(63)**	(66)
Interest capitalised	**2**	1
Total interest payable	**(108)**	(116)
Provisions: unwinding of discount (note 5.5)	**(2)**	(3)
Other finance costs	**(1)**	(1)
Finance costs before exceptionals[2]	**(111)**	(120)
Costs associated with the repayment of borrowings (note 1.4)	**–**	(33)
Finance costs	**(111)**	(153)
Bank interest and other finance income	**4**	4
Finance lease income	**1**	1
Finance income before exceptionals[2]	**5**	5
Net retirement benefit interest (notes 1.4 and 8.2)	**19**	18
Finance income	**24**	23
Net finance costs	**(87)**	(130)

1 For further details on the restatement of the reported results for the 52 weeks ended 3 February 2019 from adopting IFRS 16 'Leases', see note 10.3.
2 Net finance costs before exceptionals marked [2] amount to £106m (2019: £115m).

6.3 Borrowings

The Group had the following current borrowings and other financial liabilities measured at amortised cost:

	2020 £m	2019 £m
Current		
€282m euro bond 2.25% June 2020	**237**	–
Other short-term borrowings	**–**	178
	237	178

The Group had the following non-current borrowings and other financial liabilities measured at amortised cost:

	2020 £m	2019 £m
Non-current		
€282m euro bond 2.25% June 2020	**–**	247
£250m sterling bonds 4.625% December 2023	**249**	249
£250m sterling bonds 3.50% July 2026	**269**	272
£250m sterling bonds 4.75% July 2029	**245**	245
£350m sterling bonds 2.50% October 2031	**347**	–
Revolving credit facility	**(2)**	97
	1,108	1,110

On 24 September 2019 the Group issued a £350m sterling bond at a fixed interest rate of 2.50% expiring October 2031. This was issued under the Group's £3bn Euro Medium Term Note Programme.

Borrowing facilities

In addition to the bonds detailed in the table above, the Group has the following borrowing facilities.

The Group has a syndicated committed revolving credit facility of £1.35bn. During the 52 weeks ended 2 February 2020, the Group extended this facility by a further year, resetting its five-year term and resulting in a maturity date of June 2024. The revolving credit facility incurs commitment fees and interest charges at a spread above LIBOR. The Group had £1.35bn of undrawn committed headroom available on this facility as at 2 February 2020.

In addition the Group has £100m 364 day committed revolving credit facility which matures in July 2020. The facility was undrawn as at 2 February 2020.

In the prior period, the Group entered into an additional £250m revolving credit facility to provide flexibility on refinancing the €282m euro bond when it matures in June 2020. As a result of this bond having been refinanced during the year through the issuance of the £350m bond, this facility has subsequently lapsed and is no longer available as at 2 February 2020.

6 Capital and borrowings continued

6.3 Borrowings continued

Borrowing facilities continued

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.

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 in the statement of financial position for borrowings. Trade and other payables (note 5.4) are excluded from this analysis.

	2020 £m	2019 £m
Less than one year	**280**	216
One to two years	**41**	282
Two to three years	**41**	32
Three to four years	**290**	32
Four to five years	**29**	381
More than five years	**978**	587

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:

	2020		2019	
	Amortised cost £m	Fair value £m	Amortised cost £m	Fair value £m
Total borrowings: non-current and current	**1,345**	**1,475**	1,288	1,360

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 Lease liabilities

	2020 £m	2019 restated[1] £m
Current lease liabilities	**72**	69
Non-current lease liabilities	**1,304**	1,328
	1,376	1,397

Maturity of lease liabilities

The table below summarises the maturity profile of the Group's lease liabilities based on contractual, undiscounted payments.

	2020 £m	2019 restated[1] £m
Less than one year	**131**	130
One to two years	**125**	125
Two to three years	**120**	119
Three to four years	**113**	114
Four to five years	**106**	107
More than five years	**1,601**	1,719

1 For further details on the restatement of the reported results for the 52 weeks ended 3 February 2019 from adopting IFRS 16 'Leases', see note 10.3.

The interest expense on lease liabilities during the periods ended 2 February 2020 and 3 February 2019 are shown in note 6.2. The value of contracts placed for future leases not provided in the financial statements is disclosed in note 3.8.

Other information

The Group is the lessee on a diverse portfolio of leases for property and equipment, with the vast majority of lease liabilities relating to property (see note 3.4 and note 3.6). Certain property leases contain rent review terms that require rents to be adjusted on a periodic basis which may be subject to market rent or capped increases in inflation measurements. In addition, certain property leases contain break clauses that would allow the Group to exit leases early. The depreciation expense for leases during the periods ended 2 February 2020 and 3 February 2019 are shown in note 1.6. This note also includes the expense of variable lease payments incurred during the periods and expenses incurred on both low value leases and short-term leases longer than one month. The total cash outflow for leases was £157m (2019: £145m).

6 Capital and borrowings continued

6.5 Analysis of net debt[1]

	Note	2020 £m	2019 restated[2] £m
Cross-currency interest rate swaps[3]		–	9
Fuel and energy price contracts		–	6
Non-current financial assets	7.3	–	15
Foreign exchange forward contracts		–	3
Fuel and energy price contracts		1	16
Current financial assets	7.3	1	19
Bonds[3]	6.3	(237)	–
Other short-term borrowings[3]	6.3	–	(178)
Cross-currency interest rate swaps[3]	7.3	(4)	–
Lease liabilities[3]	6.4	(72)	(69)
Foreign exchange forward contracts	7.3	(17)	(4)
Fuel and energy price contracts	7.3	(15)	(1)
Current financial liabilities		(345)	(252)
Bonds[3]	6.3	(1,110)	(1,013)
Revolving credit facility[3]	6.3	2	(97)
Lease liabilities[3]	6.4	(1,304)	(1,328)
Fuel and energy price contracts	7.3	(7)	(2)
Non-current financial liabilities		(2,419)	(2,440)
Cash and cash equivalents		305	264
Net debt[1]		(2,458)	(2,394)

1 Net debt is defined in the Glossary on page 153.
2 For further details on the restatement of the reported results for the 52 weeks ended 3 February 2019 from adopting IFRS 16 'Leases', see note 10.3.

Total net liabilities from financing activities (the sum of items marked [3] in the table) is £2,725m in the 52 weeks ended 2 February 2020 (2019: £2,676m). Of the £49m increase (2019: £42m decrease) in net liabilities from financing activities, £67m (2019: £56m) relates to non-cash movements offset by £18m (2019: £98m) related to cash movements.

Cash and cash equivalents include restricted balances of £nil (2019: £3m) which is held by Farock Insurance Company Limited, a subsidiary of Wm Morrison Supermarkets PLC.

6.6 Called-up share capital

	Number of shares millions	Share capital £m	Share premium £m	Total £m
At 4 February 2019	2,368.3	237	178	415
Share options exercised and shares issued under LTIP schemes[1]	36.7	3	14	17
At 2 February 2020	2,405.0	240	192	432

1 The £3m movement in share capital has been rounded down to ensure that the total movement and total share capital positions, are correctly stated.

All issued shares are fully paid and have a par value of 10p per share (2019: 10p per share). The Group did not acquire any of its own shares for cancellation in the 52 weeks ended 2 February 2020 or the 52 weeks ended 3 February 2019. 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 £30m (2019: £21m) in respect of own shares held at the reporting date. This represents the cost of 14,215,041 (2019: 9,885,248) of the Group's ordinary shares (nominal value of £1.4m (2019: £1.0m)). 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 2 February 2020 was £26m (2019: £23m). The trust has waived its right to dividends. These shares are not treasury shares as defined by the London Stock Exchange.

During the period, the Group acquired 4,881,284 (2019: 3,945,258) of its own shares to hold in trust for consideration of £10m (2019: £9m), and utilised 551,491 (2019: 1,721,480) trust shares to satisfy awards under the Group's employee share plans.

Proceeds from exercise of share awards

The Group issued 8,532,407 (2019: 12,440,132) new shares to satisfy options exercised by employees during the period in respect of the Group's Sharesave schemes. Proceeds received on exercise of these shares amounted to £14m (2019: £20m) and these have been recognised as an addition to share capital and share premium in the period. In addition, the Group issued 28,166,736 (2019: nil) shares under the Group's Long Term Incentive Plan (LTIP) scheme for nominal value.

6 Capital and borrowings continued

6.6 Called-up share capital continued

Settlement of share awards

During the 52 weeks ended 2 February 2020, the Group has settled 551,491 of share options out of trust shares which have vested during the period net of tax. The Group paid the £2m (2019: £5m) in cash on behalf of the employees, rather than selling shares on the employees' behalf to settle the employees' tax liability on vesting of share options.

6.7 Reserves

	2020 £m	2019 restated[1] £m
Capital redemption reserve	**39**	39
Merger reserve	**2,578**	2,578
Hedging reserve	**(37)**	10
Retained earnings	**1,529**	1,283
Total	**4,109**	3,910

1 For further details on the restatement of the reported results for the 52 weeks ended 3 February 2019 from adopting IFRS 16 'Leases', see note 10.3.

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.

6.8 Capital management

The Group defines the capital that it manages as the Group's total equity and net debt balances.

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 2 February 2020, net debt has increased by £64m. Throughout the period, the Group has comfortably complied with the gearing and fixed charge cover covenants attaching to its revolving credit facility.

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 reasonably possible change (+/-10%) in the US dollar and euro exchange rates would equate to a £7m post-tax profit or loss exposure in relation to the euro and £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 £34m for the hedged amount.

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 2 February 2020 was £1,078m across a number of banks and platforms. The level of utilisation is dependent on the individual supplier requirements and varies significantly over time, dependent on suppliers' requirements.

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 reporting date, 100% (2019: 78%) 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 principal areas of credit risk relate to financial institution and trading counterparties such as wholesale customers. The Group has well established credit verification procedures in place for key exposures. Limits on the total exposure to a counterparty or Group of connected counterparties are established within the Treasury Policy. Compliance with limits is regularly monitored. With respect to wholesale customers, the Group establishes a credit limit for each individual entity, which takes into account a number of factors including the level of credit insurance in place, the customer's payment history, third party credit reports and other relevant factors including the Group's rights within the specific terms of the contract.

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 reporting date would affect other comprehensive income by £6m (2019: £12m) for the hedged amount.

7 Financial risk and hedging continued

7.3 Derivative financial assets and liabilities

Derivative financial assets	2020 Fair Value £m	2020 Notional Value £m	2019 Fair Value £m	2019 Notional Value £m
Current				
Foreign exchange forward contracts	–	32	3	112
Fuel and energy price contracts	1	1	16	55
	1	33	19	167
Non-current				
Cross-currency interest rate swaps	–	–	9	240
Fuel and energy price contracts	–	–	6	38
	–	–	15	278

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	2020 Fair Value £m	2020 Notional Value £m	2019 Fair Value £m	2019 Notional Value £m
Current				
Cross-currency interest rate swaps	4	240	–	–
Foreign exchange forward contracts	17	411	4	262
Fuel and energy price contracts	15	53	1	3
	36	704	5	265
Non-current				
Fuel and energy price contracts	7	35	2	18
	7	35	2	18

The amounts disclosed in the table below are the contractual undiscounted derivative cash flows and therefore differ to those in the statement of financial position.

		2020 £m		2019 £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	(247)	–	(7)	(247)
Inflow	242	–	6	253
Forward contracts – cash flow hedges:				
Outflow	(443)	–	(374)	–
Inflow	426	–	372	–
Derivatives settled on a net basis				
Energy price contracts – cash flow hedges:				
(Outflow)/inflow	(15)	(7)	15	4

Cash flow hedges

At 2 February 2020 and at 3 February 2019, the Group held cross-currency swaps designated as cash flow hedges. The notional principal amount of the outstanding cross-currency swaps at 2 February 2020 was €282m (2019: €282m).

The fuel and energy price contracts and foreign currency derivatives are designated as cash flow hedges.

8 Retirement benefits

8.1 Accounting policies

A defined contribution scheme is a retirement 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

Retirement scheme assets are valued at fair market value as required by IAS 19. Retirement benefit 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 retirement benefit deficit or surplus recognised in the consolidated statement of financial position 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 statement of cash flows and is part of adjusted earnings. Net interest income/expense is calculated by applying the discount rate on liabilities to the net retirement benefit deficit or surplus (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 the consolidated statement of comprehensive income as a reduction in the return on scheme assets. Other scheme expenses are recognised in the consolidated income statement 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 the consolidated statement of 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 retirement 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 2 February 2020 is as follows:

	2020 £m	2019 £m
CARE Schemes	**960**	730
RSP	**(16)**	(42)
Net retirement benefit surplus	**944**	688

The disclosures below show the details of the schemes combined:

Statement of financial position	**2020 CARE £m**	**2020 RSP £m**	2019 CARE £m	2019 RSP £m
Fair value of scheme assets	**5,013**	**389**	4,471	349
Present value of obligations	**(4,053)**	**(405)**	(3,741)	(391)
Net retirement benefit surplus/(deficit)	**960**	**(16)**	730	(42)

Income statement:	**2020 CARE £m**	**2020 RSP £m**	2019 CARE £m	2019 RSP £m
Current service cost – recognised in cost of sales	**–**	**–**	–	35
Current service cost – recognised in administrative expenses	**–**	**–**	–	18
Past service cost (guaranteed minimum pension)	**–**	**–**	7	–
Administrative costs paid by the Schemes – recognised in administrative expenses	**2**	**1**	2	1
Settlement and curtailment gain	**–**	**–**	(2)	–
Curtailment loss from closure of the retirement scheme	**–**	**–**	–	19
Net interest on net retirement benefit surplus/deficit – finance (income)/expense	**(20)**	**1**	(18)	–
Total expense (credited)/charged to income statement	**(18)**	**2**	(11)	73
Statement of other comprehensive income:				
Remeasurements in other comprehensive income – credit	**(204)**	**(27)**	(100)	–

8 Retirement benefits 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 losses in the 52 weeks ended 3 February 2019 include a £19m exceptional charge as a result of the closure of the RSP to future accrual in September 2018.

The Group recognised a past service cost of £7m in the 52 weeks ended 3 February 2019 in relation to the estimated cost of the equalisation of guaranteed minimum retirement benefits for men and women, following a ruling by the High Court in October 2018 (see note 8.7 of the Group's 2018/19 Annual Report and Financial Statements).

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), income assets (comprising credit investments and corporate bonds) and protection assets (comprising a liability driven investment (LDI) portfolio and the two buy-in 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:

	2020 CARE £m	2020 RSP £m	2019 CARE £m	2019 RSP £m
Equities (quoted)	**574**	**158**	507	135
Corporate bonds (quoted)	**511**	**–**	442	–
Diversified growth funds (quoted)	**–**	**40**	120	76
Credit funds (unquoted)	**466**	**–**	444	–
Liability driven investments (unquoted)	**2,782**	**190**	2,264	137
Annuity policies (unquoted)	**649**	**–**	665	–
Cash (quoted)	**31**	**1**	29	1
	5,013	**389**	4,471	349

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 the Schemes' 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

The Safeway Scheme has two buy-in annuity policies that provide insurance for a proportion of the pensioner population. 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.

8 Retirement benefits 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:

	2020 CARE £m	2020 RSP £m	2019 CARE £m	2019 RSP £m
Fair value of scheme assets at start of period	4,471	349	4,542	315
Interest income	121	9	124	9
Return on scheme assets excluding interest	554	70	(53)	(6)
Employer contributions	8	1	7	49
Employee contributions	–	–	–	3
Benefits paid	(139)	(39)	(147)	(20)
Administrative expenses	(2)	(1)	(2)	(1)
Fair value of scheme assets at end of period	5,013	389	4,471	349

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 retirement benefit 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 Retirement benefits continued

8.4 Present value of obligations

The movement in the defined benefit obligation over the period was as follows:

	2020 CARE £m	2020 RSP £m	2019 CARE £m	2019 RSP £m
Defined benefit obligation at start of period	(3,741)	(391)	(3,930)	(333)
Current service cost	–	–	–	(53)
Past service cost (guaranteed minimum pension)	–	–	(7)	–
Interest expense	(101)	(10)	(106)	(9)
Actuarial gain – demographic assumptions	92	–	123	–
Actuarial (loss)/gain – financial assumptions	(592)	(58)	30	3
Actuarial gain – experience	150	15	–	3
Settlement and curtailment gain	–	–	2	–
Curtailment loss from closure of the retirement scheme	–	–	–	(19)
Employee contributions	–	–	–	(3)
Benefits paid	139	39	147	20
Defined benefit obligation at end of period	(4,053)	(405)	(3,741)	(391)

The durations of the defined benefit obligations at the end of the 2020 reporting period are: RSP 20 years; Morrison CARE 23 years; Safeway CARE 20 years. The weighted average duration of all three Schemes is 21 years.

8.4.1 Significant actuarial assumptions

The following are the principal actuarial assumptions at the reporting date (expressed as weighted averages):

Financial assumptions	2020 CARE	2020 RSP	2019 CARE	2019 RSP
Discount rate applied to scheme liabilities (% p.a.)	1.8%	1.8%	2.8%	2.7%
Inflation assumption (RPI) (% p.a.)	2.9%	2.9%	3.2%	3.2%

Life expectancies	2020 CARE	2020 RSP	2019 CARE	2019 RSP
Longevity in years from age 65 for current pensioners				
Male	20.9	n/a	22.0	n/a
Female	22.3	n/a	23.3	n/a
Longevity in years from age 65 for current members aged 45				
Male	22.6	n/a	23.7	n/a
Female	24.2	n/a	25.2	n/a

For deriving discount rates, the Group estimates these rates with reference to high quality corporate bonds. 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. The Group believes that this approach appropriately reflects expected yields on high quality corporate bonds over the duration of the Group's retirement schemes, as required by IAS 19.

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 2 February 2020 are the S2PMA/S2PFA-Heavy mortality tables (males/females) based on year of birth with a scaling factor of 110% applied to the mortality rates in both the Morrison and Safeway Schemes, with CMI 2018 core projections and a long-term rate of improvement of 1.5% p.a. For the 52 weeks ended 3 February 2019, 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 2017 projections and a long-term rate of improvement of 1.5% p.a.

8 Retirement benefits continued

8.4 Present value of obligations continued

8.4.1 Significant actuarial assumptions continued

Related actuarial assumptions (expressed as weighted averages)

	2020 CARE	2020 RSP	2019 CARE	2019 RSP
Rate of increase of retirement benefits in payment: RPI inflation capped at either 2.5% p.a. or 5% p.a. (% p.a.)	**2.0%/2.8%**	**–**	2.1%/3.1%	–
Rate of increase of retirement benefits in deferment: CPI inflation capped at either 2.5% p.a. or 5% p.a. (% p.a.)	**–/2.0%**	**2.0%/–**	–/2.1%	2.1%/–
CPI inflation (% p.a.)	**2.0%**	**2.0%**	2.1%	2.1%

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.

		2020 CARE £m	2020 RSP £m	2019 CARE £m	2019 RSP £m
Discount rate applied to Scheme obligations	+/- 0.1% p.a.	**-/+85**	**-/+8**	-/+90	-/+7
Inflation assumption (RPI and associated assumptions)	+/- 0.1% p.a.	**+/-65**	**+/-7**	+/-80	+/-7
Longevity	+ one year	**+145**	**–**	+155	–

8 Retirement benefits continued

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 2019 for the Safeway Scheme and 5 April 2019 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 £518m, £157m and £7m 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 2019 actuarial valuations for the CARE Schemes have been used and updated for IAS 19 'Employee benefits' purposes for the period to 2 February 2020 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 2 February 2020, schemes in surplus have been disclosed within the assets in the consolidated statement of financial position. The Group obtained legal advice with regard to the recognition of a retirement benefit 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 materially affected by the 2015 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 3 February 2020 is £9m (2019: £7m). This estimate includes amounts payable from the SLP.

8.6 Defined contribution scheme

The Group opened a defined contribution retirement benefit 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. 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 2 February 2020, the Group paid contributions of £78m to the MPRS (2019: £28m), and expects to contribute £80m for the following period (2019: £79m).

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 £26m (2019: £34m).

9.2 Sharesave schemes

All employees (including Executive Directors) are eligible for the Sharesave 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 2019	15 May 2018	16 May 2017	16 May 2016
Share price at grant date	£2.11	£2.55	£2.44	£1.91
Fair value of options granted	£6.3m	£13.2m	£16.5m	£5.1m
Exercise price	£1.78	£1.87	£1.84	£1.70
Dividend yield	4.6%	3.96%	2.08%	2.62%
Annual risk free interest rate	0.71%	0.56%	0.30%	0.87%
Expected volatility[1]	20.61%	24.9%	28.1%	26.8%

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 Sharesave 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.

	2020		2019	
	Weighted average exercise price in £ per share	**Options thousands**	Weighted average exercise price in £ per share	Options thousands
Movement in outstanding options				
Outstanding at start of period	**1.83**	**47,570**	1.75	44,676
Granted	**1.78**	**20,905**	1.87	22,166
Exercised	**1.70**	**(8,532)**	1.64	(12,441)
Forfeited	**1.82**	**(8,637)**	1.82	(6,831)
Outstanding at end of period	**1.83**	**51,306**	1.83	47,570
Exercisable at end of period	**1.70**	**19**	1.64	14

	2020			2019		
	Weighted average share price at date of exercise £	**Weighted average option price at date of exercise £**	**Number of shares thousands**	Weighted average share price at date of exercise £	Weighted average option price at date of exercise £	Number of shares thousands
Share options exercised in the financial period	**2.03**	**1.70**	**8,532**	2.51	1.64	12,441

	2020	2019
Share options outstanding at the end of the period		
Range of exercise prices	**£1.70 to £1.87**	£1.64 to £1.87
Weighted average remaining contractual life	**1.44 years**	1.64 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. The schemes granted in 2016 all vested during the 52 weeks ended 2 February 2020.

All 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 determine it are as follows:

Grant date	**14 Oct 2019**	**19 April 2019**	18 Sept 2018	22 March 2018	24 Oct 2017	22 March 2017	25 Oct 2016	13 May 2016	06 April 2016
Option fair value at grant date	**£1.96**	**£2.23**	£2.62	£2.09	£2.34	£2.37	£2.28	£1.90	£2.00
Fair value of share awards	**£1.0m**	**£27.2m**	£0.9m	£27.3m	£2.0m	£29.4m	£9.2m	£1.9m	£73.6m

	2020 Share awards thousands	2019 Share awards thousands
Movement in outstanding share awards		
Outstanding at start of period	**54,168**	47,967
Granted	**12,714**	13,386
Exercised	**(28,167)**	(3,474)
Forfeited	**(4,730)**	(3,711)
Outstanding at end of period	**33,985**	54,168
Exercisable at end of period	**–**	–

The weighted average remaining contractual life of the share awards is 1.2 years (2019: 0.9 years).

9.4 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	**2019/20 scheme**	2018/19 scheme
Share price at grant date	**£2.25**	£2.09
Exercise price	**£nil**	£nil
Fair value of share awards granted	**£1.7m**	£2.8m

	2020 Share awards thousands	2019 Share awards thousands
Movement in outstanding share awards		
Outstanding at start of period	**3,549**	2,491
Granted	**771**	1,355
Exercised	**(947)**	(297)
Outstanding at end of period	**3,373**	3,549

The weighted average remaining contractual life of the share awards is 1.0 year (2019: 1.3 years).

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 retirement benefit 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 2 February 2020, the Group received a dividend of £9m (2019: £7m) 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 through until 2038. If the lessee were to default during the period of guarantee, their lease obligations could revert back to the Group under the terms and become a liability of the Group. Should the lessee default, the additional future commitment is estimated at up to £30m (2019: £31m).

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 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 appealed to the Supreme Court. The Supreme Court hearing took place in November 2019 and the Group is waiting for the decision. 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.

10.3 Changes in accounting policies

The Group has adopted the fully retrospective approach to transition for IFRS 16 'Leases' and under this approach, the opening consolidated statement of financial position as at 5 February 2018 and the comparative consolidated statement of financial position as at 3 February 2019 have been restated.

Impact on the consolidated income statement

The adoption of IFRS 16 resulted in changes to the consolidated income statement, as previously recognised straight line rental costs were removed and replaced with a depreciation charge on the right-of-use assets and a finance cost on the lease liabilities. The impact of IFRS 16 in the 52 weeks ended 3 February 2019 was to change each line as follows:

			2019
	Before exceptionals £m	Exceptionals £m	Total £m
Cost of sales	45	–	**45**
Gross profit	45	–	**45**
Profit/loss on disposal and exit of properties	–	(2)	**(2)**
Administrative expenses	–	(5)	**(5)**
Operating profit	45	(7)	**38**
Finance costs	(56)	–	**(56)**
Finance income	1	–	**1**
Profit before taxation	(10)	(7)	**(17)**
Taxation	2	4	**6**
Profit for the period attributable to the owners of the Company	(8)	(3)	**(11)**
Earnings per share (pence)			
Basic			**(0.45)**
Diluted			**(0.44)**

During the 52 weeks ended 3 February 2019, the following lines in the consolidated income statement were principally impacted by IFRS 16:

Impact on profit before exceptionals after tax:

- cost of sales – a net credit of £45m was recognised, being the reversal of previously recognised rent payments (£103m) offset by the depreciation charge on the right-of-use assets and leased assets in investment property (£58m);
- net finance costs – additional finance costs of £55m were recognised on IFRS 16 lease liabilities; and
- the net impact of all of the adjustments in the table above reduced reported profit before tax and exceptionals by £10m and profit before exceptionals after tax by £8m.

10 Other continued

10.3 Changes in accounting policies continued

Impact on the consolidated income statement continued

Impact on exceptional items:

- profit/loss on disposal and exit of properties – an additional £2m of lease disposal costs were recognised;
- administrative expenses – an additional £5m net charge was recognised being the net impact of additional impairment from applying IFRS 16 of £53m (being £49m charge for right-of-use assets, £3m charge for property, plant and equipment and £1m charge for investment property) offsetting the reversal of previously recognised onerous lease provisions and amounts provided for onerous commitments (£48m);
- the net impact of all of the adjustments in the table above reduced exceptionals after tax by £3m; and
- all of the above items were classified as exceptional items in line with the Group's policy (see note 1.4 for further details).

Impact on the consolidated statement of financial position

Upon adoption of IFRS 16, the Group recognised right-of-use assets (representing the right to use the underlying assets) and lease liabilities for lease payments on the discounted future obligations.

The impact of IFRS 16 as at 5 February 2018 and at 3 February 2019 was to change each line as follows:

	2019 £m	2018 £m
Assets		
Property, plant and equipment	**(218)**	(216)
Right-of-use assets	**929**	970
Investment property	**34**	36
Trade and other receivables	**8**	8
Non-current assets	**753**	798
Trade and other receivables	**(3)**	(3)
Current assets	**(3)**	(3)
Liabilities		
Trade and other payables	**15**	60
Lease liabilities	**(69)**	(59)
Current liabilities	**(54)**	1
Lease liabilities	**(1,328)**	(1,354)
Deferred tax liabilities	**69**	63
Provisions	**257**	200
Non-current liabilities	**(1,002)**	(1,091)
Net assets	**(306)**	(295)
Shareholders' equity		
Retained earnings and other reserves	**(306)**	(295)
Total equity attributable to the owners of the Company	**(306)**	(295)

As at 3 February 2019, IFRS 16 principally impacted the following lines in the consolidated statement of financial position:

Right-of-use assets of £929m (2018: £970m) were recognised and presented separately in the consolidated statement of financial position. Included within this balance were assets reclassified from property, plant and equipment of £218m (2018: £216m) and additional accumulated impairment of £386m (2018: £352m).

Investment property right-of-use assets of £34m (2018: £36m), have been recognised in respect of leasehold investment property. Included within this balance was additional accumulated impairment of £75m (2018: £96m).

Lease liabilities of £1,397m (2018: £1,413m) were recognised and split between current and non-current on the face of the consolidated statement of financial position.

Deferred tax liabilities decreased by £69m (2018: £63m) in relation to the tax relief available for the transition adjustment that will be realised over the remaining life of the leases.

Provisions reduced by £257m (2018: £200m) as onerous lease provisions are derecognised on application of IFRS 16.

The net impact of all of the adjustments in the table above has decreased retained earnings and other reserves by £306m (2018: £295m).

10 Other continued

10.3 Changes in accounting policies continued

Impact on the consolidated cash flow statement

The net cash movement has not changed following the adoption of IFRS 16. However, the presentation in the consolidated cash flow statement has changed, with lease payments, which were previously recognised within cash flows from operating activities, being split between the interest element (which remains within cash flows from operating activities) and the capital element (now disclosed within cash flows from financing activities). This is detailed below:

	2019 £m
Cash flows from operating activities	
Cash generated from operations	**135**
Interest paid	**(66)**
Net cash inflow from operating activities	**69**
Cash flows from financing activities	
Repayment of lease obligations	**(69)**
Net cash outflow from financing activities	**(69)**
Net movement in cash and cash equivalents	**–**

During the 52 weeks ended 3 February 2019, the following lines in the consolidated cash flow statement were principally impacted by IFRS 16:

- cash generated from operations – increased by £135m as straight line rent payments are no longer recognised;
- interest paid – £66m of interest payments were recognised relating to the finance element of lease payments;
- repayment of lease obligations – £69m of payments were recognised relating to the capital element of lease payments; and
- there was no net impact of these adjustments on cash flow in the period.

Wm Morrison Supermarkets PLC
Company statement of financial position

As at 2 February 2020

	Note	2020 £m	2019 restated[1] £m
Fixed assets			
Intangible assets	11.6	**361**	384
Property, plant and equipment	11.7	**2,258**	2,219
Right-of-use assets	11.8	**1,093**	1,136
Investment property	11.9	**18**	19
Investments	11.10	**6**	6
Investment in joint venture	11.11	**39**	67
		3,775	3,831
Current assets			
Inventories		**409**	447
Debtors due within one year	11.12	**5,757**	5,744
Debtors due after more than one year	11.13	**8**	8
Pension asset due after more than one year	11.20	**364**	284
Derivative financial assets due within one year	11.17	**1**	19
Derivative financial assets due after more than one year	11.17	**–**	15
Cash and cash equivalents		**218**	169
		6,757	6,686
Creditors – amounts falling due within one year	11.14	**(4,050)**	(3,691)
Lease liabilities due within one year	11.16	**(120)**	(106)
Derivative financial liabilities due within one year	11.17	**(36)**	(5)
		(4,206)	(3,802)
Net current assets		**2,551**	2,884
Total assets less current liabilities		**6,326**	6,715
Creditors – amounts falling due after more than one year	11.15	**(1,108)**	(1,110)
Lease liabilities due after more than one year	11.16	**(1,363)**	(1,452)
Derivative financial liabilities due after more than one year	11.17	**(7)**	(2)
Pension liabilities due after more than one year	11.20	**(16)**	(42)
Deferred tax liabilities	11.18	**(118)**	(86)
Provisions for liabilities	11.19	**(58)**	(79)
		(2,670)	(2,771)
Net assets		**3,656**	3,944
Shareholders' equity			
Share capital	11.21	**240**	237
Share premium	11.21	**192**	178
Capital redemption reserve	11.22	**39**	39
Merger reserve	11.22	**940**	1,202
Retained earnings and other reserves[2]	11.22	**2,245**	2,288
Total shareholders' funds		**3,656**	3,944

1 For further details on the restatement of the reported results for the 52 weeks ended 3 February 2019 from adopting IFRS 16 'Leases', see note 11.25.
2 Included within Retained earnings and other reserves is loss after tax of £33m (2019: £156m). After adjusting for exceptionals, profit before exceptionals after tax is £66m (2019: £4m).

The accounting policies on pages 129 to 131 and the notes on pages 132 to 146 form part of these financial statements.

The financial statements on pages 127 to 146 were approved by the Board of Directors and authorised for issue on 17 March 2020. They were signed on its behalf by:

Michael Gleeson, Chief Financial Officer

Wm Morrison Supermarkets PLC
Company statement of changes in equity

52 weeks ended 2 February 2020

	Note	Share capital £m	Share premium £m	Capital redemption reserve £m	Merger reserve £m	Hedging reserve £m	Retained earnings £m	Total shareholders' funds £m
		Attributable to the owners of the Company						
Current period								
At 4 February 2019 (reported)		**237**	**178**	**39**	**1,202**	**10**	**2,569**	**4,235**
Adjustment on the adoption of IFRS 16	11.25	**–**	**–**	**–**	**–**	**–**	**(291)**	**(291)**
At 4 February 2019 (restated[1])		**237**	**178**	**39**	**1,202**	**10**	**2,278**	**3,944**
Loss for the period		**–**	**–**	**–**	**–**	**–**	**(33)**	**(33)**
Other comprehensive (expense)/income:								
Cash flow hedging movement		**–**	**–**	**–**	**–**	**(57)**	**–**	**(57)**
Remeasurement of defined benefit schemes	11.20	**–**	**–**	**–**	**–**	**–**	**100**	**100**
Tax in relation to components of other comprehensive income	11.18	**–**	**–**	**–**	**–**	**10**	**(17)**	**(7)**
Total comprehensive (expense)/income for the period		**–**	**–**	**–**	**–**	**(47)**	**50**	**3**
Purchase of trust shares	6.6	**–**	**–**	**–**	**–**	**–**	**(10)**	**(10)**
Employee share option schemes:								
Share-based payments charge	11.5	**–**	**–**	**–**	**–**	**–**	**11**	**11**
Settlement of share awards	6.6	**–**	**–**	**–**	**–**	**–**	**(2)**	**(2)**
Share options exercised	6.6	**3**	**14**	**–**	**–**	**–**	**(3)**	**14**
Tax in relation to components of equity	11.18	**–**	**–**	**–**	**–**	**–**	**(2)**	**(2)**
Dividends	1.8	**–**	**–**	**–**	**–**	**–**	**(302)**	**(302)**
Realisation of merger reserve	11.22	**–**	**–**	**–**	**(262)**	**–**	**262**	**–**
Total transactions with owners		**3**	**14**	**–**	**(262)**	**–**	**(46)**	**(291)**
At 2 February 2020		**240**	**192**	**39**	**940**	**(37)**	**2,282**	**3,656**

	Note	Share capital £m	Share premium £m	Capital redemption reserve £m	Merger reserve £m	Hedging reserve £m	Retained earnings £m	Total shareholders' funds £m
		Attributable to the owners of the Company						
Prior period								
At 5 February 2018 (reported)		236	159	39	1,604	2	2,568	4,608
Adjustment on the adoption of IFRS 16	11.25	–	–	–	–	–	(290)	(290)
At 5 February 2018 (restated[1])		236	159	39	1,604	2	2,278	4,318
Loss for the period (restated[1])		–	–	–	–	–	(156)	(156)
Other comprehensive income/(expense):								
Cash flow hedging movement		–	–	–	–	9	–	9
Remeasurement of defined benefit schemes	11.20	–	–	–	–	–	49	49
Tax in relation to components of other comprehensive income	11.18	–	–	–	–	(1)	(8)	(9)
Total comprehensive income/(expense) for the period		–	–	–	–	8	(115)	(107)
Purchase of trust shares	6.6	–	–	–	–	–	(9)	(9)
Employee share option schemes:								
Share-based payments charge	11.5	–	–	–	–	–	16	16
Settlement of share awards	6.6	–	–	–	–	–	(5)	(5)
Share options exercised	6.6	1	19	–	–	–	–	20
Dividends	1.8	–	–	–	–	–	(289)	(289)
Realisation of merger reserve	11.22	–	–	–	(402)	–	402	–
Total transactions with owners		1	19	–	(402)	–	115	(267)
At 3 February 2019		237	178	39	1,202	10	2,278	3,944

1 For further details on the restatement of the reported results for the 52 weeks ended 3 February 2019 from adopting IFRS 16 'Leases', see note 11.25.

The accounting policies on pages 129 to 131 and the notes on pages 132 to 146 form part of these financial statements.

Wm Morrison Supermarkets PLC Company accounting policies

52 weeks ended 2 February 2020

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 2 February 2020 (2019: 52 weeks ended 3 February 2019). 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) IFRS 16 'Leases':
   - (i) paragraph 52 (single lease disclosure note);
   - (ii) paragraph 58 (maturity analyses); and
   - (iii) the second sentence of paragraph 89, paragraphs 90-91, 93 (lessor disclosures);

e) 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';

f) The following paragraphs of IAS 1 'Presentation of financial statements':
   - (i) 10(d) (statement of cash flows);
   - (ii) 40(a) (third balance sheet on restatement);
   - (iii) 111 (cash flow statement information); and
   - (iv) 134-136 (capital management disclosures);

g) IAS 7 'Statement of cash flows';

h) IAS 8 'Accounting policies, changes in accounting estimates and errors' (paragraphs 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;

i) 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.

11 Company financial statements continued

11.2 Basis of preparation continued

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 82 in the Group financial statements.

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 2 February 2020:

- IFRS 16 'Leases';
- IFRIC 23 'Uncertainty over income tax treatments';

Amendments to the following standards:

- IAS 19 'Employee Benefits';
- IAS 28 'Investments in Associates';
- IFRS 9 'Financial Instruments'; and
- Improvements to IFRSs (2015-2017).

The Company has considered the above new standards, and amendments to published standards and has concluded that only IFRS 16, IFRIC 23, and the amendment to IAS 19 are relevant to the Company. Only IFRS 16 has a material impact on the Company's financial statements.

Although IFRIC 23, and the amendment to IAS 19 are relevant to the Company for the 52 weeks ended 2 February 2020, the Directors have concluded that these 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 82 and 83 in the consolidated financial statements.

The transition to IFRS 16 for the Company took place on 4 February 2019 and the Company has adopted the fully retrospective transition approach. In accordance with this transition method, the Company has applied IFRS 16 at the date of initial application as if it had been effective at the commencement date of the existing lease contracts. Accordingly, the comparative information in these financial statements has been restated, unless otherwise stated. The nature and effect of these changes are disclosed in note 11.25. On transition the Company elected to use the practical expedient allowing the standard to be applied only to contracts that were previously identified as leases when applying IAS 17 and IFRIC 4 'Determining whether an Arrangement contains a Lease' at the date of initial application.

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) Right-of-use assets (3.1);
i) Investment property (3.1);
j) Impairment of non-financial assets (3.1);
k) Lease – Group is the lessor (3.1);
l) Inventories (5.1);
m) Trade and other receivables (5.1);
n) Cash and cash equivalents (5.1);
o) Trade and other payables (5.1);
p) Provisions (5.1);
q) Borrowings and borrowing costs (6.1);
r) Lease liabilities (6.1);
s) Share capital (6.1);
t) Derivative financial instruments and hedge accounting (7.1);
u) Pensions (8.1); and
v) 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 11.24). 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.

11 Company financial statements continued

11.4 Profit and loss account

The loss after tax for the Company for the 52 weeks ended 2 February 2020 was £33m (2019: £156m adjusted for IFRS 16). After adjusting for exceptional items, profit before exceptionals after tax is £66m (2019: £4m adjusted for IFRS 16). The profit before exceptionals after tax in the 52 weeks ended 2 February 2020 includes dividends received from subsidiary undertakings of £23m (2019: £nil).

	2020 £m	2019 £m
Employee benefit expense for the Company during the period		
Wages and salaries	**866**	863
Social security costs	**72**	70
Other pensions costs	**51**	50
Share-based payments	**11**	16
	1,000	999

The average monthly number of people, including Directors, employed by the Company is 50,527 (2019: 52,078).

The Company's auditor, PricewaterhouseCoopers LLP charged £0.6m (2019: £0.5m) for audit services in the year and £0.1m (2019: £0.1m) 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 £11m (2019: £16m).

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 4 February 2019	726	**726**
Additions	80	**80**
Interest capitalised	2	**2**
Disposals	(32)	**(32)**
Fully written down assets	(57)	**(57)**
At 2 February 2020	719	**719**
Accumulated amortisation and impairment		
At 4 February 2019	342	**342**
Amortisation charge for the period	89	**89**
Impairment	15	**15**
Disposals	(31)	**(31)**
Fully written down assets	(57)	**(57)**
At 2 February 2020	358	**358**
Net book amount at 2 February 2020	361	**361**

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 £73m (2019: £30m). The net book amount of licences at 2 February 2020 totals £13m (2019: £14m).

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 Company's annual impairment review, an impairment charge of £15m (2019: £11m) 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 (2019: £42m). Interest is capitalised at the effective interest rate of 5% (2019: 5%) incurred on borrowings.

11.7 Property, plant and equipment

	Freehold land £m	Freehold buildings £m	Leasehold property improvements £m	Plant, equipment, fixtures and vehicles £m	**Total £m**
Cost					
At 4 February 2019 (restated[1])	873	1,543	513	859	**3,788**
Additions	1	21	15	137	**174**
Transfers from right-of-use assets	–	–	–	24	**24**
Disposals	(5)	–	(7)	(22)	**(34)**
Fully written down assets	–	(7)	(1)	(51)	**(59)**
At 2 February 2020	869	1,557	520	947	**3,893**
Accumulated depreciation and impairment					
At 4 February 2019 (restated[1])	151	714	288	416	**1,569**
Depreciation charge for the period	–	38	12	98	**148**
Impairment	7	8	3	14	**32**
Impairment reversal	(16)	(10)	(10)	(3)	**(39)**
Transfers from right-of-use assets	–	–	–	14	**14**
Disposals	(1)	–	(7)	(22)	**(30)**
Fully written down assets	–	(7)	(1)	(51)	**(59)**
At 2 February 2020	141	743	285	466	**1,635**
Net book amount at 2 February 2020	728	814	235	481	**2,258**

1 For further details on the restatement of the reported results for the 52 weeks ended 3 February 2019 from adopting IFRS 16 'Leases', see note 11.25.

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 £869m (2019: £873m) relating to non-depreciable land and £17m (2019: £3m) of assets under construction.

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 £71m (2019: £73m). Interest is capitalised at the effective interest rate of 5% (2019: 5%) incurred on borrowings.

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 £7m (£39m impairment reversal offset by £32m impairment charge) during the year in respect of property, plant and equipment (2019: net £6m impairment reversal; £54m impairment reversal offset by £48m impairment charge). This movement reflects fluctuations from store level trading performance and local market conditions.

At 2 February 2020, the assumptions to which the value in use calculation is most sensitive to are the discount and growth rates. The Company has estimated a change of +/- 1% in either would result in a change in impairment of c.£30m.

11 Company financial statements continued

11.8 Right-of-use assets

	Leasehold land and buildings £m	Leased plant, equipment, fixtures and vehicles £m	Total £m
Cost			
At 4 February 2019 (restated[1])	1,985	206	**2,191**
Additions	27	36	**63**
Transfer from investment property	14	–	**14**
Transfer to property, plant and equipment	–	(24)	**(24)**
Disposals	–	(5)	**(5)**
Fully written down assets	(6)	(30)	**(36)**
At 2 February 2020	2,020	183	**2,203**
Accumulated depreciation and impairment			
At 4 February 2019 (restated[1])	941	114	**1,055**
Depreciation charge for the period	66	34	**100**
Impairment	15	–	**15**
Impairment reversal	(19)	–	**(19)**
Transfer from investment property	14	–	**14**
Transfer to property, plant and equipment	–	(14)	**(14)**
Disposals	–	(5)	**(5)**
Fully written down assets	(6)	(30)	**(36)**
At 2 February 2020	1,011	99	**1,110**
Net book amount at 2 February 2020	1,009	84	**1,093**

1 For further details on the restatement of the reported results for the 52 weeks ended 3 February 2019 from adopting IFRS 16 'Leases', see note 11.25.

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

Impairment

Having applied the methodology and assumptions set out in section 11.7, the Company has recognised a net impairment reversal of £4m (£19m impairment reversal offset by £15m impairment charge) during the year in respect of right-of-use assets (2019: net £31m impairment; £68m impairment charge offset by £37m reversal of impairment). This movement reflects fluctuations from store level trading performance and local market conditions.

At 2 February 2020, the assumptions to which the value in use calculation is most sensitive to are the discount and growth rates. The Company has estimated a change of +/- 1% in either would result in a change in impairment of c.£15m.

11 Company financial statements continued

11.9 Investment property

	Freehold £m	Leasehold £m	Total £m
Cost			
At 4 February 2019 (restated[1])	24	97	**121**
Additions	–	3	**3**
Transfers to right-of-use assets	–	(14)	**(14)**
Disposals	(2)	(2)	**(4)**
At 2 February 2020	22	84	**106**
Accumulated depreciation and impairment			
At 4 February 2019 (restated[1])	10	92	**102**
Impairment	4	3	**7**
Reversal of impairment	(1)	(3)	**(4)**
Transfers to right-of-use assets	–	(14)	**(14)**
Disposals	(1)	(2)	**(3)**
At 2 February 2020	12	76	**88**
Net book amount at end of period	10	8	**18**

1 For further details on the restatement of the reported results for the 52 weeks ended 3 February 2019 from adopting IFRS 16 'Leases', see note 11.25.

Included in other operating income is £8m (2019: £6m) of rental income generated from investment properties. At the end of the period the fair value of investment properties was £17m (2019: £18m). Investment properties are valued by independent surveyors on a vacant possession basis using observable inputs (fair value hierarchy level 2).

11.10 Investments

	2020 £m	2019 £m
Net book amount		
At start of period	**6**	–
Additions	**–**	6
At end of period	**6**	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.

In addition to the investment detailed above, the Company continues to hold investments in other related undertakings, which in aggregate are less than £1m as at 2 February 2020. 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 reporting date is shown on page 147.

11.11 Investment in joint venture

The Company's interest in joint venture comprises its interest in MHE JVCo Limited, which is jointly owned and controlled with a third party, Ocado Operating Limited. The carrying value of the Company's investment in the joint venture at 2 February 2020 is £39m (2019: £67m). The Company has assessed this investment for impairment as at the reporting date and accordingly recognised a £28m impairment (2019: £nil) in respect of its investment. This impairment has arisen as a result of an evolution in the operation of the joint venture. The Directors believe that the carrying value of these investments is supported by their underlying net assets.

11 Company financial statements continued

11.12 Debtors – amounts falling due within one year

	2020 £m	2019 restated[1] £m
Trade debtors	**181**	174
Amounts owed by Group undertakings	**5,333**	5,341
Current tax asset	**140**	135
Prepayments and accrued income	**103**	94
	5,757	5,744

1 For further details on the restatement of the reported results for the 52 weeks ended 3 February 2019 from adopting IFRS 16 'Leases', see note 11.25.

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 2 February 2020 (2019: £nil).

11.13 Debtors – amounts falling due after more than one year

	2020 £m	2019 restated[1] £m
Finance leases – Company is lessor	**8**	8

1 For further details on the restatement of the reported results for the 52 weeks ended 3 February 2019 from adopting IFRS 16 'Leases', see note 11.25.

The Company is the lessor on a diverse portfolio of leases for property – for example retail units located by stores. Most property leases contain rent review terms that require rents to be adjusted upwards on a periodic basis. The increases are normally either to market rent or to follow capped increases in inflation measurement.

Finance leases

The table below summarises the maturity profile of undiscounted finance lease payments due to the Company.

	2020 £m	2019 restated[1] £m
Less than one year	**1**	1
After one year but not more than five years	**4**	4
More than five years	**7**	8
Total undiscounted lease payments receivable	**12**	13
Unearned finance income	**(4)**	(5)
Net investment in the lease	**8**	8

1 For further details on the restatement of the reported results for the 52 weeks ended 3 February 2019 from adopting IFRS 16 'Leases', see note 11.25.

Finance lease income of £1m (2019: £1m) has been recognised in the 52 weeks ended 2 February 2020.

Operating leases

The table below summarises the maturity profile of undiscounted operating lease payments due to the Company.

	2020 £m	2019 restated[1] £m
Less than one year	**5**	5
One to two years	**4**	4
Two to three years	**3**	4
Three to four years	**3**	3
Four to five years	**2**	3
More than five years	**8**	10
Total undiscounted lease payments receivable	**25**	29

1 For further details on the restatement of the reported results for the 52 weeks ended 3 February 2019 from adopting IFRS 16 'Leases', see note 11.25.

Operating lease income of £8m (2019: £6m) has been recognised in the 52 weeks ended 2 February 2020. This includes £nil (2019: £nil) relating to variable lease payments that do not depend on an index or rate.

11 Company financial statements continued

11.14 Creditors – amounts falling due within one year

	2020 £m	2019 restated[1] £m
Trade creditors	2,264	2,220
€282m euro bond 2.25% June 2020	237	–
Other short-term borrowings	–	178
Amounts owed to Group undertakings	1,025	779
Other taxation and social security	125	94
Other creditors	54	85
Accruals and deferred income	345	335
	4,050	3,691

1 For further details on the restatement of the reported results for the 52 weeks ended 3 February 2019 from adopting IFRS 16 'Leases', see note 11.25.

Amounts owed to Group undertakings within one year are unsecured and repayable on demand.

11.15 Creditors – amounts falling due after more than one year

	2020 £m	2019 restated[1] £m
€282m euro bond 2.25% June 2020	–	247
£250m sterling bonds 4.625% December 2023	249	249
£250m sterling bonds 3.50% July 2026	269	272
£250m sterling bonds 4.75% July 2029	245	245
£350m sterling bonds 2.5% October 2031	347	–
Revolving credit facility	(2)	97
	1,108	1,110

1 For further details on the restatement of the reported results for the 52 weeks ended 3 February 2019 from adopting IFRS 16 'Leases', see note 11.25.

As at 2 February 2020, there are £978m (2019: £587m) of contractual, undiscounted creditor payments (including interest) falling due after more than five years. If lease liabilities are included on a consistent basis, the amounts falling due after more than five years are £2,469m (2019: £2,218m).

On 24 September 2019 the Company issued a £350m sterling bond at a fixed interest rate of 2.5% expiring October 2031. This is part of the Company's £3bn Euro Medium Term Note Programme.

In addition to the bonds detailed in the table above, the Company has the following borrowing facilities:

The Company has a syndicated committed revolving credit facility of £1.35bn. During the 52 weeks ended 2 February 2020, the Company extended this facility by a further year, resetting its five year term and resulting in a maturity date of June 2024. The revolving credit facility incurs commitment fees and interest charges at a spread above LIBOR. The Company had £1.35bn of undrawn committed headroom available on this facility as at 2 February 2020. In addition, the Company has a £100m 364 day committed revolving credit facility which matures in July 2020. The facilities were undrawn as at 2 February 2020.

In the prior period, the Company entered into an additional £250m revolving credit facility to provide flexibility on refinancing the €282m euro bond when it matures in June 2020. As a result of this bond having been refinanced during the year through the issuance of the £350m bond, this facility has subsequently lapsed and is no longer available as at 2 February 2020.

In the event of default of covenants the principal amounts of borrowings and any interest accrued become 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 Company financial statements continued

11.16 Lease liabilities

	2020 £m	2019 restated[1] £m
Current lease liabilities	**120**	106
Non-current lease liabilities	**1,363**	1,452
	1,483	1,558

1 For further details on the restatement of the reported results for the 52 weeks ended 3 February 2019 from adopting IFRS 16 'Leases', see note 11.25.

The Company is the lessee on a diverse portfolio of leases for property and equipment, with the vast majority of lease liabilities relating to property (see notes 11.8 and 11.9). Certain property leases contain rent review terms that require rents to be adjusted on a periodic basis which may be subject to market rent or capped increases in inflation measurements. In addition, certain property leases contain break clauses that would allow the Company to exit leases early.

	2020 £m	2019 restated[1] £m
Total cash outflow for lessee leases	**196**	202
Interest expense on lease liabilities	**63**	66
Expense for short-term leases longer than one month	**5**	6
Expense for leases of low-value assets, excluding short-term	**2**	2
Expense of variable lease payments	**–**	1

1 For further details on the restatement of the reported results for the 52 weeks ended 3 February 2019 from adopting IFRS 16 'Leases', see note 11.25.

11.17 Derivative financial assets and liabilities

	2020 Fair Value £m	2020 Notional Value £m	2019 Fair Value £m	2019 Notional Value £m
Assets due within one year				
Foreign exchange forward contracts	**–**	**32**	3	112
Fuel and energy price contracts	**1**	**1**	16	55
	1	**33**	19	167
Assets due after more than one year				
Cross-currency interest rate swaps	**–**	**–**	9	240
Fuel and energy price contracts	**–**	**–**	6	38
	–	**–**	15	278
Liabilities due within one year				
Cross-currency interest rate swaps	**4**	**240**	–	–
Foreign exchange forward contracts	**17**	**411**	4	262
Fuel and energy price contracts	**15**	**53**	1	3
	36	**704**	5	265
Liabilities due after more than one year				
Fuel and energy price contracts	**7**	**35**	2	18
	7	**35**	2	18

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 Company financial statements continued

11.18 Deferred tax liabilities

	2020 £m	2019 restated[1] £m
Deferred tax liability	**192**	166
Deferred tax asset	**(74)**	(80)
Net deferred tax liability	**118**	86

1 For further details on the restatement of the reported results for the 52 weeks ended 3 February 2019 from adopting IFRS 16 'Leases', see note 11.25.

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 4 February 2019	125	41	(80)	**86**
Charged to profit for the period	8	1	14	**23**
Charged/(credited) to other comprehensive income and equity	–	17	(8)	**9**
At 2 February 2020	133	59	(74)	**118**
Prior period (restated[1])				
At 5 February 2018	124	36	(75)	**85**
Charged/(credited) to profit for the period	1	(3)	(6)	**(8)**
Charged to other comprehensive income and equity	–	8	1	**9**
At 3 February 2019	125	41	(80)	**86**

1 For further details on the restatement of the reported results for the 52 weeks ended 3 February 2019 from adopting IFRS 16 'Leases', see note 11.25.

11.19 Provision for liabilities

	Onerous contracts £m	Other property provisions £m	Total £m
At 4 February 2019 (restated[1])	66	13	**79**
Charged to profit for the period	16	4	**20**
Utilised during the period	(27)	(2)	**(29)**
Released during the period	(14)	–	**(14)**
Unwinding of discount	2	–	**2**
At 2 February 2020	43	15	**58**

1 For further details on the restatement of the reported results for the 52 weeks ended 3 February 2019 from adopting IFRS 16 'Leases', see note 11.25.

Included with the above balance at 2 February 2020 is £11m (2019: £29m) relating to a balance due within one year. The provision is revised regularly in response to market conditions. During the period, a net £2m charge (£16m charge offset by a £14m release) has been recognised to onerous contracts provisions due to changes in circumstances or performance relating to certain contracts.

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 Company financial statements continued

11.20 Pensions

11.20.1 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 is not open to new members and was closed to future accrual in September 2018.

The position of each scheme at the reporting date is as follows:

	2020 £m	2019 £m
CARE Scheme	**364**	284
RSP	**(16)**	(42)
Net pension asset	**348**	242

Statement of financial position:	2020 CARE £m	2020 RSP £m	2019 CARE £m	2019 RSP £m
Fair value of scheme assets	**1,468**	**389**	1,261	349
Present value of obligations	**(1,104)**	**(405)**	(977)	(391)
Net pension asset/(liability)	**364**	**(16)**	284	(42)

Income statement	2020 CARE £m	2020 RSP £m	2019 CARE £m	2019 RSP £m
Current service cost – recognised in cost of sales	**–**	**–**	–	35
Current service cost – recognised in administrative expenses	**–**	**–**	–	18
Past service cost (guaranteed minimum pension)	**–**	**–**	2	–
Administrative costs paid by Schemes – recognised in administrative expenses	**1**	**1**	1	1
Curtailment loss from closure of the pension scheme	**–**	**–**	–	19
Net interest on net pension (asset)/liability – finance (income)/expense	**(8)**	**1**	(6)	–
Total expense (credited)/charged to income statement	**(7)**	**2**	(3)	73
Statement of other comprehensive income:				
Remeasurements in other comprehensive income – credit	**(73)**	**(27)**	(49)	–

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 losses in the 52 weeks ended 3 February 2019 include £19m as a result of the closure of the RSP to future accrual in September 2018.

The Company recognised a past service cost of £2m in the 52 weeks ended 3 February 2019 in relation to the estimated cost of the equalisation of guaranteed minimum retirement benefits for men and women, following a ruling by the High Court in October 2018.

11 Company financial statements continued

11.20 Pensions continued

11.20.2 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), income assets (comprising credit investments and corporate bonds) and protection assets (comprising a liability driven instruments (LDI) 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:

	2020 CARE £m	2020 RSP £m	2019 CARE £m	2019 RSP £m
Equities (quoted)	**212**	**158**	187	135
Corporate bonds (quoted)	**119**	**–**	103	–
Diversified growth funds (quoted)	**–**	**40**	120	76
Credit funds (unquoted)	**178**	**–**	163	–
Liability driven investments (unquoted)	**924**	**190**	657	137
Scottish Limited Partnership (unquoted)	**26**	**–**	26	–
Cash (quoted)	**9**	**1**	5	1
	1,468	**389**	1,261	349

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:

	2020 CARE £m	2020 RSP £m	2019 CARE £m	2019 RSP £m
Fair value of scheme assets at start of period	**1,261**	**349**	1,249	315
Interest income	**35**	**9**	33	9
Return on scheme assets excluding interest	**204**	**70**	7	(6)
Employer contributions	**–**	**1**	2	49
Employee contributions	**–**	**–**	–	3
Benefits paid	**(31)**	**(39)**	(29)	(20)
Administrative expenses	**(1)**	**(1)**	(1)	(1)
Fair value of scheme assets at end of period	**1,468**	**389**	1,261	349

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

11.20 Pensions continued

11.20.3 Present value of obligations

The movement in the defined benefit obligation over the period was as follows:

	2020 CARE £m	2020 RSP £m	2019 CARE £m	2019 RSP £m
Defined benefit obligation at start of period	**(977)**	**(391)**	(1,019)	(333)
Current service cost	**–**	**–**	–	(53)
Past service cost (guaranteed minimum pension)	**–**	**–**	(2)	–
Interest expense	**(27)**	**(10)**	(27)	(9)
Actuarial gain – demographic assumptions	**27**	**–**	31	–
Actuarial (loss)/gain – financial assumptions	**(162)**	**(58)**	11	3
Actuarial gain – experience	**4**	**15**	–	3
Curtailment loss from closure of the pension scheme	**–**	**–**	–	(19)
Employee contributions	**–**	**–**	–	(3)
Benefits paid	**31**	**39**	29	20
Defined benefit obligation at end of period	**(1,104)**	**(405)**	(977)	(391)

The durations of the defined benefit obligations at the end of the 2020 reporting period are: RSP 20 years; CARE 23 years. The weighted average duration of the Schemes is 22 years.

11.20.4 Significant actuarial assumptions

The following are the principal actuarial assumptions at the reporting date (expressed as weighted averages):

Financial assumptions	2020 CARE	2020 RSP	2019 CARE	2019 RSP
Discount rate applied to scheme liabilities (% p.a.)	**1.9%**	**1.8%**	2.8%	2.7%
Inflation assumption (RPI) (% p.a.)	**2.9%**	**2.9%**	3.2%	3.2%

Life expectancies	2020 CARE	2020 RSP	2019 CARE	2019 RSP
Longevity in years from age 65 for current pensioners				
Male	**20.9**	**n/a**	21.4	n/a
Female	**22.3**	**n/a**	22.8	n/a
Longevity in years from age 65 for current members aged 45				
Male	**22.6**	**n/a**	23.2	n/a
Female	**24.2**	**n/a**	24.7	n/a

For deriving discount rates, the Group estimates these rates with reference to high quality corporate bonds. 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. The Company believes that this approach appropriately reflects expected yields on high quality corporate bonds over the duration of the Company's pension schemes, as required by IAS 19.

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 2 February 2020 are the S2PMA/S2PFA-Heavy mortality tables (males/females) based on year of birth with a scaling factor of 110% applied to the mortality rates, with CMI 2018 core projections and a long-term rate of improvement of 1.5% p.a. For the 52 weeks ended 3 February 2019, the Company used the S2PMA/S2PFA-Heavy mortality tables (males/females) based on year of birth with a scaling factor of 110% applied to the mortality rates, with CMI 2017 projections and a long-term rate of improvement of 1.5% p.a.

11 Company financial statements continued

11.20 Pensions continued

11.20.4 Significant actuarial assumptions continued

Related actuarial assumptions (expressed as weighted averages)

	2020 CARE	2020 RSP	2019 CARE	2019 RSP
Rate of increase of pensions in payment: RPI inflation capped at either 2.5% p.a. or 5% p.a. (% p.a.)	**2.0%/2.8%**	**–**	2.1%/3.1%	–
Rate of increase of pensions in deferment: CPI inflation capped at either 2.5% p.a. or 5% p.a. (% p.a.)	**–/2.0%**	**2.0%/–**	–/2.1%	2.1%/–
CPI inflation (% p.a.)	**2.0%**	**2.0%**	2.1%	2.1%

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.

		2020 CARE	2020 RSP	2019 CARE	2019 RSP
Discount rate applied to Scheme obligations	+/-0.1% p.a.	**+/-25**	**+/-8**	-/+25	-/+7
Inflation assumption (RPI and associated assumptions)	+/-0.1% p.a.	**+/-20**	**+/-7**	+/-20	+/-7
Longevity	+one year	**+40**	**n/a**	+50	n/a

11.20.5 Funding

The CARE Scheme is entirely funded by the Company. The Company along with other subsidiaries of the Group participated in the RSP. 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 is currently 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 2019 for the CARE Scheme and the RSP. The valuations indicated that, on the agreed funding basis, the CARE and RSP Schemes had surpluses of £157m and £7m 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 2019 actuarial valuations for the CARE Scheme have been used and updated for IAS 19 'Employee benefits' purposes for the period to 2 February 2020 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 2 February 2020, schemes in surplus have been disclosed within the assets in the Statement of financial position. 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 materially affected by the 2015 exposure draft of the 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 2 February 2020 is £3m (2019: £3m). This estimate includes amounts payable from the SLP.

11 Company financial statements continued

11.20 Pensions continued

11.20.6 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. 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 2 February 2020, the Company paid contributions of £50m to the MPRS (2019: £21m), and expects to contribute £50m for the following period (2019: £52m).

11.21 Share capital

	Number of shares millions	Share capital £m	Share premium £m	**Total £m**
At 4 February 2019	2,368.3	237	178	**415**
Share options exercised	36.7	3	14	**17**
At 2 February 2020	2,405.0	240	192	**432**

All issued shares are fully paid and have a par value of 10p per share (2019: 10p per share).

For further details on share capital and share premium, see note 6.6.

11.22 Reserves

	2020 £m	2019 restated[1] £m
Capital redemption reserve	**39**	39
Merger reserve	**940**	1,202
Hedging reserve	**(37)**	10
Retained earnings	**2,282**	2,278
Total	**3,224**	3,529

1 For further details on the restatement of the reported results for the 52 weeks ended 3 February 2019 from adopting IFRS 16 'Leases', see note 11.25.

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 the 52 weeks ended 2 February 2020, this intercompany loan balance was partially settled through £262m of qualifying consideration (2019: £402m). As a result, £262m of the merger reserve balance was realised in the period (2019: £402m).

Hedging reserve

This represents the gains and losses arising on derivatives used for cash flow hedging.

11 Company financial statements continued

11.23 Capital commitments

	2020 £m	2019 £m
Contracts placed for future capital expenditure not provided in the financial statements (property, plant and equipment, right-of-use assets and intangible assets)	**31**	32
Contracts placed for future leases not provided in the financial statements	**34**	–

11.24 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 2 February 2020 was £nil (2019: £nil). 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 £30m (2019: £31m).

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 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 appealed to the Supreme Court. The Supreme Court hearing took place in November 2019 and the Company is waiting for the decision. It is the Directors' view that at this stage of the process the Company cannot reliably assess the outcome of the case nor reasonably estimate the quantum of any loss and as such no provision has been recognised in these consolidated financial statements.

11 Company financial statements continued

11.25 Changes in accounting policies

The Company has adopted the fully retrospective approach to transition for IFRS 16 'Leases' and therefore the comparative consolidated statement of financial position as at 3 February 2019 has been restated.

Impact on the consolidated income statement

The adoption of IFRS 16 resulted in changes to the consolidated income statement, as previously recognised rental costs were removed and replaced with a depreciation charge on the right-of-use assets and a finance cost on the lease liabilities.

The impact of IFRS 16 increased the loss after tax for the Company for the 52 weeks ended 3 February 2019 by £1m. After adjusting for exceptionals, the impact on profit before exceptionals after tax was a reduction of £3m.

Impact on the consolidated statement of financial position

Upon adoption of IFRS 16, the Company recognised right-of-use assets (representing the right to use the underlying assets) and lease liabilities for lease payments on the discounted future obligations.

The impact of IFRS 16 as at 3 February 2019 was to change each line as follows:

	2019 £m
Fixed assets	
Property, plant and equipment	(136)
Right-of-use assets	1,136
Investment property	4
	1,004
Current assets	
Debtors	(193)
Other debtors	8
	(185)
Creditors	67
Lease liabilities	(106)
Net current assets	(224)
Total assets less current liabilities	780
Creditors	88
Lease liabilities	(1,452)
Deferred tax liabilities	59
Provisions	234
Net assets	(291)
Shareholders' equity	
Retained earnings and other reserves	(291)
Total shareholders' funds	(291)

As at 3 February 2019, IFRS 16 principally impacted the following lines in the statement of financial position:

Right-of-use assets of £1,136m were recognised and presented separately in the statement of financial position. Included within this balance were assets reclassified from debtors of £192m and property, plant and equipment of £136m.

Investment property right-of-use assets of £4m have been recognised in respect of leasehold investment property.

Lease liabilities of £1,558m were recognised and split between current and non-current on the face of the consolidated statement of financial position. Included within this balance were liabilities reclassified from creditors of £130m.

Deferred tax liabilities decreased by £59m in relation to the tax relief available for the transition adjustment that will be realised over the remaining life of the leases.

Provisions reduced by £234m as onerous lease provisions are derecognised on application of IFRS 16.

The net impact of all of the adjustments in the table above has decreased retained earnings and other reserves by £291m.

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 2 February 2020 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%
Chippindale Foods Limited	United Kingdom	Supplier of eggs	100%
De Mandeville Gate Management Limited	United Kingdom	Property maintenance	51%
Dordon SPV Limited[2]	United Kingdom	Lease company	100%
Farock Insurance Company Limited[3]	Isle of Man	Insurance company	100%
Fisherdale Properties Limited	United Kingdom	Dormant	100%
Flower World Limited	United Kingdom	Dormant	100%
Ipsolus Limited	United Kingdom	Dormant	100%
MHE JVCo Limited[4]	United Kingdom	Joint venture with Ocado	51%
MoClo Limited	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	Dormant	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	Dormant	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	Dormant	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 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	Dormant	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	Dormant	100%
Wm Morrison GP 2 Limited	United Kingdom	General partner in a partnership	100%
Wm Morrison GP 3 Limited	United Kingdom	Dormant	100%
Wm Morrison Growers Limited	United Kingdom	Acquirer of fresh produce	100%
Wm Morrison LP 1 Limited	United Kingdom	Dormant	100%
Wm Morrison LP 2 Limited	United Kingdom	Limited partner in a partnership	100%
Wm Morrison LP 3 Limited	United Kingdom	Dormant	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	Dormant	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, Goldie House, 1-4 Goldie Terrace, Douglas, Isle of Man, IM1 1EB.
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 19/F Millenium City 2, No 378 Kwun Tong Road, Kowloon, 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 1EW.
10 Registered address Suites 41/42 Victoria House, 26 Main Street, Gibraltar.
11 Registered address 1st Floor, 5 Secretary's Lane, Gibraltar GX11 1AA.

Five year summary

52 weeks ended 2 February 2020

Consolidated income statement

	2020 £m	Restated 2019 £m	2018[1,2] £m	2017[2] £m	2016[2] £m
Revenue	**17,536**	17,735	17,262	16,317	16,122
Cost of sales	**(16,907)**	(17,083)	(16,629)	(15,713)	(15,505)
Gross profit	**629**	652	633	604	617
Other operating income	**94**	88	78	76	72
Profit/loss on disposal and exit of properties and sale of business and investments	**66**	–	19	32	97
Administrative expenses	**(268)**	(308)	(272)	(244)	(472)
Operating profit	**521**	432	458	468	314
Finance costs	**(111)**	(153)	(94)	(160)	(112)
Finance income	**24**	23	14	15	13
Share of profit of joint venture (net of tax)	**1**	1	2	2	2
Profit before taxation	**435**	303	380	325	217
Taxation	**(87)**	(70)	(69)	(20)	5
Profit for the period attributable to the owners of the Company	**348**	233	311	305	222
Profit before tax and exceptionals[3]	**408**	396	374	337	242
Profit before exceptionals after tax[3]	**314**	303	285	253	181
Earnings per share (pence):					
Basic	**14.60**	9.89	13.30	13.11	9.51
Diluted	**14.44**	9.67	13.03	12.95	9.47
Basic earnings per share before exceptionals[3]	**13.18**	12.85	12.19	10.86	7.77
Dividend per ordinary share (pence)	**8.77**	12.60	10.09	5.43	5.00

1 Reported on a 53 week basis.
2 Not restated for the impact of IFRS 16 'Leases', these years are presented as reported, under IAS 17.
3 For definitions, see the Glossary on pages 152 to 154.

Five year summary continued

As at 2 February 2020

Consolidated statement of financial position

	2020 £m	Restated 2019 £m	Restated 2018 £m	2017[1] £m	2016[1] £m
Assets					
Goodwill and intangible assets	**381**	404	428	445	483
Property, plant and equipment	**7,147**	7,094	7,027	7,227	7,161
Right-of-use assets	**942**	929	970	–	–
Investment property	**58**	60	69	33	37
Retirement benefit surplus	**960**	730	612	293	186
Investment in joint venture	**39**	47	53	56	63
Investments	**–**	–	–	–	31
Trade and other receivables	**71**	8	8	–	–
Derivative financial assets	**–**	15	16	16	30
Non-current assets	**9,598**	9,287	9,183	8,070	7,991
Current assets	**1,319**	1,340	1,275	1,176	1,316
Assets classified as held-for-sale	**3**	39	4	–	–
Liabilities					
Current liabilities	**(3,396)**	(3,349)	(3,080)	(2,864)	(2,755)
Other financial liabilities	**(1,115)**	(1,112)	(1,246)	(1,555)	(2,058)
Lease liabilities	**(1,304)**	(1,328)	(1,354)	–	–
Deferred tax liabilities	**(472)**	(414)	(415)	(417)	(429)
Retirement benefit deficit	**(16)**	(42)	(18)	(21)	–
Provisions	**(76)**	(96)	(99)	(326)	(309)
Non-current liabilities	**(2,983)**	(2,992)	(3,132)	(2,319)	(2,796)
Net assets	**4,541**	4,325	4,250	4,063	3,756
Shareholders' equity					
Share capital	**240**	237	236	234	234
Share premium	**192**	178	159	128	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	**1,492**	1,293	1,238	1,084	778
Total equity attributable to the owners of the Company	**4,541**	4,325	4,250	4,063	3,756

1 Not restated for the impact of IFRS 16 'Leases'.

Supplementary information

52 weeks ended 2 February 2020

	2020	2019[1]	2018[1]	2017[1]	2016[1]
(Decrease)/increase on previous year %					
Revenue	**(1.12)**	2.74	5.79	1.21	(4.13)
Operating profit before exceptionals	**0.59**	14.61	3.01	27.43	(23.30)
Profit before taxation	**43.56**	(20.26)	16.92	49.77	(127.40)
Profit after taxation	**49.36**	(25.08)	1.97	37.39	(129.17)
Profit before taxation and exceptionals	**3.03**	5.88	10.98	39.26	(29.86)
Diluted earnings per share	**49.33**	(25.79)	0.62	36.74	(129.17)
Ordinary dividend per share	**2.58**	8.37	12.15	8.60	(18.32)
% of revenue					
Operating profit before exceptionals	**2.93**	2.88	2.58	2.65	2.10
Profit before taxation	**2.48**	1.71	2.20	1.99	1.35
Profit after taxation	**1.98**	1.38	1.80	1.87	1.38
Retail portfolio					
Total number of stores	**492**	494	491	491	498
Petrol filling stations	**335**	335	334	334	336
Total sales area (000s square feet)[2]	**14,880**	14,884	14,094	14,094	14,142
Total supermarket takings ex fuel (gross) £m[3]	**13,735**	14,023	14,061	13,591	13,700
Average takings per store per week ex fuel (£000)[3]	**535**	547	540	531	521
Average number of customers per store per week[3]	**23,673**	24,399	24,164	23,532	22,573
Average take per customer (£)[3]	**22.60**	22.52	22.36	22.62	23.44
Employees					
Full time	**37,924**	39,581	40,162	42,054	47,925
Part time	**60,695**	64,049	65,325	70,311	72,988
Total	**98,619**	103,630	105,487	112,365	120,913
Full time equivalent (average)	**71,263**	72,120	73,210	77,300	82,992
Average per FTE employee:					
Revenue (£000s)	**246**	246	236	211	194
Operating profit before exceptionals (£)	**7,199**	6,448	6,078	5,589	4,085
Employee costs (£)	**25,890**	26,345	26,472	24,900	23,424

1 2019 restated for the impact of IFRS 16 'Leases'. 2016-2018 not restated.
2 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.
3 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.

On transition to IFRS 16, the definitions of net debt and return on capital employed (ROCE) changed. Net debt now includes current and non-current lease liabilities. Previously, ROCE took into account the operating lease rentals charge (on land and buildings) as part of the return and a lease adjustment (10 times rent charged) for the capital employed element. Following adoption of IFRS 16 and the recognition of lease liabilities and assets, these adjustments are no longer necessary in the ROCE calculation. Amounts relating to these measures included within this statement have been restated unless detailed otherwise.

<table>
<tr><th>Measures</th><th>Closest equivalent IFRS measure</th><th>Definition and purpose</th><th>Reconciliation for 2019/20 Group measures[1]</th></tr>
<tr><td colspan="4">Profit measures</td></tr>
<tr><td>Like-for-like (LFL) sales growth</td><td>Revenue</td><td>Percentage change in year-on-year sales (excluding VAT), removing the impact of new store openings and closures in the current or previous financial year.

The measure is used widely in the retail industry as an indicator of ongoing sales performance. It is also a key measure for Director and management remuneration. See page 58 in the Directors' remuneration report for more information.</td><td><table><tr><th></th><th>52 weeks ended 2 February 2020 %</th></tr><tr><td>Group LFL (exc. fuel)</td><td>(0.8)%</td></tr><tr><td>Group LFL (inc. fuel)</td><td>(1.1)%</td></tr><tr><td>Net new space (inc. fuel)</td><td>(0.0)%</td></tr><tr><td>Total revenue year-on-year</td><td>(1.1)%</td></tr></table></td></tr>
<tr><td>Total sales growth</td><td>Revenue</td><td>Including fuel:
Percentage change in year-on-year total reported revenue.

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

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

This measure is a key measure for Director and management remuneration. See page 58 in the Directors' remuneration report for more information.</td><td>A reconciliation of total sales including and excluding fuel is provided in note 1.2 of the financial statements.</td></tr>
<tr><td>Profit before tax and exceptionals</td><td>Profit before tax</td><td>Profit before tax and exceptionals is defined as profit before tax, exceptional items and net retirement benefit interest. This excludes exceptional items which are significant in size and/or nature and net retirement benefit 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 58 in the Directors' remuneration report for more information.</td><td>A reconciliation of this measure is provided in note 1.4 of the financial statements.</td></tr>
<tr><td>Profit before exceptionals after tax</td><td>Profit after tax</td><td>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.</td><td>£314m being profit before tax and exceptionals (£408m) less a normalised tax charge (£94m) (see note 1.4 of the financial statements).</td></tr>
<tr><td>Operating profit before exceptionals</td><td>Operating profit[2]</td><td>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.</td><td>£513m being reported operating profit (£521m) less profit/loss on disposal and exit of properties (£66m), and impairment and provisions for onerous contracts (£2m), plus store restructuring and closure costs (£51m) and other exceptional items (£9m).</td></tr>
<tr><td>Net finance costs before exceptionals</td><td>Finance costs</td><td>Reported net finance costs excluding the impact of net retirement benefit 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.</td><td>A reconciliation of this measure is provided in note 6.2 of the financial statements.</td></tr>
</table>

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

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 2019/20 Group measures[1]
Profit measures continued			
Earnings before interest, tax, depreciation and amortisation (EBITDA) before exceptionals	Operating profit[2]	Operating profit before exceptional items including share of profit from joint venture, before depreciation and amortisation. This measure is used by the Directors as it provides key information on ongoing trends and the performance of the Group before capital investment and financing costs.	£1,039m being operating profit before exceptionals (£513m), plus share of profit from joint venture (£1m), plus depreciation (£434m) and amortisation (£91m).
EBITDA margin before exceptionals	No direct equivalent	EBITDA before exceptional items, as a percentage of revenue. This measure is used by the Directors as it provides key information on ongoing trends and the performance of the Group before capital investment and financing costs.	5.9% being EBITDA before exceptional items (£1,039m) divided by revenue (£17,536m).
Interest cover	No direct equivalent	Operating profit before exceptionals divided by net finance costs before exceptionals. This measure is used by the Directors as a measure of the Group's ability to meet its financing costs.	4.8x being operating profit before exceptionals (£513m) divided by net finance costs before exceptionals (£106m).
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 58 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 retirement benefit 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.	£238m being the movement in net debt (£(64)m) before payment of dividend (£302m).
Adjusted free cash flow	No direct equivalent	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 58 in the Directors' remuneration report.
Net debt	No direct equivalent	Net debt is current and non-current: borrowings, lease liabilities and derivative financial assets & liabilities; net of cash and cash equivalents.	A reconciliation of this measure is provided in note 6.5 of the financial statements.
Gearing	No direct equivalent	Net debt as a percentage of net assets. This measure is used by the Directors as a measure of the capital structure of the Group and its ability to maintain its credit ratings and covenants.	54% being net debt (£2,458m) as a percentage of net assets (£4,541m).

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 2019/20 Group measures[1]
Cash flows and net debt measures continued			
Working capital movement	No direct equivalent	Movement in inventories, trade and other receivables, trade and other payables and 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 onerous contract charges, 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.	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 retirement benefit surplus and deficit, less average net debt. This measure is used by the Directors as it is a key ratio in understanding the performance of the Group.	ROCE (7.0%) equals return divided by average capital employed: Return (£420m) = Profit before exceptionals after tax annualised (£314m) adjusted for annualised net finance costs before exceptionals (£106m). Average capital employed (£6,043m) = Average net assets excluding the net retirement benefit surplus (£3,617m) and average net debt (£2,426m).
Onerous payments	No direct equivalent	Payments made to settle onerous contractual commitments, includes amounts paid to exit 'pipeline' sites or sums paid to exit onerous contracts early (e.g. leases).	Onerous capital payments (£41m) plus payment to exit leases (£17m), included within repayment of lease obligations in the consolidated cash flow statement.

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 2020/21

Financial events and dividends	
Quarter 1 trading statement	12 May 2020
Final dividend record date	22 May 2020
Annual General Meeting	11 June 2020
Final dividend payment date	29 June 2020
Half year end	2 Aug 2020
Interim results announcement	10 Sep 2020
Interim dividend record date	25 Sep 2020
Interim dividend payment date	30 Oct 2020
Financial year end	31 Jan 2021

Company Secretary
Jonathan Burke

Company number
00358949

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Telephone: 0845 611 5000
www.morrisons.com

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

Corporate responsibility enquiries
Telephone: 0845 611 5000

Annual General Meeting
The AGM will be held on 11 June 2020 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.

'My Share' Corporate Sponsored Nominee Account
Morrisons and Equiniti Financial Services Limited have set up a Corporate Sponsored Nominee Account called 'My Share'.

By transferring shares into this account shareholders will still enjoy the benefits of owning shares. Shareholders will retain the right to receive dividend payments and the Company will make available financial information and arrange for attendance at and voting on matters put to general meetings of the Company. The benefits of using 'My Share' instead of paper certificates are:

- there are no certificates to lose providing protection against lost certificate fees;
- increased privacy as shareholder details are taken off the register;
- access to competitive dealing rates and faster settlement;
- simplified personal records with regular share statements;
- benefits from the reassurance of regulation by the Financial Conduct Authority (FCA); and
- it's free to join and there are no annual charges, although a fee may apply if shareholders do not hold all their share certificates.

More information is available at www.shareview.co.uk/info/csn/ or by Equiniti directly (see page 156).

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 Equiniti, our 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 2019/20 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 2019/20 Annual Report and our communications with shareholders, 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. To change your communication preferences please contact Equiniti using the details on page 156.

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.

Investor relations and financial calendar continued

Registrars and shareholding enquiries

Administrative enquiries about the holding of Morrisons shares, such as change of address, change of ownership, dividend payments, 'My Share' Corporate Sponsored Nominee Account, 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 am – 17:30 pm, Monday to Friday excluding public holidays in England and Wales.

Web: www.shareview.co.uk

Solicitors

Ashurst LLP
London Fruit & Wool Exchange
1 Duval Square
London E1 6PW

Eversheds Sutherland (international) LLP
1 Wood Street
London EC2V 7WS

DWF LLP
1 Scott Place
2 Hardman Street
Manchester M3 3AA

Allen & Overy LLP
One Bishops Square
London E1 6AD

Independent auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
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 2 February 2020 was 36,349 (2019: 39,090) and the number of shares in issue was 2,404,954,127 (2019: 2,368,256,205).

Analysis by shareholder (type)	Number of holders	% holders	Balances at 2 Feb 20	% capital
Private shareholder	33,440	92.00	90,026,709	3.74
Nominee companies	1,056	2.91	2,132,681,676	88.68
Limited companies	1,774	4.88	152,336,211	6.34
Other institutions	57	0.16	28,113,938	1.17
Bank and bank nominees	8	0.02	1,760,099	0.07
Investment trusts	9	0.02	11,845	0.00
Pension funds	5	0.01	23,649	0.00

Analysis by shareholder (holding)	Number of holders	% holders	Balances at 2 Feb 20	% capital
1–1,000	19,940	54.86	8,203,213	0.34
1,001–10,000	13,874	38.17	42,944,118	1.78
10,001–1,000,000	2,352	6.47	183,417,309	7.63
Over 1,000,000	183	0.50	2,170,389,487	90.25

Information at your fingertips

Customers

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 90% of Great Britain. The geography that we cover is growing all the time, with more areas in Scotland and England 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 750 'Best' products and 4,000 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; and
- read content on healthy eating, reducing food waste and our support for various charitable causes such as CLIC Sargent or the Morrisons Foundation.

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.

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-corporate.com/cr/corporate-responsibility/

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 2019/20 on-screen, viewing only the parts they want to, at www.morrisons-corporate.com/investor-centre/financial-reports/

Presentations

An audio-cast of the Directors delivering the preliminary results for 2019/20 on 18 March 2020 is 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/investor-centre/shareholder-information/shareholder-communication/ and follow the investor eComms link.

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Since 1899

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