We are responding

Wm Morrison Supermarkets PLC
Annual Report and Financial Statements 2020/21

HELPING BRITISH GROWERS

650,000+
doorstep deliveries to the vulnerable

5%
FARMERS' DISCOUNT

10%
TEACHERS' DISCOUNT

SUPPORTING BRITISH FISHERIES

NHS hour
#thankyou

10%
NHS DISCOUNT

WE ARE DONATING
15,000
LUNCHBOXES DAILY OVER THE SCHOOL HOLIDAYS

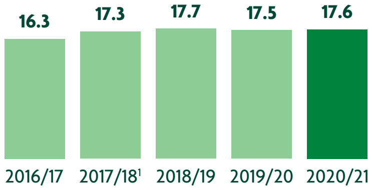
Feeding the nation

We are responding to the global crisis by playing our full part in feeding the nation. Our core purpose remains: 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.

Financial highlights

Group revenue

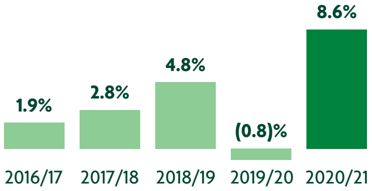
£17.6bn



1 2017/2018 Group revenue on a 53 week basis.

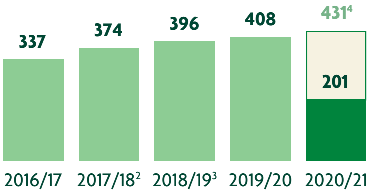
Group like-for-like (LFL) sales (exc. fuel)*

8.6%



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

£201m (50.7)%

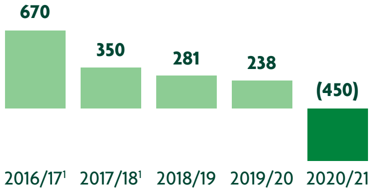


- ● Profit before tax, exceptional and net retirement benefit interest
- ○ Waived business rates relief

1 Referred to as 'profit before tax and exceptionals*'.
2 £369m 52 week equivalent.
3 Restated following the application of IFRS 16.
4 Profit before tax, exceptional item and net retirement benefit interest adjusted for the waiver of rates relief.

Free cash flow* SH

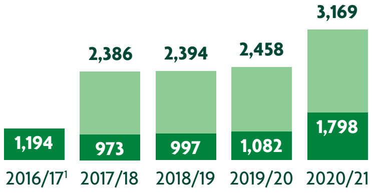
£(450)m



1 Calculated on a pre-IFRS 16 basis.

Net debt* SH

£3,169m

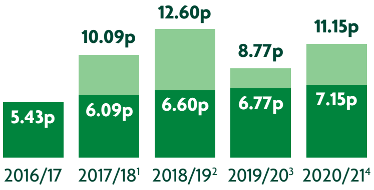


- ● Net debt excluding lease liabilities
- ● Lease liabilities

1 Calculated on a pre-IFRS 16 basis.

Total dividend SH

11.15p



- ● Ordinary
- ● Special

1 Including 4.00p special dividend.
2 Including 6.00p special interim dividend.
3 Including 2.00p special interim dividend.
4 Including 4.00p special dividend paid and declared in 2021.

* Alternative Performance Measures as defined in the Glossary on pages 157 to 159.

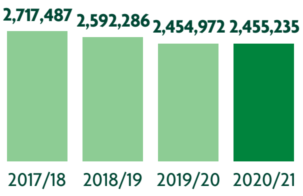
Throughout the Directors' report and Strategic report:
Unless otherwise stated, 2020/21 refers to the 52 week period ended 31 January 2021 and 2019/20 refers to the 52 week period ended 2 February 2020. 2021 and 2020 refer to calendar years.

Delivering against our ambitions

Non-financial highlights

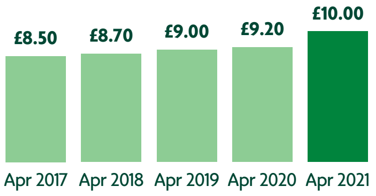
Underlying energy use (MWh) down to E

2,455,235

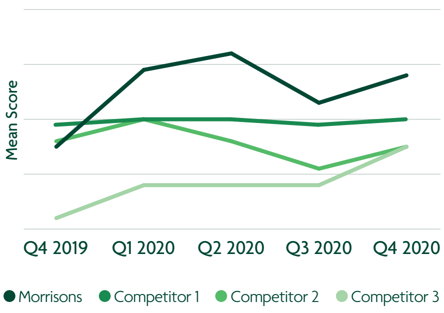


Investment in colleague pay increased to CO

£10.00 per hour



Brand warmth CU



Business highlights

- Proud to be there for stakeholders during the pandemic and to play our full part to help feed the nation
- Recognised by customers as best for brand warmth and net promoter score
- Improved the offer for customers, enabling our strong absolute and relative momentum to be sustained
- Online sales tripled during the year including with Amazon, now available in around 50 towns and cities

Alignment of highlights to our stakeholder ambitions

CU Customers CO Colleagues S Suppliers SH Shareholders E Environment and communities # All

Contents

Strategic report

Governance

Financial statements

Investor information

Sustainability spotlight

Our commitment to corporate responsibility

'Sustain' is a key part of our strategy and underpins everything we do.

Throughout the report, look out for this icon to read examples of how we are meeting our corporate responsibility objectives.

How we are responding to COVID-19

External restrictions	**National lockdown one begins** • Wide ranging restrictions on freedom of movement	**Restrictions on freedom of movement continue**	**Lockdown easing begins** • Go to work if required • Easing of outdoor restrictions
Impacts	Customers stocking up on essentials Colleagues are recognised as key workers All food-to-go counters and cafés close	Trading hours are restricted to allow for restocking Significant growth in online channels 70% decline in fuel sales	'New normal' starts to emerge Counters fully reopen
	Mar	**Apr**	**May**
Group Quarterly LFLs (exc. fuel)	Q1 +5.7%		Q2 +12.3%

Initiatives and actions throughout the year

Guaranteed pay for sick, shielding and affected colleagues and greater flexibility around shifts and annual leave

£500k

Morrisons Foundation fund set up to support the homeless

Immediate payment to around 3,000 small suppliers

Social distancing

measures introduced at all sites including marshal-controlled entry in store and reconfigured customer flows

£10m of food to restock Britain's food banks

Contactless payment increased to

£45

MAXIMUM CAPS introduced to maintain availability

All food-to-go, counters and cafés closed

Food boxes launched to provide essentials for the vulnerable and self-isolating

Protective screens introduced at 6,500 checkouts in 14 days

Free doorstep delivery telephone grocery service launched for the elderly and vulnerable

NHS food boxes website live with free delivery and click and collect in hospital car parks

Partnership with Deliveroo from over 180 stores

5% FARMERS' DISCOUNT

10% NHS DISCOUNT

NHS Gingerbread hero launched

Support for farmers and fishermen...

...by selling restaurant quality steak and seafood in store

Colleague discount increased to 15%

Guaranteed colleague bonus, triple that of last year's average and paid each quarter

Hardship fund to support colleagues in financial difficulty

Speedy shopping and basket-only queuing launched

New wholesale and bulk delivery service for local councils, care homes and charities

SELL BAGS OF FLOUR FROM OUR BAKERIES to meet rising demand

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.

Our purpose during the COVID-19 pandemic

To play our full part in feeding the nation. It's more than our job.

Our purpose during recession

Making good food available for everyone. It's all of our jobs.

Further easing of restrictions
- Reduction in social distancing to 'one metre plus'
- Restaurants, pubs and cafés allowed to reopen
- Two households able to meet in or outside

Increased footfall in store

Cafés reopen

Jun–Sep

Re-tightening of local restrictions

Value continues to be important to those feeling the economic squeeze

Cafés close in some areas

Oct

National lockdown two begins
- 4 weeks
- Non-essential retailers closed
- Schools stay open

Less impact than lockdown one as customers and colleagues understand the well established routines and processes

Cafés close

Nov

Tier system introduced
- Business rates relief waived

We work hard to help families enjoy the best Christmas possible

Cafés reopen in tiers one and two

Dec

National lockdown three begins
- Similar to lockdown one
- Schools closed

Some level of stocking up but not as severe as lockdown one

Cafés close

43% decline in fuel sales

Jan

Q3 +7.8%

Q4 +9.0%

100,000

doorstep deliveries milestone reached

MORRISONS ON AMAZON

NOW AVAILABLE NATIONWIDE AND ON AMAZON.CO.UK

Clear face masks to support the deaf community

SOS SERVE OUR STUDENTS

food delivery service for students

for customers exempt from wearing face coverings

Fivefold capacity increase across all online and home delivery channels

45,000 additional colleagues recruited so far to cover absence and support growth channels

Quieter hour introduced into all stores on a Sunday

10%

Teachers' discount introduced

15,000

lunches provided daily to school children during the holidays

Berwick store manager awarded OBE for services to the community

10% BLUE LIGHT WORKERS' DISCOUNT ANNOUNCED

Lunches provided for eligible school children who are unable to attend school

CAFÉS OFFER **TAKEAWAY SERVICE** FOR SECOND LOCKDOWN

10%

10% discount for NHS, Blue Light workers and teachers extended

colleagues recognised in the Queen's New Year Honours list

Together with a number of other retailers, we announce we are waiving the business rates relief

1.2m

meals provided to families in need working with the charity 'The Bread and Butter Thing'

650,000

doorstep deliveries milestone reached

Morrisons store car parks to be used as vaccination centres

School meal box delivery service launched

Online sales tripled by Q4

Announced we expect £280m of direct COVID-19 costs in the full year

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 9 million customer transactions every week
- A well-loved brand becoming more relevant and accessible to more customers
- 497 conveniently located supermarkets
- A rapid expansion of online capacity

Colleagues

- Colleagues are our key asset
- Over 118,000 friendly and skilled colleagues, supported by a high quality management team

Suppliers

- Trusted and collaborative relationships
- Our focus with our partner suppliers is on quality and innovation

Shareholders

- A strong balance sheet, with a largely freehold estate and low debt
- A net pension surplus
- Continued focus on cash generation

Environment and Communities

- Investment in energy efficient solutions to reduce environmental impact
- Community champions to support the communities we serve

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 eight regional distribution centres and one national distribution centre
- This network supports our growth through all channels
- Technology simplifies the links between sites and stores

...delivering through our seven priorities...

p10

1. Be more competitive
2. Serve customers better
3. Local integration and serving the community
4. Simplify and speed up the organisation
5. Naturally digital
6. Pride in hygiene
7. Creating and scaling for profitable growth

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 powers 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
- Our Morrisons price list provides good quality fresh food and great value
- Our shopkeepers care deeply about service
- Our online and home delivery offer has expanded at an unprecedented pace
- Most customers across Britain have access to several different options to shop with us, with almost every Morrisons supermarket now offering at least one home delivery service

...and supported by our six ways of working

p18

1. Customers first
2. Teamwork
3. Listening hard, responding quickly wherever possible
4. Freedom in the framework
5. Driving sales, tough on costs
6. We care

Outcomes

Responding to our customers

p14

- An easy shopping experience with everything always available
- Good quality groceries and a wide choice
- Friendly colleagues who care about customers and the community
- Market Street and Market Kitchen investment
- Fresh food, good and trusted quality which is always great value
- Online delivery service available to over 97% of British households

Rewarding our colleagues

p18

- Everyone is welcome and celebrated at Morrisons
- Colleagues can have their say and are treated with respect
- Managers who help and support
- The opportunity to succeed
- The tools and training to do the job

Working with suppliers

p20

- Easy to buy, easy to order, easy to fill and easy to sell
- Achieve profitable growth
- Always do what we say, build trust and collaborative relationships
- Focus on quality, innovation and protecting the environment

Delivering returns to our shareholders

p22

- Focus on the core
- Growth
- Keep a strong balance sheet
- Create shareholder value

Protecting the environment and supporting communities

p26

- Leading on reducing our carbon, plastic, pollution and food waste footprint
- Buying from sustainable, ethical and resilient supply chains
- Growing British agriculture
- Making a positive contribution to every local community we serve

"This has been a year where Morrisons resilience has been severely tested and I could not be more proud of the way the whole business has met that test. As we look forward to brighter times ahead, Morrisons is developing into a stronger, better business with deeper and closer relationships with our customers and the communities we serve."

Andrew Higginson
Chair

Proud of our colleagues

2020 marked my 40th year in business, and was the most extraordinary I have experienced. It has always been clear to me that, in a business like Morrisons, people come to work every day driven by a greater sense of purpose than simply making money for themselves or shareholders. Our primary role is to provide safe, delicious, good quality food at great prices, and make life a little better for our customers. It is maybe a somewhat modest claim, but never has it been more important than during the pandemic.

All businesses have worked hard for their stakeholders when called upon, and we did too, but our role was right on the front line. Just as most of Britain was being told to 'stay home, protect the NHS, save lives,' Morrisons colleagues were asked to go to work and help feed the nation.

We are so proud of our colleagues. They stepped up to the challenge with remarkable resourcefulness, determination and bravery, ensuring a smooth food supply chain and looking after our customers. Those colleagues can truly say "we played our full part".

There for all stakeholders

One of our ambitions for colleagues is 'A fair day's pay for a fair day's work', and I am delighted that we have been able to reward all that hard work and dedication. As soon as the pandemic started, we guaranteed a triple average annual bonus for 2020/21 for all front line colleagues, as David says, as a 'thank you'. We have also recently announced a new pay award for 2021/22 of at least £10 an hour for all Morrisons supermarkets colleagues. That is an annual increase of around 9%, and up by a fantastic 46% since 2015. It is an important and symbolic milestone, and we are the first major supermarket to reach £10 an hour.

And while our first priority has been protecting and looking after our colleagues and customers, I am pleased to say our financial performance was also strong in the year. Our supermarket sales were strong, both absolute and, importantly, relative to our key competitors as we grew market share. While the costs of managing through the pandemic were huge, we grew profit before exceptionals after adjusting for waived business rates relief. I am also pleased to say we did not take any other form of government support. In addition, we paid a previously deferred 4.00p special dividend to shareholders.

Proud of how we have responded

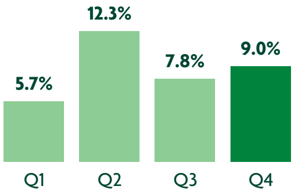
We are so proud of our colleagues. They stepped up to the challenge with remarkable resourcefulness, determination and bravery. They can truly say "we played our full part."

Our colleagues responded rapidly to local needs

We raised over £3m for our charity partner CLIC Sargent

2020/21 Group LFL sales (exc. fuel)

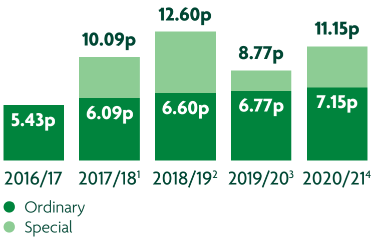
8.6% Full year LFL



Definition
See the Glossary on page 157 for a definition.

Total dividend

11.15p



1 Including 4.00p special dividend.
2 Including 6.00p special interim dividend.
3 Including 2.00p special interim dividend.
4 Including 4.00p special dividend paid and declared in 2021.

We continue to target and expect further strong financial performance, and will do so while also aligning with broader ambitions for the environment, society and governance. One specific framework we will be adopting for the 2021/22 Annual Report will be the Task Force on Climate-related Financial Disclosures (TCFD), which will enable all companies to more effectively report climate-related financial disclosures around governance, strategy, risk management, and metrics and targets.

We are a local business, trading where people live, work and go to school. The pandemic has put Morrisons even more at the heart of local communities, and emphasised what an impact we can have and force for good we can be across many areas of society and the environment. David explains what we are doing to help with our impact on the environment and to support the communities we serve, and you will see the details of our plans for important areas such as carbon emissions, plastics, food waste, deforestation and animal welfare throughout this Annual Report.

We see all of these factors – being at the heart of local communities, being a responsible and accountable corporate citizen, and targeting strong financial performance – as complementary not contradictory. Achieved simultaneously, they will enable us to thrive.

Building on the momentum

We are building on the momentum we created during the year. We have demonstrated resilience, innovation, speed to market and a relentless focus on the customer. Our online channels are good examples of this, with sales tripling by the end of the year. We also leveraged and benefitted from our unique food manufacturing businesses, and were at the forefront of new ideas such as delivery boxes, doorstep deliveries and wholesale bulk supplies.

Looking forward, I am now more confident than ever that Morrisons can continue to grow and prosper, be quick to keep learning from the many lessons of the pandemic, and adapt to changing customer needs.

We can come out of COVID-19 even stronger. We are a successful, popular, much-loved, brand, and have always been a great mix of a modern business with traditional family values that has been able to adapt and flourish. We are also a British retailer and food maker, with nineteen food manufacturing sites, and a predominantly British supply chain that is well positioned, post-Brexit, to emphasise those credentials further for the benefit of all.

For all the successes, clearly it was a year of immense sadness under the most extreme and testing conditions. Our thoughts and reflections are with those affected, especially with the families and loved ones of all of those, including some Morrisons colleagues, who sadly passed away.

Board changes

We were very pleased to welcome three new Non-Executive Directors to the Board last year: Susanne Given, Lyssa McGowan and Jeremy Townsend, who was also appointed Chair of the Audit Committee. All bring a wealth of experience and a variety of skills that further strengthen the Board. Welcome all.

Andrew Higginson, Chair

Governance highlights

Board leadership and Company purpose

p39

- The Company's purpose, values and strategy are aligned to its culture
- The views of all key stakeholders are considered in Board discussions and decision making
- The Board was strengthened by the appointment of three new Non-Executive Directors

Division of responsibilities

p42

- 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
- Kevin Havelock is the Non-Executive Director designated to engage with colleagues on behalf of the Board

Composition, Succession and Evaluation

p46

- All Directors are subject to re-election at our AGM
- The External Board Effectiveness Review found both governance and compliance to be strong, and that the Board operates in an effective and efficient manner
- KPMG conducted a review of governance confirming that Morrisons has a strong governance base

Audit, Risk & Internal Control

p48

- 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

p54

- The Board is satisfied that remuneration policies and practices support the strategy and promote long-term sustainable success
- We have further engaged with shareholders to understand feedback regarding the 2020 AGM policy vote
- The CEO's and COO's pension levels will be reduced to those available to the workforce by the end of 2022
- The CEO's shareholding requirement has increased from 250% to 300% of base salary

"I look back on what was an undeniably terrible pandemic year with an immense and profound sense of pride. Morrisons colleagues in the shops, offices, depots and manufacturing sites really stepped up when they were needed most by the nation."

David Potts
Chief Executive

Doing the right thing

2020/21 was a year when, more so than ever, we listened hard and responded. We often found ourselves in uncharted territory, following our instincts and doing what we felt was the right thing. Not because of how it would make us look as a company, but because it was how we felt we could and should react in often unprecedented and extreme situations. We have tried hard to protect and value all our stakeholders, especially the most vulnerable in society, making sure as far as possible that nobody is left behind during this awful pandemic.

I look back on what was an undeniably terrible pandemic year with an immense and profound sense of pride. Morrisons colleagues in the shops, offices, depots and manufacturing sites really stepped up when they were needed most by the nation. Rightly recognised as key workers by government, I am truly grateful and humbled by what our colleagues have achieved. I've called them 'brave', 'rock stars' and paid many other deserved compliments over the last year, but nothing quite expresses my thanks for the scale of the achievement. When British society all but closed down at the start of the pandemic, Morrisons galvanised and organised itself into a highly responsive and effective force for good. The swift and selfless actions of all Morrisons colleagues across the business was truly heart-warming and invaluable for the nation.

Playing our full part

Our initial actions focused on protecting colleagues and customers with sanitisation and social distancing measures. We guaranteed pay for thousands of affected colleagues, and tripled the average annual bonus payout as a 'thank you' for those on the frontline. We recruited an incredible 68,000 new colleagues to cover absence and to allow us to invest significantly in expanding our online and other home delivery services. Morrisons.com introduced new store pick home delivery and click & collect channels at pace, and we developed new food boxes and doorstep delivery services, plus a new relationship with Deliveroo. In addition, we very quickly expanded with Amazon, especially our same-day delivery service, Morrisons on Amazon, which is newly available across Britain on Amazon.co.uk. By the start of Q4 our online sales had more than tripled year-on-year.

We helped with the cash flow of around 3,000 smaller suppliers by paying immediately, and are giving extra discounts to our colleagues, NHS workers, teachers, blue light workers and our farmer suppliers. We are also restocking Britain's foodbanks, and have made various donations to homeless charities, and developed new bulk delivery services to provide vital supplies to customers, charities and local authorities quickly and at great prices.

These are just some of the ways that we have played our full part in helping feed the nation during the pandemic. There are full details of these and our other efforts throughout this Annual Report. Of course, this has all come at a cost: direct COVID-19 costs of £290m; and, our decision to waive £230m of business rates relief, plus tens of millions of pounds of lost profit in areas such as café and food-to-go means Group profit was down year-on-year despite the part-offset of significant operational gearing from the sustained very strong exc. fuel like-for-like sales growth.

68,000

new colleagues recruited to both cover temporary absence and to invest significantly in expanding our online and home delivery services

While unfortunate, this decline is a one-off in a year where we prioritised doing the right things first. A good example is doorstep delivery, our telephone order service that we set up in a matter of days right at the start of the pandemic for the most vulnerable and those that are self-isolating. It is old school. Customers pick up a phone and dial an order through to us that we then pick from a store and deliver direct to the customer for either no fee or a voluntary contribution. It is mostly used by the elderly and vulnerable who are unable to visit a shop and are often without internet access. It is literally a lifeline for thousands of customers, and has been the source of amazing feedback both from those customers and their families and friends grateful for us helping out. It doesn't make money for us, but that is not the point.

We care

As we move into a new year, there is a determination at Morrisons that we keep up the pace and effectiveness of our actions. While understandably much of last year will not be missed by many, we created an underlying momentum in the business that we will seek to keep going. Our Fix, Rebuild, Grow, Sustain strategy has proved highly flexible in allowing us to respond and adapt and, as we have moved through the stages of the pandemic, we have evolved our priorities and ways of working to re-validate them against an increased spirit of teamwork, community and support for all in society and all stakeholders.

We have added Pride in Hygiene to our seven priorities, and evolved Local Integration and Serving the Community, and Creating and Scaling for Profitable Growth to reflect both our significant progress against our original priorities and the world we are in today. We have also added to and refined our ways of working: Customers First; Teamwork; Listening Hard, Responding Quickly Wherever Possible; Freedom in the Framework; Driving Sales, Tough on Costs; and We Care. We are fulfilling our ambitions for all our stakeholder groups, recently adding Environment and Community in recognition of how central they are to everything we do.

We are playing our full part in helping Britain address climate change by delivering sustainable growth with a lower environmental impact. This is the right thing to do, something we care about, and something our customers, colleagues and investors expect of us. We have set stretching targets around: reducing carbon emissions; cutting waste and preserving natural resources through 'reducing, reusing, recycling'; sourcing from sustainable, ethical and resilient supply chains; and helping to grow and develop British agriculture. We also have an ambition to play our full part supporting the communities we serve and the lives of our colleagues: helping our customers live healthier lives; making a positive impact in every local community we serve; and providing a great place to work where everyone's effort is worthwhile and where everyone can make progress and a contribution.

We are a caring, modern business facing into both the pre- and post-pandemic challenges, and I am confident that we can also continue to develop and grow, and execute on our ambitious plans. We are continuing to become broader, stronger, and more popular and accessible, and there are many initiatives that we refer to in this Annual Report that will drive that growth: online; wholesale; outstanding in service, Market Street, and fruit & veg; our work around investing in price and range; and new formats and stores to name but a few.

As always, we are targeting growth that is capital light and we remain committed to the principles and disciplines of our capital allocation framework. Our business and strategy are supported by a strong balance sheet and we remain cash generative.

Last, another word on our wonderful Morrisons colleagues. More than ever the last year has demonstrated how the business is built on its people. You truly were there at a time of desperate need to help feed the nation. Thank you again to you all.

David Potts, Chief Executive

Thank you to all our brilliant colleagues

Here are just some of them. Neil, Myra, Ella, Michelle and Pam were all recognised in the New Year Honours list.

Thank you

Neil Ferries – Warehouse Manager based in Kent

Neil safeguarded the delivery of fresh foods to around 80 Morrisons stores in the south of England where local residents would have faced empty shelves after issues developed at a Morrisons warehouse

Myra Smith – 'Community Champion' at Morrisons Dumfries

At the start of the pandemic, Myra began posting notes to vulnerable neighbours offering to pick up essential shopping items, and delivering them after she finished work. At Easter, she hand-delivered over 500 Easter eggs to support local key workers

Ella Collins – Occupational Health Manager

Ella has consistently gone above and beyond in supporting Morrisons colleagues and working with Public Health England to manage the impact of the COVID-19 pandemic

Michelle Leary – 'Community Champion' at Morrisons Basingstoke

Michelle had the idea of making pick up bags near the checkouts in stores, which customers purchase as a donation towards local food banks

Pam Abbott – 'Community Champion' at a Morrisons depot in Wakefield

Pam worked tirelessly to ensure fresh foods and other essentials continued to make their way to local food banks, youth groups and animal shelters when donations from their regular sources were running low

As we move through the stages of Fix, Rebuild, Grow, Sustain, we have evolved our seven priorities to re-validate them against the increased spirit of teamwork, community and support that has prevailed at Morrisons since the start of COVID-19.

We have listened and responded, and will keep doing so to reflect both our significant progress against our original priorities and the world we are in today.

Over a thousand new jobs created to fulfil 'Morrisons on Amazon' orders

1 2 3 4 5 7

Delivering food to the vulnerable and elderly

2 3

650,000+
doorstep deliveries to the vulnerable

We have expanded online and home delivery to reach more customers

1 2 3 5 7

2 7

WE HIRED 14,000 COLLEAGUES IN 14 days*

*We have hired 68,000 colleagues in total since March 2020.

Our seven priorities	1. Be more competitive 2. Serve customers better 3. Local integration and serving the community 4. Simplify and speed up the organisation 5. Naturally digital 6. Pride in hygiene 7. Creating and scaling for profitable growth
Sustainability spotlight: our commitment to corporate responsibility	'Sustain' is a key part of our strategy and underpins everything we do. Look out for this icon throughout the report for examples of how we are meeting our corporate responsibility objectives.

We are making progress towards sourcing all Nutmeg viscose from responsibly managed forests
2

We have stocked new Fettle cheese in all our stores across Yorkshire to support the county's sheep-milk farmers
2 3

10%

We extended our 10% discount to the NHS, Blue Light workers, teachers, school, nursery and college staff

5%
FARMERS' DISCOUNT

3

WE ARE DONATING
15,000
LUNCHBOXES DAILY*

*Over the school holidays.

1 Be more competitive

Helping customers make every penny go further, saving them money on the everyday items they want and need

- We have continued to improve the Morrisons price list by investing in prices and improving product specification, packaging and merchandising across hundreds of our customers' favourite items
- We are working hard to continue to improve our own brand for customers
- We have substantial cost saving and productivity opportunities which we are accessing in partnership with our suppliers. These include end-to-end distribution and supply chain costs, mix, volume-related discounts, replenishment, packaging and digitisation
- We have introduced flat pricing across our Nutmeg kids clothing offer, allowing standardised prices across all ages and sizes
- Our acquisition of Lansen Nurseries enables us to offer customers a wider range of locally sourced and grown outdoor plants at competitive prices

2 Serve customers better

We listen to our customers to make improvements across the business. We continually improve our offer with helpful and friendly colleagues available whenever and wherever they are needed

- Our colleagues have faced the unprecedented challenges of COVID-19 with professionalism, enthusiasm and resourcefulness
- Our online and home delivery offer expanded at an unprecedented pace. Most customers across Britain have access to several different options, with almost every Morrisons supermarket now offering at least one home delivery service
- We launched the 'Food Box Company', with production facilities at our food manufacturing sites and depots
- We have formed a partnership with Deliveroo and significantly expanded 'Morrisons on Amazon', the same-day online home delivery service
- We adapted well to the crisis and introduced new initiatives, such as speedy shopping
- New paper carrier bags were introduced in May, and we extended our range of loose fruit and vegetables giving customers more choice to buy products without plastic

3 Local integration and serving the community

We contribute to the communities we are part of by providing local jobs, products, services and facilities

- We continue to champion and support local farmers, growers and other suppliers and moved to pay our smallest 3,000 suppliers immediately
- Every store's Community Champion has been allocated more hours to help local charities and community groups
- We are very proud of our doorstep delivery service for the vulnerable and self-isolating, which has passed the 650,000 deliveries milestone at year end
- We have donated £10m of food to help restock Britain's food banks
- Our quieter hour has been extended to the first hour every Sunday, enabling customers with sensory needs a calmer, quieter time to shop
- Our Too Good To Go initiative sold 100,000 'magic bags' through an app which gives customers access to good quality products at a fraction of the retail price

Our new look cafés moved to takeaway for part of the year

②

387

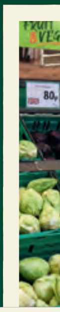
We refreshed nearly 390 cafés for relaunch in the year

We have doubled our number of florists

②

We have partnered with Deliveroo to enable customers to order essential groceries to be delivered in as little as 30 minutes

① ② ⑤ ⑦



We have provided special see-through masks to colleagues who regularly interact with deaf customers

② ⑥

④ Simplify and speed up the organisation

We continue to simplify and speed up, building a culture based on teamwork. We are cost conscious, always finding ways to be a more efficient business that is responsive to customers

- One of our six ways of working is 'freedom in the framework', which has been key in enabling new innovation such as our new boxes and doorstep delivery initiatives
- We successfully completed the restructuring of colleagues' roles in stores and moved to more flexible, remote working across a six-day week for office based colleagues
- We continue to work hard at improving end-to-end product handling and productivity in the supply chain
- We are reducing range and increasing volume of our customer favourite items, and investing in fewer, better promotions while removing those that customers don't value
- We introduced shelf-edge technology to c.200 stores – this draws cold-air back into the fridge, helping to reduce electricity consumption

⑤ Naturally digital

We use digital technology to provide increasingly easy, accessible and convenient services for customers. We are digitising the customer shopping trip, and continually help colleagues to work with purpose while reducing wasted effort

- We are starting the trial of a new Scan and Go app enabling customers to checkout more quickly
- Early in the pandemic we quickly increased the contactless payment limit to £45
- We have almost completed the roll out of headsets for colleagues at all stores, which will help improve service, availability and communication and reduce stock loss
- We have started to test digital shelf edge labels, which will automate price changes
- In manufacturing, we are investing in automation and robotics for production lines and grading technology, improving product flow and raw material yield, removing repetitive manual tasks
- In distribution we are increasingly using technology in our depots, with benefits including improved pallet and transport utilisation, and reduced packaging

We have invested to maintain first class hygiene standards

6

6 Pride in hygiene

As food makers and shopkeepers we have very high standards of hygiene. Customers and colleagues must always have a safe place to shop and work

- Our hygiene culture maximises cleaning hours and cleaning stations across our stores, depots, manufacturing sites and offices
- We are continuing to invest in extra touch point cleaning, thousands of sanitiser dispensers and extra colleagues responsible for hygiene

7 Creating and scaling for profitable growth

We see opportunities, pursuing them with an owner's spirit and entrepreneurial hunger, acting fast and fearlessly so we can swiftly scale the ideas that work

- Our online channel was the foundation of click & collect, boxes, doorstep delivery, and informed developments with our partners such as Amazon and Deliveroo
- We have taken our doorstep delivery idea and scaled it further by forming partnerships with organisations such as retirement homes and charities
- Our supply partnership with McColl's is scaling very quickly, and there is significant future potential for the Morrisons Daily fascia and format
- In supermarkets, we continue to innovate, learn and apply improvements across the estate
- We opened six new stores and a new Nutmeg store during the year. We also further developed our new food-to-go Market Kitchen concept in three stores and completed another 18 Fresh Look refits

We introduced paper carrier bags in May

2

100

Over 100 tonnes of plastic fishing netting has been recycled

Making good food affordable for everyone

SUPPORTING BRITISH FISHERIES

Helping with cash flow

We have provided bulk deliveries to councils and care homes

3 4

Throughout the pandemic we made immediate payments to smaller suppliers

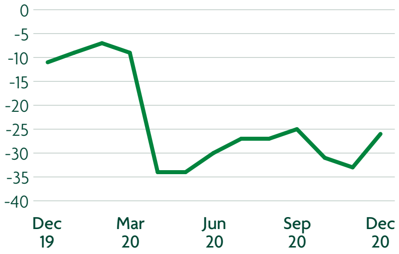
3

Responding to our customers

We have been listening hard and responding to our customers in playing our full part to help feed the nation.

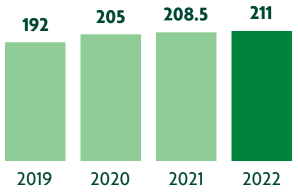
Easy shopping experience with availability for all customers

Consumer confidence



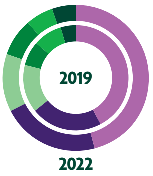
Source
GFK monthly consumer confidence index, December 2020

UK grocery market size forecast (£bn)



Source
Institute of Grocery Distribution (IGD)

Composition of UK grocery market size 2019 vs 2022 (% share)



	2019	2022 forecast
● Supermarkets	**46.1%**	42.3%
● Convenience	**21.4%**	22.0%
● Discounters	**12.8%**	14.6%
● Hypermarkets	**8.4%**	7.6%
● Online	**6.2%**	8.9%
● Other Retailers	**5.1%**	4.6%

Source
Institute of Grocery Distribution (IGD)

Customer uncertainty and concerns

This has been a year unlike any other, with consumers feeling uncertain and concerned.

COVID-19 – Customers have been deeply concerned about when the pandemic will end and how they will keep themselves and their families healthy.

Recession – With the news that the UK fell into the deepest recession since records began, people became very nervous about the economic outlook.

Brexit – Brexit is now complete, but customers still have many questions, and uncertainties remain as to how it will affect their day-to-day lives.

In times of uncertainty, and in particular economic uncertainty, supermarkets have a significant impact on customers and their families. To best support our customers, we have been listening hard so we can feed the nation in the best way possible.

As a result of the unprecedented turbulence of the last year, we have seen consumer confidence fall to its lowest level since the 2008 recession. As we came out of the first national lockdown in May/June, optimism started to rise slowly, however it declined following the tightening of restrictions over the winter and fell further as we headed into the third national lockdown in January.

Throughout the pandemic, the grocery industry has performed relatively strongly, benefitting from its ability to adapt current capacities to accommodate growing consumer demand. We listened to customers on a daily basis and analysed shopper behaviour to help us make customer-led decisions day by day.

COVID-19 and the recession have shifted people's priorities and behaviour

Lockdown accelerated the shift towards online consumption, with people going online even more than usual for shopping and socialising; behaviours which are expected to be maintained.

The number of customers we have been able to serve online increased from 132,000 per week to over 500,000.

We developed our Food Box service in response to the pandemic and this proved hugely popular, with over 450,000 orders so far. Initially, it was set up to get essential food and drink to those in need. However, it has grown to cover everything from gifting occasions to seasonal boxes.

COVID-19 has meant that people have new expectations about hygiene, and a clean and safe shopping environment has become an important determining factor in store choice.

Customers tell us that they feel reassured and safe when shopping in Morrisons, and we will be continuing this important work.

We know that the most important safety measures for our customers are: colleagues social distancing; hand sanitiser and cleaning products being readily available; a safe number of people in store; and the wearing of face coverings. We have worked hard to implement these measures, alongside many more, to create a safe shopping and working environment.

Customers were able to order a Christmas Dinner Box online

Caring about quality, customers and our community

70+

We offered a free online delivery pass for the over 70s

We continue to listen carefully to customers and cut almost 1,200 prices during the year

Value and service

Value for money is even more front of mind again, with people evaluating their outgoings so that they can manage on a budget, and adopting recession-proofing measures.

To provide our customers with great value for money, we have invested in over 1,200 price cuts through the year, backed up by stable prices every day.

Customers noticed and appreciated these actions, with perception improving across price measures when the cuts were made.

Supporting the vulnerable in society has become even more important to many, with people more conscious of supporting those in need.

Our doorstep delivery service helped many vulnerable and elderly in our communities. Through this service, customers are able to call to place an order by phone with a friendly colleague, and have their groceries delivered direct to their door.

We also supported elderly and vulnerable customers by offering priority online delivery slots and a free delivery pass for the over 70s.

The lockdown has seen more people stay at home for longer periods than ever before. That in turn has meant more meals are being eaten in the home, and we continue to see a big rise in the popularity of scratch cooking and baking.

We helped customers to embrace their home through campaigns such as 'Holidays at Home' which provided recipe inspiration based on popular cuisines of holiday destinations.

Supporting key workers and our communities

The crisis has brought people together and increased customers' awareness of the need to support others locally.

We are so grateful to all key workers across the country, and have thanked key workers in the NHS, schools, nurseries and emergency services by offering them 10% discount.

Our stores and Community Champions continue to make a significant positive impact on our local communities, by delivering food to students in universities in local lockdown, supporting schools with school meals, and continuing to stock local food banks.

Customers are looking forward to a fresh start. There is a desire to reset their priorities, including doing more exercise, focusing on their mental health and being mindful about what they are consuming.

We are excited to continue supporting customers with this through 2021, by providing options that are lower in salt, sugar, fat or alcohol, as well as healthy alternatives such as plant-based, free from or immunity boosting options.

We launched click and collect food boxes for NHS workers struggling to buy essentials

Dedicated telesales service launched for the vulnerable and elderly

OPENED SAFE SPACES FOR THOSE EXPERIENCING DOMESTIC ABUSE

The National Domestic Abuse Helpline has reported a 25% increase in calls for help since lockdown began. We are proud to be the first supermarket to offer a safe space where victims of domestic abuse can contact support services.

We have joined forces with the charity Hestia's UK SAYS NO MORE campaign, building on the fact that the routine nature of a trip to the supermarket is unlikely to alert an abuser.

Consulting rooms in pharmacies in 117 of our stores are designated as safe spaces where our specially-trained pharmacists can direct those seeking help to the support they need.

Responding to our customers with a wide range of brands and different sales channels

WE HAVE INTRODUCED COFFEE BARS IN OUR MARKET KITCHENS

Our brands

Our wide range of brands means we can cater for all tastes and budget requirements, from our entry point ranges such as Savers, Woodhead Bros, International Seafood Co and Greenside Deli, through to our premium range, The Best. In addition, we cater for all types of dietary and lifestyle choices, for example through our Free From, V Taste, Fresh Ideas, Counted and Nourish ranges.

Our unique range of traditional Market Street counters gives us the flexibility to cater to customers' exact needs, meaning less food is wasted. Skilled colleagues cut and prepare products to customers' specific requirements and are happy to help with cooking advice.

As veganism continues to gain popularity, we continue to innovate with the launch of a vegan 'no pepperoni' pizza from our pizza counter as well as vegan-friendly fruit salad and gingerbread flavoured doughnuts. We expanded our range of vegan-friendly products for Christmas with products such as The Best Tempura No-Prawns, No-Duck Spring Rolls, The Best Beefless Wellington, and The Best Vegan Trifle.

In addition to selling only free range eggs, we have also introduced Chuckle Eggs into our 'For Farmers' range, which guarantees that 12p from every pack sold is given to farmers to help improve hen welfare.

Our Market Kitchen format, now in four stores, provides hot and cold food-to-go from food stations such as 'The Soup Kitchen' freshly made vegan soups, or 'The Hot Pan' where a different dish is available each day, ranging from risottos, paellas and Korean fried rice to baltis. All meals are prepared in-store by our trained chefs, using ingredients from Market Street.

We launched The Food Box Company, initially to provide much needed essential products to customers who were shielding. These popular boxes have expanded over the course of the year to encompass occasions such as VE Day and Ramadan. With customers finding themselves with more time at home, scratch cooking boxes provide all the ingredients to make five meals for a family of four for just £30.

Our Nutmeg clothing range continues to go from strength to strength. In addition to children's and womenswear, we have introduced a range of menswear, all of which are available to purchase in store or online, and expanded into various health and beauty products, including liquid hand wash and hand sanitiser.

Catering for all types of dietary needs and lifestyle choices

Our brands and awards

Some of our awards

The Best Melt in the Middle Chocolate Orange Pudding	Winner of Good Housekeeping's **Best Centerpiece Dessert**
The Best Christmas Tarte	Winner of Olive Magazine's **Best Vegan Main Course**
The Best Fruit Panettone	Winner of Olive Magazine's **Best Panettone**
The Best Toscana 2018	Which?'s **Best Winter Wine**
Adrien Chopin Brut Champagne	Which?'s **Best Champagne**

Investing to meet changing shopping patterns through our stores and distribution network

497

stores

18

FRESH LOOK REFITS

We continue to refit and refresh our stores and cafés, our 'Fresh Look' is helping improve the shopping trip for our customers

Our stores and sites

During the year we opened six new stores at Amble, Bradwell, Stirchley, Glenfield, Dalton Park and Helensburgh, taking the total number of conveniently located Morrisons supermarkets to 497. In addition, we launched Market Kitchen, trialled last year at Canning Town, in our existing stores at Manchester Piccadilly, Edgbaston and Camden. We opened our first standalone Nutmeg clothing & home store at Bolsover and, despite the challenges of the year, completed 18 Fresh Look refits as part of our existing refurbishment programme. Although our 407 popular cafés were closed for a significant part of the year, we were able to offer customers a takeaway service while the hospitality sector was closed. In addition, our 15 barista bars offered a takeaway service.

This year, customers have shown a preference for online shopping and we responded very quickly to increase our capacity fivefold. Together with our partner Ocado, Morrisons.com sales grew through the Dordon CFC, and through a substantial increase in the number of store-pick stores, up from 33 to 197 by year end. In addition, we now offer click & collect from almost 450 stores. From February our Morrisons.com capacity increased further as we re-entered Ocado's Erith CFC, where we are building to 30% of delivery slots.

Our wholesale partnership with Amazon has continued to grow, with the same-day service, Morrisons on Amazon, expanding very rapidly during the year. It is now available to millions of Prime Now members on the amazon.co.uk website and app, and is currently available in around 50 British towns and cities. A new partnership with Deliveroo, available in over 180 stores, means customers can now order groceries for delivery in as little as 30 minutes. We continue to supply McColl's convenience shops with Safeway and branded products and the remaining 240 McColl's stores have transitioned over to Morrisons supply.

We have 58 Morrisons Daily kiosks located on our own petrol forecourts and, through franchise partnerships with McColl's, Rontec, MPK, Harvest Energy and Sandpiper CI, we supply an additional 137 Morrisons Daily convenience shops, with our wholesale partners located across England, Scotland, Wales and the Channel Islands.

Our 19, well-invested, vertically integrated food manufacturing facilities supply our stores with many fresh products such as fruit and veg from our site at Cutler Heights in Bradford; bacon, cheese, pies, quiches and cooked meats from Farmers Boy also in Bradford; fresh bread baked at our site in Wakefield; and fresh fish processed at our site in Grimsby. Since the year end we acquired Falfish, a family owned wholesaler of sustainably sourced seafood based in Cornwall. This 'field to fork' model allows us to support growers, farmers and fishermen by buying the whole crop, herd or catch and provides unrivalled provenance and traceability.

Our stores are served by eight regional distribution centres and one national distribution centre, a network which has enabled the Company to act flexibly during the pandemic and to increase deliveries of products to our stores in times of need.

Our brand new Morrisons Daily store and our new Dalton Park store

Opened our first standalone store for our own-brand Nutmeg clothing and home ranges

MORRISONS ON AMAZON

NOW AVAILABLE IN AROUND **50** TOWNS AND CITIES

Rewarding our colleagues

Our food makers and shopkeepers have been working hard to keep our colleagues and customers safe, while also dealing with unprecedented new demands to produce, pick, pack, deliver, replenish and serve.

A culture and environment to promote success

Joanne Bennet-McNally – Store manager at Morrisons Widnes, went above and beyond during one of the most challenging years and was crowned as the Gold Grocer Store Manager of the Year

Working with greater purpose

At the start of the year we set out plans to help all of our food makers and shopkeepers work with greater purpose. By creating the right culture and environment, continuing to listen hard to colleagues' feedback and involve them in improving the business, we knew we could go further and faster.

While the global pandemic meant we had to rapidly adapt our plans. The need to find innovative ways of supporting the most vulnerable in our local communities and to play our full part in feeding the nation truly galvanised our colleagues, giving them a clear purpose to fulfil.

Following national recognition of their role as key workers, our colleagues worked right through the national lockdown, the summer unlock, the second wave and beyond. They served our customers day in and day out, managed donations to local food banks, supported local community groups and charities, checked in on elderly and vulnerable customers (even before we introduced our doorstep delivery service), and were on the front line through every changing set of restrictions, social distancing guidelines and new legal requirements.

The opportunity to succeed

With the pandemic leading to customers stocking up, followed quickly by many colleagues needing to shield and others absent due to the virus, we made recruiting, inducting and training large numbers of new colleagues a priority, so that we could be there for customers when they needed us most. Our teams rapidly recruited 18,000 colleagues in the first five weeks of the pandemic, ensuring that resources were in place so we could continue to serve our customers safely and well.

From early March, we adapted our operations and ways of working. As we implemented these changes we increased our communication updates to colleagues, sharing the latest information every day via email and on our digital colleague platform MyMorri. We also increased our colleague listening, ensuring we were hearing the front line experiences each day, along with their ideas and suggestions so that we could respond more quickly.

For example, when one colleague explained how she had purchased stylus pens for her self-checkout team in order to reduce contact points, we quickly sourced pens for every store. Similarly, when the site-based colleagues raised the challenges of social distancing on breaks, we introduced marquees to provide additional rest space.

As we worked through national lockdown, with many of our central colleagues working from home, we reviewed the effectiveness of different teams and quickly resolved to further modernise our ways of working to capture increases in productivity. We permanently adapted our central offices to operate six days per week, providing improved support for our sites and stores, while also moving colleagues to a more flexible working week with ongoing support for home working.

Our six ways of working

We updated our ways of working to capture the increased spirit, teamwork and pace that we have seen over the year.

① Customers First

We care about our customers and do everything we can to meet their needs.

② Teamwork

Colleagues play their part in the team and recognise we go further together.

The importance of supportive managers, helping each other, and open and honest communication is recognised.

③ Listening Hard, Responding Quickly Wherever Possible

Taking the time to talk with and listen to colleagues and customers and always do the right thing for them, is at the heart of our plans.

④ Freedom in the Framework

Colleagues are trusted to make their own decisions within the Morrisons plan, and are encouraged to improve things for customers and for themselves.

⑤ Driving Sales, Tough on Costs

It is recognised, that every ounce of effort and every penny matters. Colleagues should spend every penny as if it were their own.

⑥ We Care

Everyone is welcome and celebrated at Morrisons. We care more and try harder – for customers, for each other, for everyone around Morrisons.

Welcoming and supporting all colleagues

We care

During the year, more than ever, we prioritised the safety of our colleagues and customers by creating COVID-19 secure places to work and shop. We sourced hand sanitiser for our colleagues and communicated the importance of regular hand washing.

While the debate about the relative safety of face coverings continued, we ordered supplies of disposable face coverings so our colleagues at sites and stores could choose to wear them. We have since made reusable, washable face coverings available for all colleagues who want them. We have also increased cleaning, particularly around contact points.

We quickly installed protective screens at checkouts, order points and other areas where it was difficult to maintain social distancing. We also developed our own-brand hand sanitiser, provided cleaning stations at the front of store and sanitiser dispensers throughout for all our colleagues and customers to use.

£10 an hour

at least, for our front line colleagues in sites and stores from April 2021

We supported our Community Champions colleagues who played a vital role in giving back to their communities through small acts of kindness

To support our most vulnerable colleagues at the beginning of the first national lockdown we took the decision to provide full pay to all those required to shield – a policy we have continued throughout the second and third lockdown. We also created our Colleague Hardship Fund. Financed by the Company, and administered by GroceryAid, this provides charitable grants for colleagues suffering from extreme detrimental financial impact as a result of the COVID-19 outbreak.

We reviewed and reiterated our zero tolerance policy to any abuse of our colleagues. This was important at a time when rapidly changing guidance and legislation increased the risk of friction between customers and colleagues. Additional guards have been brought in to ensure safer shopping and safer working, and we led the way on tightening policy on face masks being worn in store, as set out in the government's regulations.

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

Given their incredible contribution during the year, it was more important than ever that we delivered on our ambition of a fair day's pay for a fair day's work. We increased our front line retail colleague hourly rate to £9.20 in April 2020, maintaining our competitive position in the market.

We announced in March that the first quarter of our annual colleague bonus scheme would be paid in full, immediately after the end of the quarter. As the full scale of the disruption from the pandemic became clear, we chose to invest further in the scheme to say 'thank you' to our key workers. The average payout was tripled to 6% and quarterly payments were guaranteed in full throughout the year.

At the same time, we also increased our colleague discount to 15% from 10% as a further 'thank you', which remained in place for our full financial year. As the financial year came to a close, we announced an industry-leading proposed pay deal for our front line colleagues in stores and manufacturing sites, which will mean colleagues move to a rate of at least £10 per hour. This substantial investment means payments to colleagues are guaranteed and more regular.

A manager who helps and supports me

At the start of the year we confirmed plans for a flatter colleague structure in our stores, with managers taking end-to-end accountability for their department areas and providing greater support to their colleagues.

While the introduction of the new structure was delayed by the pandemic, we have now completed this work. Our training approach was adapted to incorporate more elements of remote digital learning so we could still prove the appropriate skills to managers appointed to new roles.

We also achieved a significant milestone during the year, with the transfer of all our retail colleagues onto our new People System. This modern, cloud-based app not only provides colleagues with improved access to their schedules and the ability to manage their holiday requests, but also gives our line managers the tools they need to more effectively manage and support their teams.

I can have my say and I am treated with respect

During the summer, with the first wave of COVID-19 behind us, we made further improvements to the processes that allow colleagues to have their say.

We simplified our annual 'Your Say' survey so it could be run more regularly. After initially trialling the new survey in our distribution sites in July, we then carried out a larger survey for all other areas of the business in September.

The survey measures 'workplace happiness' and on the basis of this index we recorded a score 2% favourable to the current benchmark for retail businesses. We were also particularly pleased to see a positive response of 71% to the statement 'I am happy at work and enjoy my job' which is an improvement of 3% year-on-year.

In the year, we also adapted our national Your Say forum meetings. Instead of being conducted face-to-face with a group of front line colleagues from across the business, we ran digital 'live stream' meetings so that members of the Executive Committee and Non-Executive Directors could hear the questions our colleagues most wanted to ask and provide appropriate responses.

Everyone is welcome and celebrated at Morrisons

We were very pleased during the year to make considerable progress on our ambition of everyone feeling welcome and celebrated at Morrisons. We hosted a digital colleague conference for every one of our food makers and shopkeepers. During the conference we focused on the incredible contribution that all our key workers had made and shared a dedicated 'thank you' video with messages from charities, community groups, our suppliers, customers and other key workers.

We also established a steering group and working groups to accelerate our efforts to improve our diversity and inclusion work for women, BAME and LGBT+ colleagues, family and carers, and those with additional needs. Our BAME group led on colleague communications and videos following the international focus on the Black Lives Matter movement. A much broader celebration and education programme during Black History Month this year, ranged from inviting guest speakers into the business to videos celebrating authentic black cooking, and the sale of books by influential black authors in our stores.

Working with suppliers

Strong supplier relationships, based on mutual trust and respect, are at the heart of what we do, and continue to be a key priority in our growth and development.

Listening hard to build collaborative relationships

We continue to sponsor the agricultural industry's biggest online event, Farm24

Listening and responding

Despite the unprecedented events of the past year, we have continued to prioritise listening and responding to our suppliers. We held three virtual conferences with our supplier base in order to gain an understanding of the key priorities and how we can work better together. We shared information on our performance, outlined our response to COVID-19, demonstrated how we are delivering growth, advised on our movements towards Brexit, and provided updates on our expanding business channels across online and wholesale.

We are responding to feedback. We used commercial conferences as a platform to highlight our moves to improve demand forecasting, to ensure we continue to develop the right tools to do the job, and maintain a focus on clear and effective communication.

Supporting local communities

At Morrisons, we are committed to supporting our local communities and suppliers wherever possible.

We make it easy for local food makers to work with us and develop their brands by offering mentoring, simple six month contracts and trial agreements, as well as allowing for deliveries direct to their local stores. We know that supporting local communities is important to our customers and we have seen growth in sales of locally sourced food and drinks of +26.6% year-on-year, regional food and drink sales also grew year-on-year. We have continued our search for the 'nation's local food makers', albeit now virtual. Local food panels of customers receive discovery boxes with new and exciting locally sourced products to sample and provide feedback on.

3,000

small suppliers were able to benefit from immediate payment terms

It has also been important for us to continue to support our existing suppliers, especially throughout the uncertainty of the past year.

We have quickly on-boarded and launched new suppliers who have lost business through the closure of the hospitality industry. In addition, we have increased distribution and range for existing suppliers who have also suffered the loss of sales through channels other than supermarket retail, and we were able to pick up the volume in our efforts to 'feed the nation'.

We moved to immediate payment terms for all existing small suppliers, as well as new smaller suppliers on-boarded since March 2020. We reclassified our definition of a smaller supplier, from those with £100,000 of business per year with Morrisons, to include those with up to £1m. As a result, a further 1,000 suppliers qualified for these new payment terms.

Backing British farmers

We pride ourselves on being British food makers. As British farming's biggest direct supermarket customer, we value the efforts of farmers who work hard all year round. Our fresh meat, milk and eggs are 100% British. To support farmers during the pandemic, we opened our counters to offer products that, in normal times, would have been supplied to cafés and restaurants. By encouraging customers to buy prime cuts, this helped to stimulate demand and stabilise prices at the farm gate.

We have continued to support our farmers through our 'For Farmers' range partnership with Arla, Lactalis and Ornua which has donated £3.5m to British farmers in 2020 for milk cream and cheese. We also welcomed 2,700 farmers and local food makers into our 5% discount offering. Through our food boxes, launched to meet the needs of isolating customers, we developed a 'Buy British' foodbox. The sale of each box included a £1 donation to farming help charities.

Working with suppliers to fulfil our responsibility to protect the environment

Promoting the British fishing industry

2020 was a year of unprecedented challenge for the fishing industry. During the COVID-19 crisis, we opened seafood bars and launched British fish boxes and re-opened fish counters to help sell fish previously destined for the food service sector, thus helping to secure the livelihoods of fishermen and colleagues in the fishing sector. We continued to offer the broadest range of fresh British fish of any major retailer, helping customers to make more sustainable choices which are not threatened by overfishing.

Reducing plastics

We continue to work with suppliers to fulfil our responsibility to protect the environment, with each food category having a defined set of plastic reduction targets. We have made a commitment to reduce use of primary plastic packaging in our own-brand products by 50%, and to move towards 100% of plastic packaging being recyclable, reusable or compostable by 2025. Furthermore, we are eliminating problematic or unnecessary single use packaging through redesign or innovation.

Supporting British Farmers by selling surplus stock from producers hit by the closure of restaurants

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 morrisons-corporate.com/suppliers.

We listen hard to our suppliers at all times and this became even more important during the last year. We responded quickly to support suppliers, particularly small suppliers, facing difficulties as a result of the pandemic. This included moving to immediate payment terms for all existing and any new smaller suppliers (over 3,000 in total), on-boarding new small suppliers and increasing distribution for existing small suppliers who had suffered reduced demand from food service and hospitality and opening steak and seafood bars in store to support British farmers.

Over the past year, we have made significant investments into our commercial and supply chain systems and processes, including our Delivery Scheduling, Warehouse Management and Supplier Database systems to improve the ways in which we communicate with our suppliers.

We actively engage with the relevant regulatory bodies, the Groceries Code Adjudicator (GCA) and the Competition and Markets Authority (CMA), to build best practice. We meet regularly with the GCA and provide updates on our activity and details on specific areas of interest to the Adjudicator. 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. 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 and specific concerns raised with our CCO to the GCA and to the CMA at the financial year end.

Our Legal, Compliance and Audit teams work closely together to provide colleagues across the business with the support and guidance needed to comply with the Code. 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 through a range of formats. We review and update all of our training activities and materials throughout the year to take account of any new learnings, build in current real life examples and to reflect additional guidance from the GCA.

In the 2020 GSCOP supplier survey conducted by YouGov on behalf of the GCA, 93% of suppliers rated Morrisons as complying with the Groceries Code 'mostly' or 'consistently well'. Working with the GCA, our encouragement of suppliers to complete the anonymous survey led to Morrisons having the second most suppliers complete the survey of all designated retailers.

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 2020/21 we were contacted by suppliers to review concerns including in the following areas:

- Requesting review of supplier de-listing decisions including extensions to notice periods
- Queries relating to resolution of goods receipt and invoice disputes
- Asking for clarification on details of discussions regarding commercial 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 three direct Code related complaints which are yet to be resolved. Contact details and further up-to-date information can be found at morrisons.co.uk/gscop.

WEBINARS TO SUPPORT SUPPLIERS

Working with other supermarkets, we hosted webinars to support our suppliers during the crisis.

Topics ranged from managing impacts on employee mental health to furloughing staff responsibly. These webinars reached 4,000 participants in 56 countries and were later supported by the establishment of the Food Farm Help website, which provided additional guidance for the UK food sector during the second wave of the crisis.

Delivering returns for our shareholders

Capital light growth and improving total return are our key ambitions for shareholders.

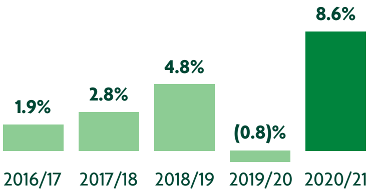
> “With a very strong balance sheet, freehold store portfolio, net pension surplus, and strong underlying free cash flow, Morrisons continues to be well positioned to deliver for all its stakeholders.”

Michael Gleeson
Chief Financial Officer

Our financial strengths have helped us be agile and decisive

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

8.6%



Introduction

It was a very different first year as CFO than I expected, but Morrisons strengths have been familiar and very much provided the foundations for everything we have been able to do for stakeholders during the year.

The balance sheet is very strong, both absolute and relative, 87% of our sites are freehold and the pension schemes are in a net £718m surplus position. Underlying debt is low, we have a strong maturity profile and, fundamentally, Morrisons is a very cash generative business.

These attributes have been hard won and carefully preserved over many years and will continue to be cornerstones of Morrisons. With the added benefit of significant operational gearing during a year of very strong sales growth (exc. fuel), we have been able to do some unique things in what are unique times and have more than played our full part during the crisis.

Summary income statement

	2020/21 £m	2019/20 £m
Revenue	**17,598**	17,536
Operating profit	**254**	521
Net finance costs	**(89)**	(87)
Share of profit of joint ventures (net of tax)	**–**	1
Profit before tax	**165**	435
Profit before tax and exceptionals*	**201**	408
Basic earnings per share before exceptionals*	**5.95p**	13.18p
Basic earnings per share	**3.99p**	14.60p

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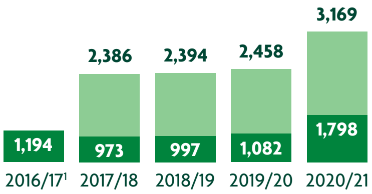
* Alternative Performance Measures as defined in the Glossary on pages 157 to 159.

Net debt*

£3,169m



● Net debt excluding lease liabilities
● Lease liabilities

1 Calculated on a pre-IFRS 16 basis.

COVID-19 costs incurred during the year total £290m

	2020/21 £m
Extra payroll	99
Extra cost colleague bonus	68
Colleague and customer protection	46
Foodbanks and donations	12
Other costs	65
Total	290

Revenue

Total revenue during the period was £17.6bn, up 0.4% year-on-year, with net new space contribution of 0.4%. Total revenue excluding fuel was up 8.9%, with Group LFL excluding fuel very strong at 8.6%. Fuel sales were down 32.1% to £2.5bn, severely affected by the COVID-19 restrictions, especially during the periods of lockdown. For retail, LFL sales were strong from the start of the COVID-19 pandemic in March 2020, with retail contribution to LFL of 7.8%.

For wholesale, sales to all our partners were strong throughout the year. Since year end, we jointly announced with McColl's that 300 McColl's stores are to be converted to Morrisons Daily over the next three years. In addition, we have extended our partnership with McColl's by a further three years, with a new contract out to 2027.

Our online offer continues to grow at pace and sales more than tripled by the end of the year, with growth through Ocado's Dordon CFC, a significant increase in store pick and click and collect, and with the same-day delivery service 'Morrisons on Amazon'.

Profit

	2020/21 £m	2019/20 £m
Operating profit	**254**	521
Adjustments:		
Net impairment and provision for onerous contracts	**(7)**	(2)
Profit/loss on disposal and exit of properties	**(2)**	(66)
Restructuring and store closure costs	**56**	51
Other exceptional items	**15**	9
Online and home delivery transformation cost	**66**	–
Online and home delivery impairment write back	**(76)**	–
Operating profit before exceptionals*	**306**	513

Operating profit before exceptionals was down 40.4% to £306m (2019/20: £513m), and EBITDA before exceptionals down 18.5% to £847m (2019/20: £1,039m). After net finance costs before exceptionals of £105m (2019/20: £106m), profit before tax and exceptionals was down 50.7% to £201m (2019/20: £408m).

All these profit measures were significantly impacted by both the considerable direct costs of COVID-19 and other pandemic-related impacts on profit. Total direct COVID-19 costs were £290m, comprising extra payroll, extra colleague bonus, colleague and customer safety protection measures, distribution costs, seasonal waste and markdown, plus various initiatives for food banks, charities and local communities.

In addition, there was a significant impact on profit during the periods of temporary closure of our 407 profitable cafés (for an average of 24 weeks each during the year), plus lower sales and profit throughout the year in key categories such as Market Street service counters, food-to-go and fuel. Mitigating these various cost and profit impacts, operational gearing was strong and sustained throughout. This was helped by the benefits of vertical integration and the further significant investment in price cuts driving strong volume growth, and we again performed well in reducing both stock loss and the number of less effective promotions.

We also invested our operational gearing into extra discounts for the benefit of our colleagues, farmer suppliers, and key workers in the NHS, teachers, and blue light professions. In addition, in December 2020 we announced our decision to waive our entitlement to business rates relief. The total amount of waived business rates is £274m, of which £230m related to 2020/21 and was paid before year end. Without this payment, our profit before tax and exceptionals would have been £431m, up 5.6% year-on-year. Operating profit before exceptionals and the rates payment would have been £536m, up 4.5% year-on-year, and margin would have been up 12 basis points. EBITDA before exceptionals and the rates payment would have been £1,077m, up 3.7% year-on-year, and margin would have been up 20 basis points.

Exceptional items

Exceptional items recognised outside profit before tax and exceptionals (as fully detailed in note 1.4 of the financial statements) were a net debit of £36m (2019/20: net credit of £27m). Of the £36m, £56m were restructuring costs. We have now completed our major retail restructuring initiative announced in January 2020, and successfully launched projects to reorganise transport and insource some of our depots within the logistics network. These restructuring initiatives will simplify and speed up the business in line with one of our seven priorities, and continue to improve our efficiency and productivity. In addition, we modernised our ways of working at head office by adopting more digital and flexible ways of working for colleagues and a more streamlined central structure.

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* Alternative Performance Measures as defined in the Glossary on pages 157 to 159.

Guided by our capital allocation framework

The rapid expansion of online and home delivery capacity resulted in transformation costs of £66m being incurred, offset by a store impairment write back of £76m due to the improved utilisation of store assets for our online and home delivery offers.

Within the £66m, we incurred £42m of costs across our various online channels as we transformed our online operations very quickly and significantly grew our capacity, offering customers new ways to shop remotely with Morrisons and enabling a rapid fivefold increase in delivery capacity for customers.

In response to demand, we accelerated our multi-year online expansion plans and made one-off changes to transform our online business, operational processes and ways of working. The unprecedented scale and speed of the implementation of these programmes resulted in significant start-up costs during the year. We also incurred one-off costs of £24m relating to exceptional stock wastage.

The £76m store impairment write back related to stores where store pick online operations have become established, and asset utilisation has improved thereby generating a structural increase in sales and profit.

The annual impairment review produced a net credit of £7m after excluding the write back related to online capacity acceleration. This comprises a £65m release relating to other tangible assets, £9m credit on onerous contracts and a £67m impairment on intangible assets following adoption of more cloud-based technology.

Other exceptional costs of £15m includes £9m bonus for temporary colleagues not ordinarily eligible and £4m in respect of legal costs. In addition, net retirement benefit interest income was £16m, and property disposal profits were £2m.

Earnings per share

Basic earnings per share decreased to 3.99p (2019/20: 14.60p), and earnings per share before exceptionals decreased to 5.95p (2019/20: 13.18p).

Debt, cash flow and working capital summary cash flow

	2020/21 £m	2019/20 £m
Cash generated from operations before onerous capital payments	**308**	1,058
Onerous capital payments*	**(22)**	(41)
Cash generated from operations	**286**	1,017
Proceeds from sale of property, plant and equipment and investment property	**27**	34
Capital expenditure	**(539)**	(511)
Dividends paid	**(261)**	(302)
Dividends received	**8**	9
Purchase of own shares	**–**	(10)
Tax and interest	**(197)**	(190)
Proceeds on settlement of share options	**(1)**	12
Leases non-cash	**(80)**	(66)
Other non-cash movements	**46**	(57)
Movement in net debt*	**(711)**	(64)
Opening net debt*	**(2,458)**	(2,394)
Closing net debt*	**(3,169)**	(2,458)

Group net debt was £3,169m, compared to £2,458m at the end of 2019/20. Excluding lease liabilities, net debt was £1,798m (2019/20: £1,082m). Debt continues to be temporarily adversely affected by the impact on working capital of the ongoing lower national demand for fuel and fuel deflation, investment in higher levels of stock availability both during COVID-19 and in our preparations for Brexit, and the extension of the scheme to pay our smaller suppliers immediately during the crisis. Due to these effects and the impact of COVID-19 on profit, there was a free cash outflow of £450m (2019/20: £238m inflow). The cash outflow from ordinary and special dividends was £261m, a £41m decrease year-on-year (2019/20: £302m). The operating working capital outflow was £390m (2019/20: £18m inflow).

Net finance costs

Net finance costs were £89m (2019/20: £87m), and net finance costs before exceptionals were £105m (2019/20: £106m).

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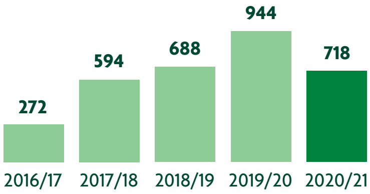
* Alternative Performance Measures as defined in the Glossary on pages 157 to 159.

Total dividend up 27%

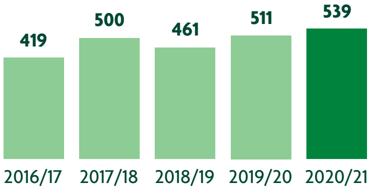
Net retirement benefit surplus

£718m



Capital expenditure

£539m

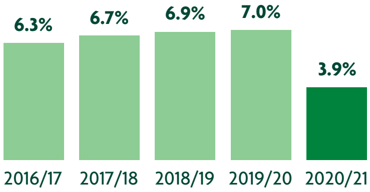


Definition

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)

3.9%



Definition

See the Glossary on page 159 for a definition.

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 2020/21, Morrisons made net payments of £1,260m to the UK government of which £633m was borne by Morrisons and the remaining £627m was collected on behalf of our colleagues, customers and suppliers. Corporation tax payments made during the year were £81m.

Summary balance sheet

	2020/21 £m	2019/20 £m
Fixed assets and investments	**8,843**	8,641
Working capital*[1]	**(1,687)**	(2,038)
Provisions and tax	**(489)**	(548)
Net retirement benefit surplus	**718**	944
Net debt*	**(3,169)**	(2,458)
Net assets	**4,216**	4,541

1 Excluding provisions.

Pensions

At year end, the net pension accounting surplus on the balance sheet was £718m (2019/20: £944m). Net retirement benefit interest income was £16m for the year, reported outside profit before tax and exceptionals.

Capital expenditure

Cash capital expenditure was £539m (2019/20: £511m). In the year a further 18 stores went through our Fresh Look programme. We also further developed our new food-to-go Market Kitchen concept, which is now in four stores. Six new stores were opened, and one store was closed during the period, with an overall net increase of c.157k square feet.

Borrowings

Despite the temporarily higher level of debt, liquidity remains very strong. At year end we were £880 million drawn on our total revolving credit facilities of £1.75 billion, so with still very significant headroom. In addition, since the year end, the Group has extended the duration of £400m of revolving credit facilities to dates between September 2021 and July 2022.

Return on Capital Employed (ROCE)

ROCE was 3.9%, down from 7.0% for 2019/20 due to the impact of COVID-19 on profit before tax and exceptionals. The growth opportunities we are focused on are capital light and accretive to profit and returns.

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

Our policy is for the ordinary annual dividend to be sustainable and covered around two times by underlying earnings per share before exceptionals. In December 2020, we announced that we would declare a final 2020/21 dividend based on underlying profit before the impact of waiving £230m of business rates relief. The proposed final ordinary dividend is 5.11p per share, taking the full-year ordinary dividend up 5.6% to 7.15p (2019/20: 6.77p). In addition, in December 2020 we announced a previously deferred H2 2019/20 special dividend of 4.00p, which was paid in January 2021. In total, the full-year ordinary for 2020/21 plus special dividend is up 27% to 11.15p per share (2019/20: 8.77p).

With a very strong balance sheet, freehold store portfolio, net pension surplus, and strong underlying free cash flow, Morrisons continues to be well positioned to deliver for all its stakeholders. The capital allocation framework is the foundation of our Fix, Rebuild, Grow, Sustain strategy and guides our decisions. It has served the Company and its stakeholders well and remains unchanged. We are confident Morrisons can continue to generate strong free cash flow and surplus capital for shareholders, and will take a decision regarding a potential 2021/22 special dividend at the end of the year.

Michael Gleeson, Chief Financial Officer

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* Alternative Performance Measures as defined in the Glossary on pages 157 to 159.

Protecting the environment and supporting communities

Lowering our environmental footprint and making a positive contribution to the communities we serve.

Buying from sustainable, ethical and resilient supply chains

Our environment

Our long-term success depends on the sustainable use of the planet's resources

Our planet faces many environmental challenges and we know we must be part of the solution. This includes: reducing our carbon footprint and use of plastic; helping to end deforestation; reducing food waste; and sourcing our products in a sustainable way.

Taking urgent action on these issues is not only the right thing to do and something we care about, but it is also important to our customers who regularly highlight environmental matters in their top ten issues in our annual sustainability survey. In addition, it is increasingly important to our investors who see responsible environmental stewardship as being integral to sustainable long-term success, and are increasingly factoring such considerations into their capital investment decisions. See blackrock.com/corporate/investor-relations/2020-larry-fink-ceo-letter for details.

We are committed to playing our full part, which is why we have committed to Net Zero greenhouse gas emissions by 2040 in our own operations, supporting the UK to reach Net Zero by 2050. It is also why we set a stretching target to reduce our own-brand plastic packaging by 50% by 2025. But we can't do this alone, which is why working closely with our key stakeholders, and particularly with our suppliers and forming partnerships with other organisations to bring about change, will be important.

To drive our strategy forward at greater pace, we have strengthened our environment and sustainability governance and have committed to reporting against the TCFD (The Task Force on Climate-related Financial Disclosures) framework in full for the 2021/22 Annual Report.

Net Zero

greenhouse gas emissions in our own operations by 2040

50%

reduction in own-brand primary plastic packaging by 2025

3,510 tonnes

OF PLASTIC A YEAR REMOVED BY PROVIDING PAPER-BASED BAGS

We provide customers with more opportunities to reduce their plastic consumption by offering reusable paper bags

Governance

Our Board has overall accountability for setting the strategy in relation to the environment and our communities. Governance has been further strengthened this year with the formation of both the Sustain Group and the Sustain Sub-Committee of the Executive Committee.

- **Sustain Sub-Committee of the Executive Committee** – comprising our Chief Operating Officer and other senior leaders from across the business, this committee is responsible for reviewing the progress and recommendations proposed by the Sustain Group.
- **Sustain Group** – comprising leaders from across our business, this Group is responsible for ensuring we deliver sustainable growth with a lower environmental and positive supply chain impact; and we play our full part supporting the lives of our colleagues and the communities we serve. Alongside reporting to the Sustain Sub-Committee of the Executive Committee, updates are provided directly to the Executive Committee and Corporate Compliance and Responsibility Committee.
- **Sustain Workstreams** – several working groups have been established to coordinate work on the specific elements of our sustainability ambitions. Each workstream is headed up by an appropriate leader, who reports directly into the Sustain Group.

Managing environmental risks

50%

reduction in food waste in stores by 2030 vs 2016 baseline

Extended our range of loose fruit and vegetables giving customers more opportunities to buy products without plastic

Completely removed glitter across all own-brand ranges ahead of Christmas

NO PLASTIC CHRISTMAS

Risk management

Environment and sustainability has been elevated to a principal risk during the year, as it has the potential to impact our business in the short, medium and long term. The physical risks and opportunities that we face include extreme weather and water scarcity, which could impact food availability from certain countries. The transitional risks and opportunities we face arise from moving towards a cleaner more sustainable economy, including aligning with future regulation, meeting customers' expectations and the associated costs of doing business.

Our process for identifying and assessing environment and sustainability risks is the same robust process we apply to all our Group emerging and principal risks, as described on pages 33 to 38.

We are committed to undertaking a comprehensive scenario analysis in 2021 to further develop our understanding of the potential impacts of environmental and sustainability risks, which will help us to further refine our strategy and financial planning.

Task Force on Climate-related Financial Disclosures

We have been reporting our carbon footprint since 2007, transparently showing the impact of the emissions from our operations (scope 1 and 2) on the climate. We have responded to the Carbon Disclosure Project's requests for disclosure for climate change since 2018 and in 2020 were rated C for climate change.

In response to TCFD requirements, we have enhanced our climate disclosures in this year's Annual Report with a view to becoming fully compliant in next year's Annual Report.

What we have done this year:

- strengthened our governance structure and disclosed how our Board has oversight over the environmental risks and opportunities;
- enhanced our risk disclosures to explain how we identify, assess and manage the environmental and sustainability risks; and
- further clarified what our targets represent.

What we will do next year:

- undertake a comprehensive scenario analysis;
- reassess our existing strategy and business processes to ensure we have the right embedded frameworks in place for the future; and
- look to incorporate more performance reporting, currently disclosed in our standalone Sustainability Report, within our Annual Report.

Carbon emissions

We are proud to be a signatory to the British Retail Consortium's (BRC's) Climate Action Roadmap, which is designed to guide British retail along the steps necessary to achieve a Net Zero UK, ahead of the Government's 2050 target.

We have set targets, which were developed with the help of the Carbon Trust, to reduce operational emissions against a 2017 baseline by 33% by 2025, 53% by 2030 and to reach Net Zero emissions by 2040.

Our Net Zero target covers our own operations, such as the vehicles that deliver food to our customers' homes and the electricity we use in our stores (otherwise known as scopes 1 and 2).

As we are British farming's biggest direct supermarket customer, we have also committed to Net Zero agriculture by 2030 – this forms part of our scope 3 emissions, so originating within our wider value chain. This will cover products from UK farmers directly sourced for our own-brand products in beef, pork, lamb, potatoes and eggs.

We report scopes 1 and 2 in this report, and we are working with partners, wider industry and suppliers to be in a position to report our scope 3 in the future.

Please see our 2020/21 Sustainability report for further information about our climate change plans.

Task Force on Climate-related Financial Disclosures (TCFD)

The Financial Stability Board established the TCFD to develop recommendations for more effective climate-related disclosures that could promote more informed investment, credit, and insurance underwriting decisions and, in turn, enable stakeholders to understand better the concentrations of carbon-related assets in the financial sector and the financial system's exposures to climate-related risks.

Source: https://www.fsb-tcfd.org/about/

Commitment to lowering our impact

2020 performance

Scope 1 and 2 footprint

Improved energy efficiency alongside more renewables in the UK grid helped us to reduce our absolute scope 1 and 2 carbon footprint by 5% (over 35,000 tonnes) in 2020 compared to 2019. This is despite an increase in emissions associated with haulage due to growth in online sales and increased volumes being delivered into stores. So far, since 2017 (our baseline year) we have reduced our emissions by 32%.

Energy efficiency initiatives

Energy efficient solutions are considered as part of our capital investment plan. During 2020 we introduced shelf-edge technology to around 200 of our stores – this technology draws cold-air back into the fridge and helps reduce electricity consumption. We also continued to invest in LED lighting and to control voltage in stores to reduce power demand.

We have achieved further reductions in electricity use by ensuring that energy efficient equipment is considered during the design phase when building or when refitting new stores. These upgrades include heating, ventilation, air conditioning, lighting and counter operations efficiencies. We have also started to move away from hydrofluorocarbons (HFC) based refrigerant towards CO_2 alternatives wherever possible, which will have a positive impact on our carbon footprint.

A reduction in gas consumption has been achieved through our boiler replacement programme and the reinstatement of 'heat harvest' technology, which uses heat from refrigeration to provide hot water in store. Building Management System upgrades have also allowed us to improve our control of the electricity and gas associated with heating and ventilation.

Alongside energy efficiency, we continue to consider the role of 'onsite' renewables. We currently have five Megawatts of onsite solar power installed across 28 sites and prioritised optimising these panels to maximise generation during 2020.

Our logistics division has continued to undertake a number of activities designed to reduce distance travelled and fuel consumed while delivering to our stores. This includes careful scheduling to minimise mileage, longer semi-trailers, and using vehicle telematics systems to encourage drivers to reduce harsh braking, acceleration and engine idling time.

Fridges fitted with doors provide energy savings of estimated 30-40%

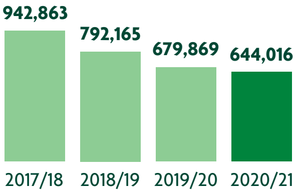
SAVING ALMOST
300k
TONNES
OF CO_2
SINCE 2017

We have installed 194 electric vehicle charging points across our stores, so far enabling customers to drive the equivalent of over four million miles

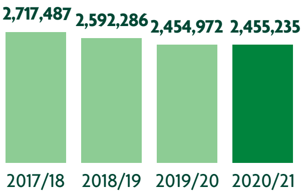
Group greenhouse gas emissions for year ending 31 December 2020

			Tonnes of CO_2e		
Emission source	2017/18 Baseline Year[6]	2019/20 Prior Year	2020/21 Current Year	Change vs baseline	Change vs 2019/20
Combustion of fuel and operation of facilities					
Natural Gas	166,154	141,572	130,353	22%	8%
Haulage[1]	135,029	139,164	170,634	(26%)	(23%)
Company Cars[2]	1,791	2,140	1,221	32%	43%
Fugitive Emissions					
Refrigerant	183,207	85,039	68,011	63%	20%
Total – Scope 1	486,181	367,914	370,218	24%	(1%)
Energy purchased for Own Use (Scope 2)					
Electricity[3]	456,682	311,954	273,799	40%	12%
Total – Scope 1 and 2[4]	**942,863**	**679,869**	**644,016**	**32%**	**5%**
Intensity Ratio: Tonnes of CO_2e per m^2 GIA	0.356	0.252	0.236	34%	6%
Underlying Energy Use (MWh)					
Electricity	1,299,017	1,220,479	1,174,396	10%	4%
Natural Gas	902,207	770,039	708,610	21%	8%
Haulage	508,955	455,917	567,022	(11%)	(24%)
Company Cars[5]	7,308	8,537	5,207	29%	39%
Total	**2,717,487**	**2,454,972**	**2,455,235**	**10%**	**(0%)**

Combustion of fuel and operation of facilities
2017/18–2020/21



Underlying energy use (MWh)
2017/18–2020/21



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1 Haulage data includes scope 3 Well-to-Tank emissions which takes into account the extraction and transportation of fuel bringing reporting in line with our science based targets.
2 Company car data does not include scope 3 – employee commuting.
3 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. Electricity is reported using a location based approach, focusing on absolute reductions rather than sourcing.
4 Plus scope 3 Well-to-Tank emissions for Haulage.
5 Company Car data – revision to MWh conversion 2019.
6 Re-baselining of site inclusions/exclusions where material.

2.1m

meals redistributed to FareShare this year

Partnering with Too Good To Go

We redistributed over a million meals to Manchester-based charity 'The Bread and Butter Thing' this year

Food waste

We have committed to reducing food waste in our stores by 50% by 2030 compared to a 2016 baseline. This is in line with the United Nations Sustainable Development Goal (SDG) 12.3. Our first priority is to minimise the levels of surplus we create. When waste does occur, our 'Unsold Food' programme works with a range of partners to ensure it can be redistributed. This includes:

- Too Good To Go – we sold over 100,000 'Magic Bags' through an app, which gives customers access to good quality products at a fraction of the retail price; and
- charities and community partners – our stores are empowered to give surplus food to local causes, such as food banks.

Across our manufacturing and distribution centre sites, we redistributed food through a range of partners including Company Shop and The Bread and Butter Thing. Where food cannot be redistributed, we use anaerobic digestion to generate electricity, which in turn contributes to renewable energy generation across the UK.

Plastics

Reducing plastic packaging is consistently highlighted as one of the top issues our customers care about in our annual sustainability survey. Our target is to reduce own-brand plastic packaging by 50% by 2025 against a 2017 baseline.

We were founding signatories to the UK Plastic Pact and have committed that all of our own-brand plastic packaging will be reusable, recyclable or compostable by 2025.

Some of the steps we took in 2020 include:

- trialling the replacement of plastic 'bags for life' with sustainable paper-based alternatives to establish viability for a full store-wide roll out in 2021;
- bringing our extended range of loose fruit and vegetables to an additional 269 stores, giving customers even more opportunities to buy products without plastic; and
- removing glitter, which can be an ecological hazard if it becomes dispersed on land, rivers and oceans – across all our own-brand ranges.

Group greenhouse gas (GHG) emissions methodology

We have reported for the calendar year 1 January to 31 December 2020 in order to remain consistent with our historical footprint report and baseline year verification. We have used the Government's Environmental Reporting Guidelines (2020) to prepare these numbers, and the emissions factors from the UK Government GHG Conversion Factors for Company Reporting (2020).

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.

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. The reporting boundary has been determined by operational control, which includes emissions from the operation of the Group's supermarkets, manufacturing, distribution sites and operation of its haulage fleet. We exclude our Hong Kong office and Bos Brothers Fruit & Vegetables BV, one supermarket which consumes fuel oil (representing less than 0.1% of the total footprint). We also exclude liquid CO_2 at Winsford, a new process identified which we will look to include going forward.

Our carbon footprint has been based on the requirements of World Resources Institute (WRI) GHG Protocol, and 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.

Group greenhouse gas emissions verification

Verification was carried out in line with the reporting requirements of the SECR. Scope 1 and scope 2 Greenhouse Gas Emissions are subject to independent assurance by Challenge Sustainability in accordance with the ISAE 3000 standard. The full assurance statement with Challenge Sustainability's scope of work, and basis of conclusion, will be published in our 2020/21 Sustainability Report on our website in May 2021.

Protecting the environment and supporting communities continued

Growing British agriculture

Our range of 'For Farmers' milk has now returned over £18.5m to farmers to advance health, welfare and environmental measures

100% of our eggs came from free-range production systems in 2020, five years ahead of target

Deforestation

Deforestation is a contributing factor to biodiversity losses and climate change. We have committed to zero deforestation in our supply chains by 2025, including the use of both palm oil and soya – two important forest risk commodities.

In 2020 we reported use of 99% Roundtable on Sustainable Palm Oil (RSPO) certified palm derived ingredients. In addition, we implemented a sustainable soy sourcing policy, setting out targets for 100% of soya (including in animal feed) in own-brand products to come from sustainably certified sources by 2025. We also became members of the UK Roundtable on Sustainable Soy, committing to reporting our progress publicly.

Fish

We have continued to support a range of projects to help support sustainable domestic and international fisheries. These include the development of a fishing gear recycling programme for harbours in the South West of England, working with Seafish & Odyssey Innovations. Since we started supporting this programme over 100 tonnes of plastic netting have been recycled. We have also become a member of the Global Tuna Alliance, supporting improvement in the management of international stocks.

Textiles

We continue to make progress towards our sustainability targets across our Nutmeg clothing range. We are increasing the amount of recycled polyester that we use within our ranges and, as part of our commitment to zero deforestation, we are making progress towards all our viscose being sourced from responsibly managed forests.

We are also part of the Better Cotton Initiative, which makes global cotton production better for the people who produce it, better for the environment it grows in, and better for the sector's future. 27% of our cotton was sourced as Better Cotton in 2020, and we are aiming to reach 100% by 2025.

Animal welfare

Ensuring every animal in our supply chain is content and has a good life through well managed farm animal welfare is a key priority for us and our customers:

- **Chicken:** 100% of our fresh chicken will be sourced from farms where chicks are 'born in the barn' by 2023 (70% achieved to date). We are also working with our integrated supplier to lay down a breeding flock so we can provide a range of chicken grown to higher welfare requirements. We will also support the launch of the UK's first 'Windstreek' farm to improve sustainable poultry production.
- **Eggs:** We met our target to procure 100% of our eggs from free-range production systems in 2020 – five years ahead of target. We also introduced a new 'For Farmers' range of eggs, giving customers the option to pay more for eggs from farms which are investing in biodiversity and welfare measures.
- **Beef:** Compassion in World Farming recognised our commitment to improve the health and welfare of beef from the dairy chain by 2025 with a Good Calf Award in 2020.
- **Pork:** To improve welfare, we continued our research into environmental enrichment with the University of Leeds and introduced new farm standards that require all supplying farms to undertake additional stockmanship and welfare training alongside the installation of CCTV by 2022.
- **Dairy:** We are the only retailer in the UK with fresh milk supply 100% aligned to and compliant with the industry-leading Arla UK 360 standard. This includes the policy to ensure every calf has a value. Our range of 'For Farmers' milk has now returned over £18.5m to farmers to advance health, welfare and environmental measures.

Managing the responsible use of antibiotics has remained a key area of focus and we do not permit routine use. In 2020 we took the additional step of banning the use of colistin – an antibiotic deemed as a last resort treatment for human health.

Responding to the communities we serve

£500,000

donated by the Morrisons Foundation to charities working with homeless people

CELEBRATING WORLD BOOK DAY

The Morrisons Foundation donated 7,300 new books to schools nominated by Community Champions across England, Scotland and Wales.

Working in partnership with the National Literacy Trust (NLT), the project offered 125,000 pupils the opportunity to enjoy a free bundle of books.

Our community

Each of our 497 stores across the UK is part of its own unique community, which we are proud to serve

Responding to local needs

In response to the COVID-19 crisis, we strengthened our commitment to communities by investing the equivalent of an extra £5m (450,000 hrs) into our network of Community Champions. These are in-store colleagues who work with the local community, so they can better respond to local needs.

As part of our strategy to become integrated into the communities we serve, our Community Champions have undertaken an extensive 'listening' programme with community stakeholders to better understand priorities and needs locally. This has enabled each store to develop a detailed local Community Plan, which will be implemented in 2021.

During the pandemic, we recognised that many of our elderly, vulnerable and isolated customers would struggle to access food, especially if they were not able to use digital platforms. To play our full part in feeding the nation, we launched our doorstep delivery service, which enables customers to order food by phone for free next day delivery from their nearest store.

As schools reopened after the first lockdown, we launched a new meal delivery service for primary school children who were eligible for free school meals and having to self isolate. The Morrisons Kids Meal Pack, developed in partnership with our company nutritionist, was designed to provide healthy and balanced meals. To make it as easy as possible, schools were able to call and order packs from the Morrisons doorstep delivery team and have them sent direct to children's homes.

Tackling food poverty

In March 2020, food bank charities across the country began reporting significant reductions in donations, whilst at a time when demand for their services was increasing. To help restock the nation's food banks we committed to donating £10m of dedicated stock, which was distributed locally by our Community Champions.

We also set up Food Bank Hubs in our stores – giving customers the option to purchase pre-packed bags of groceries designed around the needs of local food banks, which we then distributed on their behalf. In addition, we introduced ways for customers to make monetary donations to the Trussell Trust when doing their online shopping. The Trussell Trust works to stop UK hunger and poverty, through a network of over 1,200 food banks.

Morrisons Foundation

In 2020 the Morrisons Foundation donated £3m in grants to registered charities. Since launch it has donated over £32m and has supported over 2,500 charities to make a positive difference in local communities.

During the COVID-19 crisis, the Foundation helped charities to respond to the immediate needs of their communities. This included prioritising COVID-19 related applications, giving charities greater flexibility over how they spend funds, and making faster payments.

The Foundation also set up a dedicated fund to support charities working with homeless people. Over £500,000 was awarded to charities across the UK, providing shelter, hot meals and essential supplies to people experiencing homelessness, including rough sleepers who are particularly vulnerable to COVID-19.

Customers can purchase pre-packed bags of groceries designed around the needs of local food banks

£10m

of dedicated stock donated to the nation's food banks

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 four years.

SR Further details on the steps that we have taken to tackle modern slavery and human trafficking within our Group businesses and supply chains can be found on our corporate website at www.morrisons-corporate.com/cr/ethical-trading/tackling-modern-slavery-and-forced-labour/

Making a positive contribution

During the year our colleagues and customers helped raise significant amounts of money for good causes, including:

£750,000

Marie Curie Daffodil Appeal

£1.25m

Poppy Appeal

£65,000

Children In Need

£200,000

The Trussell Trust

Supporting charities

During the year, our colleagues, customers and suppliers raised over £3m in the year for our national partnership with CLIC Sargent, a charity which provides vital support to young cancer patients and their families. The money was used to provide grants to help families with the financial costs of cancer and has funded the purchase of a property in Manchester which will open as a 'Home from Home' for cancer patients in late 2021. We have decided to extend our partnership with CLIC Sargent to February 2022 so that we can deliver on our fundraising target of £15m.

As a strategic partner of the Poppy Appeal, we worked hard to adapt our support in light of the pandemic. Alongside implementing systems to collect donations at our checkouts and online, many of our in-store colleagues also volunteered to fundraise – together this helped us to raise over £1.25m. We also raised over £750,000 for Marie Curie's Great Daffodil Appeal in March 2020 and £65,000 for Children In Need in November.

Responsible supply chain management

We continue to acknowledge the responsibility we share with our suppliers to respect the internationally recognised human rights of the people who make and sell our products. This includes fair working conditions, health and safety in the workplace, gender equity and respect for the diverse communities in which we operate.

COVID-19 has exacerbated existing supply chain vulnerabilities relating to labour exploitation and modern slavery. We responded by strengthening partnerships with external organisations, including regional police teams. We have also delivered bespoke e-learning to over 10,000 colleagues in our manufacturing and logistics operations, and hosted an online event in partnership with 'Invest in Bradford' to build awareness and capacity in the local business community.

We understand that our customers and stakeholders expect us to be increasingly transparent about our structure, business and supply chains. We work closely with our suppliers to ensure they operate in a responsible manner, and we want to make it possible for customers and other stakeholders to raise concerns directly with us. In 2020 we published details of all first tier factories producing our Nutmeg branded range of clothing and our own-brand food and non-food products, including data relating to gender and access to worker representation.

In 2020 we commissioned an expert third party to undertake a review of environmental and human rights risks in our global food supply chains. The results of this study will inform our approach to risk mitigation and improvement from 2021 onwards.

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 social matters is shown in this section on pages 31 and 32;
- information on environmental matters is shown in this section on pages 26 to 30;
- information on our colleagues is shown in Rewarding our colleagues section on pages 18 and 19 and as part of the Directors' report on page 75;
- our respect for human rights is set out in our Corporate governance report on page 52;
- our approach to anti-corruption and anti-bribery matters is set out in our Corporate governance report on page 52;
- our business model is described on pages 4 and 5;
- our principal and emerging risks, and how we manage them, are described on pages 33 to 38; and
- other non-financial key performance indicators are shown on page 1.

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 helps us deliver our ambitions for all of our stakeholders and means that we are in a better position to achieve our priorities, respond to emerging risks and create opportunities.

The risk management process

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 to the business (likelihood and impact), the extent of any mitigating controls and the resultant net level of risk. They also detail any further plans to mitigate or reduce risks and the associated 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 subgroup of the Executive Committee each year.

This subgroup reviews coverage across the Group's principal risks, the key controls already in place and any risk mitigation plans. The Executive Committee reviews the output from the subgroup at half year and reviews the Group's principal 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.

The Group's 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 new risks or 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 systems of internal control and has also established a rotational monitoring process for key controls.

Where potential weaknesses are identified, the Risk and Internal Audit team 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, risk appetite and key risk indicator reporting on a regular basis. Read more on risk governance in the Audit Committee report on pages 48 to 51.

Principal and emerging 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.

Changes to principal risks

During the year, two new Group risks have been added. One in response to COVID-19 and one relating to protecting our environment. We have also replaced the Data risk with a new Information Security risk.

COVID-19

Following the extensive and enduring impact of the COVID-19 pandemic, the Board chose to include COVID-19 as a new separate Group principal risk at the half year.

Our response continues to be coordinated through a business wide COVID-19 business continuity team. Our key focus remains on providing a safe working and shopping environment for our colleagues and customers respectively, responding to any changing regulations and local restrictions and working closely with our suppliers.

We continue to follow all COVID-19 UK and devolved Government guidelines and are hopeful that the progress being made in rolling out the vaccine will continue to reduce the impact of this risk to our colleagues and customers.

The risk management process

The risk management framework

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	Assess principal, operational and emerging risks and undertakes regular monitoring of risk
Risk and Internal Audit	Coordinates risk management activity through review of risk registers, agreement of risk mitigation plans and preparation of risk reporting
Operational Management	Reviews operational risks, operates controls and implements risk mitigation plans

Managing our risks continued

Environment and Sustainability

Our processes to identify emerging risks have consistently shown us how important the environment and sustainability are to our customers and wider stakeholders.

This year the Board has decided to add a new Group risk for Environment and Sustainability to capture the risks associated with not achieving our commitments to lower our carbon, plastic, pollution and waste footprint.

UK – EU Trade

Following the agreement of a zero-tariff deal on the movement of goods, we have reduced the net risk associated with the UK-EU principal risk. We remain focused on executing our plans to mitigate any impacts arising from the UK's changing relationship with the EU, including new border controls, any increased costs and the new points based immigration system.

The Group will continue to monitor ongoing developments and requirements through 2021. This will include working with suppliers ahead of additional UK border checks on goods entering the UK from the EU.

Competitiveness

The net risk for Competitiveness has increased in the year. This is due to the increased pressure on costs, competitor activity and customer price sensitivity due to the additional external economic risk factors and the impact of COVID-19.

Information Security

Given the rapidly evolving external threats, increased levels of cyber attacks and the complex nature of managing information security risks, we have replaced the previous Data Group key risk to one which focuses on Information Security.

As the governance framework for the General Data Protection element of the Data risk has matured, this is now included within the existing Regulation Group risk.

Food Safety, Product Integrity and Ethical Sourcing

Our previous analysis of emerging risks has repeatedly highlighted the increasing importance that customers place on product integrity, provenance and ethical sourcing. Therefore, we are expanding the existing risk of Food Safety and Product Integrity, to include Ethical Sourcing. This risk will now encompass all aspects of 'Product' with the exception of price which is included within Competitiveness.

Emerging risks

Our Risk Management process incorporates the formal identification and management of emerging risks. These are reported to the Audit Committee 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.

We continue to review and assess the potential impacts of key risks including climate change, consumer eating habits and trends, innovations in technology, future pandemics and public health concerns.

Climate change risk management

Climate change can impact our business in a number of ways including security of food supply, price inflation, impacts on economies and disruptions to communities. Reductions in Greenhouse Gas emissions not only minimise these threats but can also deliver efficiencies, operational cost savings and create new market opportunities. Stakeholder pressure for businesses to act also continues to grow, with customer awareness of climate change at an all-time high.

- These impacts and the evolving nature of the associated risks have been considered as part of our review of both emerging risks and the Group's principal risks and have been recognised through the introduction of a new Group risk for Environment and Sustainability.
- We continue to consider the threats and opportunities climate change presents to our business. These risks, and the processes in place to identify and manage them, are discussed as part of our regular functional risk register reviews.
- Addressing climate change is one of the ten key focus areas in our Corporate Responsibility strategy and in 2019 we launched our science-based operational carbon reduction target which will see us achieve Net Zero emissions by 2040. We are also working on a target for our indirect or scope 3 emissions, including working with British farmers who directly supply us.
- Our corporate responsibility programme is formally incorporated into our governance structures through the Sustain Sub-Committee for climate and environmental considerations with representatives from across the business.
- This is in line with our new stakeholder ambition 'the environment and communities'.

We continue to report our progress in this area in our annual Corporate Social Responsibility report and have considered the additional requirements created by the new Task Force on Climate-related Financial Disclosures (TCFD) required for the 2021/22 Annual Report. See page 27 for more details.

Principal risks

Risk	Description	Mitigation
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, online operation, 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 4 5 7	The Grocery Sector continues to be highly competitive. If we do not engage with our suppliers or effectively manage our trade plan, harnessing the benefits of new technology 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 plans and quality and respond to customer feedback.
COVID-19 NEW #	COVID-19 continues to have a significant and widespread impact on our business. Failure to appropriately respond to and manage the impacts of COVID-19 on our colleagues, customers and suppliers or to adapt our ways of working could adversely affect our business performance.	• A dedicated team is in place to coordinate our response with representation from all key business areas; • The safety and wellbeing of our colleagues and customers remains our top priority and we continue to adhere to the UK and devolved Government guidelines in all areas; • We continue to apply social distancing measures in all stores and sites, through installing protective screens and making hand sanitiser, gloves and face coverings available for all colleagues; • Increased focus on cleaning and hygiene; • We have a well managed balance sheet and liquidity strategy which has provided resilience to operate through the pandemic as well as take actions to support our customers, colleagues and suppliers; • We continue to closely monitor colleague absence and recruited new colleagues in stores, manufacturing, logistics, online and home delivery; • No colleagues have been furloughed. We have enhanced pay guarantees for sick, self-isolating and affected colleagues. We have provided greater flexibility around shifts and annual leave and in the year awarded a 6% 'thank you' guaranteed annual bonus for all front line colleagues; • Increased our online capacity, introduced click & collect, launched food boxes and expanded our partnerships with Amazon and Deliveroo. We also introduced a telephone order grocery doorstep delivery service to support the most vulnerable; and • We continue to work hard with all our suppliers including supporting British farmers and moved to immediate payment terms for smaller suppliers.
Customer ↔ #	There is a risk that we do not meet the needs and expectations of our customers in respect of price, range, quality, service or respond to changes in eating and shopping habits. 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 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; • We actively respond to customer complaints and aim to continually improve the customer experience; and • Community Champions actively engage local communities to support local charities and initiatives such as doorstep deliveries.

Principal risks continued

Risk	Description	Mitigation
Environment and Sustainability NEW ① ② ③ ④ ⑦	This risk relates to a failure to reduce the environmental impact of the business, meet the external sustainability commitments and expectations of our customers and wider stakeholders which could result in financial penalties and/or reputational damage.	• Developments and progress in our sustainability agenda are reported to the new Sustain Sub-Committee and to the Corporate Compliance and Responsibility Committee; • The Corporate Compliance and Responsibility Committee meets regularly during the year and performs an oversight, monitoring and advisory role for key areas including environment, ethical compliance and corporate responsibility; • Each Sustain Workstream commitment has a responsible business owner providing updates to the Corporate Responsibility team, the Sustain Sub-Committee and their relevant Executive Committee Director; • Our Corporate Responsibility Report is published annually on our corporate website, sharing progress against our environmental, ethical and sustainability targets; • We have a clear strategy to reduce Morrisons emissions footprint and expect to achieve Net Zero emissions by 2040; • This includes our ambition to be Net Zero in our UK agriculture supply chain by 2030, working with the farmers who directly supply us to reduce emissions from livestock and produce, increase carbon sequestration and improve the use of renewable energy on farm; and • We pledge to reduce the plastic we use in our products by 50% with 100% of plastic packaging used on our products to be recyclable, reusable or compostable by 2025.
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 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; • The Group's Treasury function is responsible for the forward-planning and management of funding, interest rates, 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 is reviewed on a regular basis; • 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 continue to monitor credit risk across our Wholesale customers.
Food Safety, Product Integrity and Ethical Sourcing ↔ ① ② ③ ⑤ ⑥ ⑦	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. It is also important to us to support sustainable, ethical and resilient supply chains.	• 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; • Our Ethical Trading Policy and Code establish key requirements for all suppliers. We actively monitor compliance through an extensive third party audit programme and provide support for suppliers when issues are identified; • We work closely with our supply chain to understand food provenance, sustainable and ethical practices including animal welfare; and • Our measures to tackle Modern Slavery are reported annually in our Modern Slavery Act Statement.
Health and Safety ↔ ② ⑤ ⑥ ⑦	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. These have been updated in light of our expanded online operations; • A programme of health and safety audits is in place across the Group with resource dedicated to manage this risk effectively; • Introduced a programme of store and site COVID-19 health and safety audits; and • Management regularly monitors health and safety performance and compliance and has introduced new electronic accident reporting across all stores and sites to help identify and respond to any trends.

Risk	Description	Mitigation
Information Security NEW ① ② ③ ④ ⑤ ⑦	A cyber attack or security breach could lead to a loss of customer, colleague or Group confidential data, business disruption, reputational damage and significant fines. The risk environment is challenging, with increased levels of sophisticated cyber-crime, complex regulatory requirements and our use of a number of third parties.	• The Data Steering Group has the responsibility for overseeing data management practices, policies, regulatory awareness and training. This includes change management activities and a review of third parties managing data on our behalf; • Information security policies, procedures and controls are in place, including encryption, network security, systems access and data protection; • This is supported by ongoing monitoring, reporting and rectification of vulnerabilities; and • Focused working groups are in place which review the management of data across the business including colleague data, customer data, commercial data, financial data and the sharing of any data with third parties.
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; • During the year, no colleagues have been furloughed and we awarded a 6% 'thank you' guaranteed annual bonus for all our front line colleagues; • Colleague engagement surveys, listening sessions and networking forums are used to understand and respond to our colleagues; and • We take pride in creating an inclusive work environment where everyone feels welcome and we celebrate our differences.
Regulation ↔ #	The Group operates in an environment governed by numerous regulations including GSCOP (Groceries Supply Code of Practice), General Data Protection Regulation, competition, employment and regulations over the Group's products. The Board takes its responsibilities very seriously and recognises that a breach of regulation can lead to reputational damage and financial damages to the Group. Consideration is also given to any potential changes to regulations.	• The Group monitors for potential regulatory and legislative changes and the impact on contractual arrangements; • We actively engage with government and regulatory bodies on policy changes which could impact our colleagues and our customers; • 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; • We have an established General Data Protection Regulation governance framework including data management practices, policies, regulatory awareness and training; and • We have training, policies and legal guidance in place to support compliance with Competition Law and other regulations.
UK – EU Trade ↓ ① ② ④ ⑤ ⑦	Failure to adequately adapt to the post-Brexit trading and regulatory environment could have significant implications for business performance; including supply chain disruption, availability and rising costs due to currency fluctuations.	• A business-wide Stability Group continues to monitor regulatory requirements and supply chain impacts and coordinate our operational responses; • We continue to actively engage our key suppliers to reduce any impact to our supply chains and have maintained our focus on UK sourcing; • We increased the stock holding on a number of key lines to ensure availability for our customers; • We have maintained Authorised Economic Operator status to enable streamlined border checks and have introduced additional procedures to support our store in Gibraltar; • We have also continued to work with our suppliers and freight providers to identify alternative supply routes to avoid the busiest ports; • The Group has a Treasury policy in place for hedging to mitigate risks on currency fluctuations. All required changes to taxes and tariffs have been applied; and • We continue to monitor the availability of labour across the Group and we have enacted specific people plans across our manufacturing and logistics sites including supporting EU colleagues through the process of applying for settled status and increasing the number of apprentices.

Key

↑ Increase in net risk
↔ No change in net risk
↓ Decrease in net risk
NEW New risk

Link to our seven priorities

① Be more competitive
② Serve customers better
③ Local integration and serving the community
④ Simplify and speed up the organisation
⑤ Naturally digital
⑥ Pride in hygiene
⑦ Creating and scaling for profitable growth
Underpins all seven priorities

Principal risks continued

Viability statement

The Group's business model and strategy, as outlined on pages 4 to 5, 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 2024. 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 4 to 5), opportunities for growth, performance of its strategy (including seven priorities (pages 10 to 13)), as well as the principal risks (pages 35 to 37). The latest strategic planning update with the Board was held in November 2020 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.

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.

The Group continues to closely monitor the constantly changing risk of the global COVID-19 pandemic, which has significantly impacted the Group in 2020/21, for example with regard to the closure of cafés, reduced fuel volumes and the additional costs of ensuring colleague and customer safety. The future impact will depend on the severity and length of the UK outbreak, which continues to be uncertain. The key risks to our operations have been considered within the scenarios tested and in the reverse stress testing performed. Based on these, 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	Business interruption, Compliance,[1] Regulation	A serious data security or regulatory breach results in a significant monetary penalty and a loss of reputation among customers leading to an impact on sales and profit.
Banking crisis	Financial and 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	Competitiveness, Customer, Regulation, Financial and Treasury	Increased inflation and import costs as a result of the new trade deal with the European Union.
COVID-19	COVID-19 Competitiveness, Customer, Financial and Treasury	A scenario where COVID restrictions continue for a prolonged period of time resulting in increased costs, constraints on café hours and reduced fuel sales.

[1] This captures multiple principal risks relating to compliance, including food safety, health and safety.

Section 172

In addition to examples throughout the Strategic report the Board has provided a statement on page 41 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 five stakeholder groups, the community and the environment.

Approval of the Strategic report

Pages 1 to 38 of the Annual Report form the Strategic report.

The Strategic report was approved by the Board on 10 March 2021 and signed on its behalf by:

Jonathan Burke, Company Secretary
10 March 2021

Chair's governance statement

Dear Shareholder,

On behalf of the Board, I'm pleased to introduce Morrisons Corporate governance report for the financial year, 2020/21.

Like each and every one of our 118k colleagues, during 2020/21 the Board very quickly adapted to new ways of working, ensuring smooth decision making and maintaining high standards of corporate governance.

Andrew Higginson
Chair

2020 has been a truly unforgettable year for the nation and has required large changes in both our Group's operations and our Board processes.

The pandemic significantly changed how the Board communicates and how members engage with each other. The use of technological solutions ensured that the Board's operations continued smoothly in the midst of a very challenging year. As always, we approached all decisions during the year with the long-term benefits of all our stakeholders firmly in mind. As a Board, we recognise the unique impact that Morrisons can have in ensuring that our nation remains safe and fed during the pandemic. We are also particularly proud of the work we do to help protect the environment and support communities.

Board effectiveness

Despite the removal of 'face-to-face' meetings, the Board and management team continue to work well together. The Board draws on the Directors' range of experiences, knowledge and skills to help improve the Group for all our stakeholders.

We are delighted that Jeremy Townsend, Susanne Given and Lyssa McGowan have joined the Board. They bring with them a wealth of experience and knowledge that will truly benefit our Group. They have each completed an in depth initial induction programme, which will continue with further visits to our manufacturing sites, distribution centres and stores over the coming year once allowed.

During the year, an external review of the effectiveness of our Board was undertaken by Consilium Board Review, and KPMG LLP carried out a review of our governance processes. We were pleased that both reviews found that governance and compliance within Morrisons remains strong, and the recommendations that they made to further enhance the Board's effectiveness have already started to be put into practice.

> **"In an extremely challenging year, our Board is very proud of what it has achieved on behalf of each of our stakeholder groups."**

AGM

For many of our shareholders, the AGM is the highlight of our corporate calendar, therefore the Board was very mindful of this when we made the decision to hold a closed AGM this year, to support the country in preventing the further spread of COVID-19. As with many matters this year, we had to very quickly find different ways to ensure that communications with our shareholders would not be detrimentally impacted by the way the formal meeting was held. We were very pleased with the response we received from our shareholders, and many of the answers to their questions were included in a video that was made available on our corporate website.

The Board was delighted by the 97% support for the Annual Report on remuneration, but noted that the Remuneration policy only received 65% support. As we communicated in December, the Board has discussed this with shareholders to better understand the reasons for the voting outcomes, and the Chief Executive and Chief Operating Officer have since voluntarily committed to a reduction in their pension levels to those available to the workforce by the end of 2022. Our Chief Financial Officer was appointed in February 2020 with a 5% pension level.

The Board also noted that the voting outcome for the re-appointment of Belinda Richards to the Board was primarily driven by the votes from a small number of institutional shareholders who applied a more stringent voting policy on Directors' external commitments than is market practice. Whilst the Board supported Belinda's re-appointment, she has subsequently stepped down from the Board. We are delighted with the experience that Jeremy Townsend has brought to the Audit Committee, by utilising his previous experience as a FTSE 100 CFO to truly bolster his Chairmanship of this Committee.

Corporate Governance Code

Throughout the year, the Group 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 this guidance, the changing environment in which we work, the needs of all our stakeholders and the delivery of our strategy.

Colleague voice at the Board

While the culture of listening is well established throughout Morrisons, this year has truly focused the Board members' minds on its value.

As the designated Non-Executive Director for workforce engagement, Kevin Havelock has attended virtual sessions with colleagues in various roles within the Group to understand the culture and their opinions in greater depth.

Engaging with all stakeholders

We continue to review and improve our business operating model based on 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 continue to be committed to listening hard to all our stakeholders and responding quickly wherever we can.

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, other than 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 2020/21 and to the date of this Annual Report.

In accordance with Provision 4 of the 2018 UK Corporate Governance Code, we published an update on the key actions that have been taken by the Board of Directors and Remuneration Committee in respect of two of the resolutions put to our shareholders at the 2020 Annual General Meeting (AGM).

Remuneration Policy (Resolution 3)

In addition to the comprehensive shareholder engagement programme undertaken during the development of the Directors' Remuneration Policy, the Chair of the Remuneration Committee has further engaged with shareholders to understand their feedback regarding the policy vote. From this engagement, it is understood that the significant factor regarding the vote was the treatment of pension allowance for incumbent Executive Directors. More information on the actions taken in response to this vote is included in the Directors' remuneration report on page 56.

Belinda Richards (Resolution 12)

The Board also noted that the outcome of the vote for the re-appointment of Belinda Richards to the Board was primarily driven by the votes of a small number of institutional shareholders who applied a more stringent voting policy on Directors' external commitments than is market practice. The Board strongly supported Belinda's re-appointment; however, as announced on 6 July 2020, Belinda stepped down from the Board in order to take up a new role as an independent Non-Executive Director of Jupiter Fund Management PLC. The Nomination Committee continues to carefully monitor all Directors' external time commitments and would take appropriate action should concerns be identified regarding their commitment to the Company or their ability to dedicate sufficient time to their duties.

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.

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Doing the right thing for all our stakeholders

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.

As shown on page 4, Morrisons has outlined five main stakeholder groups; however, the Board and Group also regularly consider the needs of other stakeholders such as the Government, Regulatory Bodies, Charities and Non-Governmental Organisations (NGOs) when making decisions.

Our business model and Board operations are focused on delivering long-term benefits for all our stakeholders while maintaining a high standard of business conduct. The Board recognises the need for genuine, well informed and dynamic engagement with our stakeholders and believes the Group has the right representatives formally and informally engaging with a wide and diverse selection of stakeholders (more information on this can be seen on pages 14 to 32 of this report). The Board spends a lot of time listening to and understanding the views of our stakeholders to form an integral part of any decision making.

COVID-19

Throughout the COVID-19 pandemic, the Board has considered all stakeholders in the decisions made, striving to balance all their needs, alongside considering the long-term and reputation impacts. Some examples of our decision making are set out below:

The Board set the purpose through the pandemic to truly galvanise colleagues and offer the full weight of the Company behind actions that could really make a difference. The Board supported management in responding very quickly to ensure that our stores and sites remained safe places to work and shop and rapidly increased our online operations for customers to provide them with greater choice in their shopping method. Our doorstep delivery service and foodboxes have been a lifeline for our most vulnerable customers, responding quickly to the anxiety we were hearing from these customers on how to access groceries.

Early in the pandemic, the Board recognised the exceptional efforts of our colleagues and decided to guarantee an enhanced colleague Bonus scheme as a way of thanking them for their dedication and hard work. This decision benefits each of our stakeholders because it is our motivated and dedicated colleagues that implement and maintain all of the improvements made in the business. Further to this, the Board also approved an increase in our front line retail colleague hourly pay rate from £9.20 to £10 to start in April 2021.

Despite the AGM having to be limited this year because of contact restrictions, the Board considered it imperative that all shareholders were provided with full opportunity to challenge the Directors, and raise questions with them, in the usual way. To enable this, shareholders were invited to submit questions, with the Directors' responses recorded on video and made available on our website.

Alongside the normal day-to-day interactions with our suppliers, we have used our supplier engagement programmes to listen and respond to feedback. Suppliers have told us that it has been a very difficult year for them. Understanding the impact of the pandemic on our suppliers, the Board acted swiftly to approve the immediate payment of smaller suppliers to ensure that we continue to support these vital industries. The Board has continued to monitor the Group's compliance to the Groceries Supply Code of Practice (GSCOP) to ensure this remains a priority in these unprecedented times.

We care about supporting our communities, and our network of Community Champions plays a vital role in helping us to develop both national initiatives and targeted local responses. Our purpose through the pandemic set the tone for playing a wider part in our communities. Responding to the reduction in food bank donations, we donated £10m of stock targeted to where it was needed most through the Community Champions network.

Acquisition of Lansen Nursery Limited ('Lansens')

In a year that required more immediate responses to changes in operations than ever before, the Board also considered many long-term strategic decisions. One such example was the acquisition of Lansen Nursery Limited (now renamed Lowlands Nursery Limited). The Board considered the various benefits for customers and, ultimately, shareholders that further integration of our horticulture supply chain will bring. The potential benefits for the colleagues of both Lansens and Morrisons were also carefully considered. The ability to grow flowers and plants within the Group will allow us to better balance crops throughout the growing seasons, meaning less waste and therefore a reduced environmental impact.

Special dividend

At the beginning of the year, the Board anticipated announcing another special dividend. However, the Directors determined that it would be prudent to defer the decision given the unprecedented events and uncertainty around the pandemic. The Board decided that this decision would give the Company maximum future flexibility around how we prioritise uses of our strong cash flow to ensure long-term benefits for all stakeholders.

The Board continued to review all capital allocation options throughout the year, and, in December 2020, after considering the strong balance sheet and underlying cash flow positions, supported by our freehold property portfolio and pension surplus, decided to pay a special dividend relating to the previously deferred payment for H2 2019/20 (the period before COVID-19) of 4.00p per share. In making this decision for shareholders, the Board once again evaluated the impact on customers, colleagues, suppliers, the environment and community.

Reducing our carbon and plastic footprint

The Board continued to recognise that reducing plastic packaging is a key issue for our customers. The Board considered the exceptional work that the Group has already done in this area, deciding to increase our target on reducing our own-brand primary plastic packaging by 50% by 2025. In making this decision, the Board recognised that the removal of plastic packaging needs to be carefully managed to ensure that it does not reduce the safety, the quality, or the shelf life of products. The Board also recognises the need to work alongside our suppliers to achieve this stretching target.

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.

Any additional external appointments require approval by the Chair, Chief Executive, Senior Independent Director and Company Secretary. Significant appointments are only approved if it is not believed that these appointments will negatively impinge on the Directors' commitment or time to Morrisons. All current Directors submit themselves for election or re-election at the AGM to be held on 10 June 2021.

1. Andrew Higginson
Chair
C R N

2. David Potts CBE
Chief Executive Officer
C

3. Trevor Strain
Chief Operating Officer
C

4. Michael Gleeson
Chief Financial Officer

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

6. Susanne Given
Independent Non-Executive Director
A C R N

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

8. Lyssa McGowan
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, N Brown Group PLC and the IGD, 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 Evergreen Garden Care Limited
Chairman of the PRL (Premiership Rugby)
Adviser to Shore Capital

2. David Potts

Appointment
David joined the Group as Chief Executive Officer 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 (ICAEW).

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. He became Interim Chair of the Corporate Compliance and Responsibility (CCR) Committee in April 2020.

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 in 2019.

External roles
Chair of Purity Soft Drinks
Chair of WorldSkills UK
Chair of Away Resorts
Senior Advisor to Portland Communications
Executive Chair of RedCat Pub Company

6. Susanne Given

Appointment
Susanne joined the Board as a Non-Executive Director in August 2020.

Experience
Susanne has deep retail experience, across a variety of channels, and particularly in the clothing and homeware categories. Susanne was previously a Non-Executive Director of Deloitte NSE, Eurostar International Ltd, Chair of Push Doctor Ltd and Chair of Outfittery GmbH. Between 2012 and 2015, she was Chief Operating Officer at Superdry PLC and was Group Director of Fashion & Beauty for John Lewis & Partners between 2011 and 2012.

External roles
Chair of Made.com Ltd
Non-Executive Director of Tritax Big Box REIT PLC
Non-Executive Director of Trent Holdings Ltd
Non-Executive Director of Al-Tayer Insignia

7. Kevin Havelock

Appointment
Kevin joined the Board as a Non-Executive Director in February 2018. He was appointed as Chair of the Remuneration Committee in April 2020.

Experience
Kevin has significant fast moving consumer goods (FMCG) industry experience, and until 2019 as a member of the Executive Committee at Unilever and President of Global Refreshment, which comprises Unilever's drinks and ice cream brands. He was previously a Trustee of The British Council.

External roles
Non-Executive Director of Fevertree Drinks PLC
Trustee of The Eden Project
Board Member of The All England Lawn Tennis Club
Non-Executive Director of Ben and Jerry's

8. Lyssa McGowan

Appointment
Lyssa joined the Board as a Non-Executive Director in August 2020.

Experience
Lyssa is currently Chief Consumer Officer at Sky UK, responsible for the TV, Broadband and Mobile categories. She has held various other senior roles at Sky since joining them in 2010. Prior to that, Lyssa was at McKinsey & Company and Telewest, and holds an MBA from Harvard Business School.

Lyssa has wide experience in digital transformation and brand building within large consumer facing businesses.

External roles
Chief Consumer Officer at Sky UK

9. Jeremy Townsend
Independent
Non-Executive
Director
Ⓐ Ⓒ Ⓡ Ⓝ

9. Jeremy Townsend

Appointment

Jeremy joined the Board as a Non-Executive Director in July 2020. In September 2020, he was appointed as Chair of the Audit Committee.

Experience

Jeremy recently retired from his position as Chief Financial Officer of Rentokil Initial PLC. He was previously Group Finance Director of Mitchells & Butlers PLC and prior to that held various senior finance positions at J Sainsbury PLC. Jeremy started his career at Ernst & Young LLP and is a fellow of the Institute of Chartered Accountants in England and Wales. Until recently, Jeremy was a Non-Executive Director and Chair of Audit Committee of Galliford Try Holdings PLC.

External roles

Non-Executive Director of PZ Cussons PLC
A Board member of NHS England
A director of Parkrun Global Limited

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

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. Paula has also been a Non-Executive Board Member of the Cabinet Office.

External roles

Chair of Imperial College Healthcare NHS Trust
Non-Executive Director of Dunelm Group PLC

Jonathan Burke
Company
Secretary

Appointment

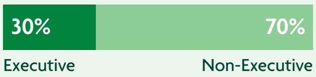
Jonathan was appointed as the Group's Company Secretary in February 2017.

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

Role



Ethnicity

Gender

Attendance at meetings

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

Committee key

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

Executive Committee

1. David Potts CBE
Chief Executive
Officer
Ⓒ

4. Andy Atkinson
Group Commercial
Director

2. Trevor Strain
Chief Operating
Officer
Ⓒ

5. Clare Grainger
Group People
Director

3. Michael Gleeson
Chief Financial
Officer

6. David Lepley
Group Retail
Director

1. David Potts

See Board of Directors on page 42.

2. Trevor Strain

See Board of Directors on page 42.

3. Michael Gleeson

See Board of Directors on page 42.

4. Andy Atkinson

Appointment

Andy joined Morrisons in 2011 and was appointed as Group Customer and Marketing Director in January 2016. In February 2020, Andy was appointed Group Commercial Director.

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 the Central region 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] Susanne and Lyssa joined the Board and the Committees on 12 August 2020.
[2] Susanne was unable to attend one meeting of the Board and its Committees as she was called up for Jury Service. She received all papers on all subjects to be discussed and shared any comments on the subject matters tabled for discussion prior to the meeting.
[3] Jeremy Townsend joined the Board and the Committees on 6 July 2020.
[4] Neil Davidson, Belinda Richards and Tony van Kralingen stepped down from the Board and the Committees on 26 April 2020, 10 September 2020 and 29 April 2020 respectively.

Structure of the Board and its Committees

The decisions delegated by the Board to its Committees during the financial year 2020/21 are shown in the table below and on the following page.

Function	**Main Board** See page 46 for details of activities	**Executive Committee** See page 47 for details of activities	**Audit Committee** See page 48 for details of activities
Members	**Andrew Higginson (Chair)** **David Potts** **Trevor Strain** **Michael Gleeson** **Rooney Anand** **Susanne Given**[1] **Kevin Havelock** **Lyssa McGowan**[1] **Jeremy Townsend**[2] **Paula Vennells**	**David Potts (Chair)** **Trevor Strain** **Michael Gleeson** **Andy Atkinson** **Clare Grainger** **David Lepley**	**Jeremy Townsend (Chair)**[2] **Rooney Anand** **Susanne Given**[1] **Kevin Havelock** **Lyssa McGowan**[1] **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 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: – departmental performance reviews; – oversight of improvements to process for supplier and compliance with The Groceries Supply Code of Practice (GSCOP); and – progress against our sustainability plan.	• 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 focused 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 his 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 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

See page 52 for details of activities

Rooney Anand (Chair)
Andrew Higginson
David Potts
Trevor Strain
Susanne Given[1]
Kevin Havelock
Lyssa McGowan[1]
Jeremy Townsend[2]
Paula Vennells
Andrew Clappen[3]

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:
  - 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

See page 54 for details of activities

Kevin Havelock (Chair)
Andrew Higginson
Rooney Anand
Susanne Given[1]
Lyssa McGowan[1]
Jeremy Townsend[2]
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

See page 53 for details of activities

Andrew Higginson (Chair)
Rooney Anand
Susanne Given[1]
Kevin Havelock
Lyssa McGowan[1]
Jeremy Townsend[2]
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 53);
- Maintaining general oversight of people and capability within the business, and their diversity (more information can be found on page 53);
- Reviewing the talent pool for the Executive Committee and levels below Executive Committee; and
- Reviewing and setting policy on diversity and inclusiveness.

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[1] Susanne Given and Lyssa McGowan joined the Board on 12 August 2020.

[2] Jeremy Townsend joined the Board on 6 July 2020. Jeremy is considered to have recent and relevant financial experience.

[3] 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.

Leadership around the business

David Potts
Chief Executive

Clare Grainger
Group People Director

Michael Gleeson
Chief Financial Officer

Andy Atkinson
Group Commercial Director

Board and Committee activities in 2020/21

Main Board

Activities in 2020/21

During the year, the Board has:

Strategy and Planning

- set the strategy and plans for the Group;
- approved the 2020/21 budget and commercial plans, including productivity savings to invest in the customer offer;
- approved the Group's capital allocation framework; and
- reviewed the Core Purpose of Morrisons; and reset the priorities, ways of working and stakeholder groups.

Operational Performance

- overseen the response to the COVID-19 pandemic;
- reviewed the annual business plan and received regular updates 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 interim and special dividend and proposed final dividend;
- approved the waiver of the rates relief;
- approved the extension of the revolving credit facility; and
- consideration of the Annual Report including assessing whether the report is fair, balanced and understandable, that a going concern basis of accounting is appropriate, and assessing the viability statement.

Risk

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

Governance

- ensured business is conducted in accordance with the Group's values;
- instructed and reviewed the results from the KPMG Governance Review and the External Board Effectiveness Review;
- 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; and
- identified and managed any potential conflicts of interests as appropriate.

Colleagues

- viewed the values and culture of the Group through 'Your Say' survey responses and feedback provided from the 'Your Say' forums;
- approved the guaranteed enhanced colleague bonus; and
- approved the increased hourly pay rate to £10.

Stakeholders

- ensured that the strategy is aligned to long-term success for all stakeholders; and
- considered feedback received from customers, colleagues, suppliers, shareholders and other stakeholders.

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. Following last year's review, discussions regarding succession planning for the Board have received additional focus. COVID restrictions throughout the year have restrained our plans to increase the opportunities for the Board to spend time more with the wider Leadership Team, however we continue to seek opportunities for this. There has also been increased levels of informal communication amongst the Non-Executive Directors throughout the year. This year, Consilium Board Review ('Consilium') completed this review in accordance with the requirement that this should be carried out externally every three years. Consilium has no connection to the Group. Consilium was selected to complete the External Board Effectiveness Review having completed the last external review in 2017/18. The Board was keen to understand the progress and improvements made since the last review, and believed that using this same evaluator would provide additional insight into the development of the Board over time. The review concluded that both governance and compliance are strong, and that the Board operates in an effective and efficient manner. It was also noted that the Board has in place an effective governance framework in place.

The review recommended some actions that could be taken to further improve the performance of the Board. The Board action plan for 2021/22 will include:

- ensuring that Board agendas are set to allow additional time for the NEDs to have more informal time without management present;
- reviewing the format, structure and content of the papers presented to the Board ahead of the meetings to ensure these remain relevant and insightful; and
- completing a workshop to help define the way of working and key responsibilities within the Board which are deemed especially relevant given the appointments of three new Non-Executive Directors over the last year.

During the year, the Group also reviewed and considered the effectiveness of its principal advisers to ensure they remain appropriate and relevant to the Group's needs. The Board formally discussed the findings of the review in November 2020. Over the course of 2021/22, the Chair and Company Secretary will continue to review the effectiveness of the related actions as they are put in place. With regard to the findings from the last review, it was felt by the Board that the opportunities for the Non-Executive Directors to spend more time with the Group's wider leadership team or more informal time with the other Non-Executive Directors was significantly impacted by the pandemic. The Board will continue to seek opportunities for this next year. 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.

KPMG Review of Governance

Two of the departing Non-Executive Directors this year raised questions about Morrisons' Governance practices and policies. The Board took these matters very seriously and appointed KPMG LLP to complete a review of our Governance procedures. To ensure this review was independent, it was led by our Senior Independent Director, Rooney Anand. The review found that Morrisons is starting from a very strong base of Corporate Governance that could be further enhanced by: a structured process for the Board to agree on the desired culture and operational standards that it wishes to embed; increased structure to the Nomination Committee; and by continuing to strengthen the communication between members of the Board. The Board has agreed that an action plan for each of these recommendations will be implemented and evaluated during 2021/22.

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, the Chief Operating Officer and the Investor Relations team following the full and half year results;
- 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 regular updates 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 2021 AGM will be held on 10 June 2021 at the Group's headquarters at Gain Lane in Bradford. We will be reviewing Government guidance ahead of the meeting, to ensure that this meeting is conducted in a safe way for both our shareholders and the Board. The whole Board is expected to attend and be available to answer any questions shareholders may have. In addition, the individual Board members and Committee Chairs remain available throughout the year to respond to queries from any stakeholders.

Notice of the 2021 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 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 2020/21

During the year, the Executive Committee has:

Strategy and Planning

- developed plans to implement the Group's strategy;
- agreed the updated priorities including the priority for 'outstanding in hygiene';
- determined the draft budget and long-term plan; and
- approved capital budgets.

Operational Performance

- implemented a purpose through the pandemic 'to play our full part in feeding the nation';
- adapted to the changing regulations, government guidelines and best practice to ensure that our colleagues and customers remain as safe as possible during the pandemic;
- further developed the home delivery and click & collect channels;
- continued to implement the Group's priorities;
- 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;
- managed and controlled the necessary investment in ensuring our operations remain safe for colleagues and customers; and
- reduced the cost base of the organisation through productivity and procurement improvements.

Risk

- determined principal and emerging 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 virtual customer listening sessions and shopping trips with customers;
- overseen the Group's commitment to Corporate Social Responsibility, in particular the targets around carbon and plastic reduction, as well as its support for the Group's charity partner CLIC Sargent, and for the charitable Morrisons Foundation;
- implemented food boxes and telesales functionalities to support vulnerable customers;
- reviewed the talent, capabilities and capacity within the Group;
- listened to views of colleagues including reviewing the 'Your Say' survey results and agreeing improvement actions; and
- recommended the ordinary and special dividends to the Board.

Board and Committee activities in 2020/21 continued

Audit Committee

Dear Shareholder,

I am pleased to present my first report of the Audit Committee for the 52 weeks ended 31 January 2021, following my appointment as Chair of the Committee in September 2020.

Jeremy Townsend
Chair of the
Audit Committee

This 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. The composition of the Committee has changed in the year with the addition of the new non-executives, myself included, but continues to have the necessary balance of skills, experience and professional qualifications. An appropriate induction has taken place for all new members of the Committee.

During the year, the Committee considered 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. The Committee has spent time reviewing revised internal audit plans in response to the pandemic restrictions and changing priorities and considering the impacts on the control in place. I would like to take this opportunity to thank all Morrisons colleagues who have worked hard to maintain the control environment across the Group during this very challenging year.

The Committee is responsible for reviewing and making recommendations to the Board on the integrity of the financial statements, and challenging 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 the impact and disclosures relating to the pandemic, including in the explanation of performance in the year and the going concern disclosure. The Committee has also considered the findings of the Financial Reporting Council's thematic reviews which took place during the year. This report provides further detail on these areas and other key activities of the Committee.

Jeremy Townsend

Activities in 2020/21

During the year, the Committee has:

- considered the appropriateness of the Group's Annual Report and Financial Statements and Interim report;
- discussed and challenged key judgements made by management in respect of the Group's financial statements including recognition of exceptional items;
- considered the impact that COVID-19 has had on the financial performance of the Group;
- 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 and how this has been adapted in response to the pandemic;
- discussed and agreed the revised principal risks, in light of changes in the Group's priorities and due to the pandemic (described in more detail on pages 35 to 37);
- considered reports produced by Internal Audit covering topics including business responses to key events, regulatory compliance and the control environment;
- reviewed key policies including those governing tax, treasury and non-audit fees;
- reviewed the recognition of commercial income and the controls in place regarding compliance with GSCOP;
- understood the impact of the climate related reporting requirements which will become mandatory for the 2021/22 financial year;
- assessed the proposed going concern and viability statements, reviewed assumptions made by management and challenged the scenarios modelled; and
- reviewed and understood pension 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 had been applied, and has reviewed and challenged the 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 and intangible assets

Impairment continues to be a focus area for the Committee, on the basis of the 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 write back) 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, online assets, technology assets and goodwill.

Management estimates the recoverable amount of assets to determine the extent of any impairment charge or whether a write back of a previous impairment charge is required. This assessment led to a write back of previous impairment of assets in certain cash generating units and an impairment charge being recognised on others, resulting in an impairment charge of £125m and an impairment write back of £199m in 2020/21, as disclosed in note 1.4 of the financial statements.

The Committee reviewed reports produced by management detailing the outcomes of the impairment testing. This review focused on understanding the methodology, the basis of key assumptions (discount rate, cash flows, growth rate and separate trigger events) and understanding the outcomes of the impairment assessment performed by management. The Committee challenged how management had reflected changes in the business model, such as the expansion of online operations and how expected future performance, potential changes in market conditions and potential environmental factors had been considered. The Committee also reviewed management's key assumptions around the market valuation of the store portfolio.

Having reviewed all key assumptions in respect of impairment and the impact on the value of the Group's assets, 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 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 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 impact of IFRS 16 'Leases' on the financial statements continued to be an area of focus for the Committee during the year.

The Committee understood the key judgements and estimation methods in relation to the accounting for leases in the current year. These judgements and estimates included approaches to determining lease length and assessing impairment of right-of-use assets and the Committee understood the financial impacts of the judgements taken.

Having considered the key assumptions and estimates applied, and the associated disclosures, the Committee is satisfied that the approach taken is appropriate. The Committee considered the output of the Financial Reporting Council's thematic review of lease accounting and disclosures as part of its review of the Group's financial statements including disclosure regarding lease breaks and extensions.

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 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 considered the Group's use of Alternative Performance Measures (APMs) as set out in the Glossary on pages 157 to 159, and is satisfied that they adequately follow the guidelines issued by the European Securities and Markets Authority (ESMA).

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.

In addition, the Committee has specifically considered the treatment of costs incurred associated with COVID-19 and compliance with the Financial Reporting Council's guidance. The Committee has considered that the reporting of COVID-19 costs is appropriate, as such costs have not been adjusted for through alternative performance measures in line with the guidance. The direct cost impacts of COVID-19 have been presented separately in the Strategic report to enable investors to better understand the cost impact on the business during the year.

Going concern assessment

The Committee recognised the uncertainty that the pandemic has caused and considered the Group's ability to continue as a going concern, taking into account budgets, borrowing facilities and the viability scenarios prepared by management for discussion at the Audit Committee along with the mitigating action. The Committee concluded that the going concern basis of preparation for the financial statements, and the associated enhanced disclosure of the Directors' going concern assessment and the expanded disclosure regarding the Group's liquidity, is appropriate. For further information see page 90.

Board and Committee activities in 2020/21 continued

Internal control and risk management

The Board has overall accountability for ensuring that risk is effectively managed across the Group. Principal and emerging risks are reviewed by the Executive Committee twice a year with the results presented to the Board.

The Group's principal risks, which have been revised in the year, are set out on pages 35 to 37.

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 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 control areas; monitoring the adequacy and timeliness of management's response to identified audit issues; and
- reviewing the conclusions and themes from the Internal Audit reviews completed during the year.

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. Any internal control findings identified have been quickly addressed and 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. In the current year, the Committee have considered how the control environment has been adapted due to the impact of COVID-19 with additional executive sign off processes introduced for COVID-19 related costs.

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.

In the current environment, the need for flexibility in the delivery of the Internal Audit plan was recognised and the Committee received regular updates on how resources had been deployed and how the audit plan had been adapted to respond to the changing risks. 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 International Professional Practices Framework developed by the Institute of Internal Auditors and the principles outlined in the Internal Audit Code of Practice. An external review of the effectiveness of Internal Audit is conducted every five years. This last took place in 2018/19, and concluding that the function performs well, with a small number of minor improvement opportunities, which have since been addressed.

External audit tenure

The Board appointed PricewaterhouseCoopers LLP (PwC) as external auditor in June 2014.

John Ellis has taken on the position of lead audit partner in the year following the rotation of Andrew Paynter who had held the position for five years. John met with members of the Board, the Audit Committee Chair and members of management as part of his transition into the role and gaining an understanding of the business.

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, as reviewed in the year, is set out in the Investor Centre section of the Group's website (see www.morrisons-corporate.com and complies with the Financial Reporting Council's (FRC's) Ethical Standards). PwC 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 are 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 output from the FRC's Audit Quality review on PwC and other external audit practices;
- 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 to gather 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 has taken place in 2020/21, in line with the five year service guidance.

The Committee will continue to pay close attention to developments in the audit landscape in response to: the findings of Sir Donald Brydon's independent review into the quality and effectiveness of audit; and the outcome of the BEIS consultations on the recommendations made (i) by Sir John Kingman in his independent review of the FRC, and (ii) by the CMA in its market study into the statutory audit market, and will take these into account as and when appropriate.

FRC thematic reviews

In November 2020, the FRC published on its website names of all companies whose Report and Accounts had been subject to a completed review. The Group was included on that published list. This related to the FRC's thematic review of IFRS 16 disclosures in the Group's 2019/20 Annual Report and Financial Statements, which had been included in the sample selected for review. The outcome of the review was that no substantive issues were raised, with only minor disclosure improvement opportunities noted, the majority of which are reflected in our 2020/21 Annual Report and Financial Statements. The FRC also included certain disclosures from our 2019/20 financial statements as good examples of disclosure in their cash flow and liquidity disclosures thematic review.

Board and Committee activities in 2020/21 continued

Corporate Compliance and Responsibility (CCR) Committee

Dear Shareholder,

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

Rooney Anand
Chair of the
CCR Committee

In this exceptional year, the policies and practices that define and safeguard the reputation of Morrisons have never been more important. Whilst it was appropriate to cover many of the significant pandemic related changes at Board level, the Committee continued to pay close attention to the evolving views and expectations of the Group's broad range of key stakeholders, and receive 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 priority for the Committee along with consideration of the Group's response to environmental and sustainability challenges.

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

Activities in 2020/21

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 the Corporate Responsibility Strategy and approved publication of the 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 26 to 32. 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 21.

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 Group 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 https://www.morrisons-corporate.com/about-us/whistleblowing-policy/. All Board members review the whistleblowing policy on an annual basis and receive 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

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.

Andrew Higginson
Chair of the
Nomination Committee

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 and ensures that clear processes and policies are adhered to in order to further increase 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.

Each Director has a good understanding of our colleagues and culture provided by the 'Your Say' survey results, Kevin Havelock's feedback from the 'Your Say' Forum, formal and informal 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.

Andrew Hig

Activities in 2020/21

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; and
- considered the Board's structure; including nominating Jeremy Townsend, Susanne Given and Lyssa McGowan for appointment as Non-Executive Directors.

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.

Board appointments

Following a rigorous process, the Committee recommended the appointment of Jeremy Townsend, Susanne Given and Lyssa McGowan for appointment as Non-Executive Directors.

The Group appointed Russell Reynolds to assist in identifying long lists of candidates with the requisite skills and experience for the roles of Chair of the Audit Committee and Non-Executive Director. Russell Reynolds was deemed independent with no other connections to the Group and has signed up to the voluntary Code of Conduct on gender diversity and best practice. In line with our diversity policy, the Committee instructed Russell Reynolds to consider a wide range of candidates for appointment as Non-Executive Directors, including those with little or no previous FTSE board experience.

From Russell Reynolds' search, Jeremy Townsend was identified as a suitable candidate for the role of Chair of the Audit Committee, given his recent and relevant experience as CFO of Rentokil, and was included in a diverse shortlist of potential candidates. Potential candidates were then interviewed by the Chairman and a sufficiently diverse selection of other Directors, following which Jeremy was put forward to the Nomination Committee for its consideration.

From Russell Reynolds' search, Susanne Given and Lyssa McGowan were also identified as suitable candidates for Non-Executive Director. A short list of potential candidates were then interviewed by the Chairman and a sufficiently diverse selection of the Directors, following which Susanne and Lyssa were put forward to the Nomination Committee for its consideration.

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. It also supports the Parker recommendations that the Board should include at least one Black, Asian and Minority Ethnic (BAME) Director. The Board also take steps to ensure that it is diverse in characteristics such as age, experience, education and thought.

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/

Throughout the year we planned to increase our female representation on the Board to at least 33%. This plan was disrupted by an unexpected resignation, which meant that we ended the year with a 30% female representation on the Board. We remain firmly committed to achieving and maintaining our gender diversity target of 33% females on the Board by the time of our 2022 AGM. This will include, for example, through policies such as ensuring that all recruitment 'long lists' include at least 50% female candidates.

At the end of the 2020/21 financial year, the Board included one BAME Director, representing 10% of its total composition.

Gender composition at 31 January 2021

	Male	Female	% Female
Main Board	7	3	30%
Executive Committee	5	1	17%
Direct reports to Executive Committee[1]	20	21	52%
Total Morrisons	**53,881**	**66,228**	**56%**

[1] Using the Hampton-Alexander definition.

Annual statement by the Chair of the Remuneration Committee

Remuneration Committee

Dear Shareholder,

As the new Remuneration Committee Chair, I am pleased to present how management and colleagues are being rewarded for their outstanding performance in an unprecedented year.

Kevin Havelock
Chair of the
Remuneration Committee

2020 was of course an unprecedented year, with our colleagues at every level working as part of the front line effort to feed the nation. When the country was told to stay at home, our team, including management, went to work in stores and sites across the UK to make sure everyone had access to food and services, ensuring nobody was left behind. Through listening to colleagues and customers about their concerns we responded quickly to ensure a safe shopping trip and working environment.

At the onset of the pandemic, management had to pivot the business, its activities and resources, to feeding the nation, keeping customers and colleagues safe and supporting suppliers. In March 2020 we made it clear to management that they would be fully supported by the Board for doing the right thing: to feed and protect the nation, recognising the need to take on significant COVID-19 related costs to be able to do this. We highly appreciate how management have led the Company to play our full part in responding to the crisis.

COVID-19 brought a great many challenges – for example the direct costs of ensuring colleague and customer safety, navigating significant lost profit in cafés, fuel and food-to-go, managing high sickness rates, guaranteeing sick pay for shielding and other affected colleagues, managing social distancing and safe working in depots and factories, hiring and inducting 18,000 new colleagues in a few weeks, and supporting our small suppliers and British farming. Management also had the considerable challenge of scaling our online business fast enough to meet sudden demand, and finding innovative ways to ensure no one in society was left behind – through food boxes, doorstep deliveries, restocking Britain's food banks with nutritious food and lunch boxes for school children, as well as local community initiatives.

In addition, management have continued to make progress against the seven priorities, which are summarised on pages 10 to 13.

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, resulting in great value for customers and high demand for talent.

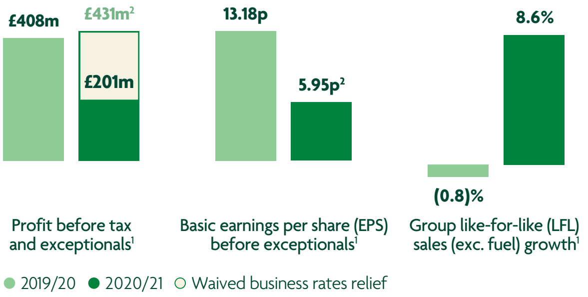
Financial performance

Over the last 12 months, despite unprecedented demands and challenges, prolonged economic uncertainty, reducing customer confidence, and significant unplanned costs directly relating to COVID-19, management has delivered:

- Group LFL sales (excluding fuel) growth of 8.6%;
- Profit before tax and exceptional items of £201m, a decrease of 50.7% on last year or 5.6% increase when adjusting for £230m of waived business rates relief; and
- Further progress in cost and productivity savings, resulting in an improvement of £152m.

This is in addition to 'feed the nation' activities such as creating new channels, rapidly expanding online and store pick, restocking Britain's foodbanks, making stores and sites COVID-19 safe and supporting the NHS and other keyworkers.

Group performance



1 As defined in the Glossary on pages 157 to 159.
2 Profit before tax, exceptional item and net retirement benefit interest adjusted for the waiver of rates relief.

How stakeholders have benefitted from performance

None of what has been delivered could have been done without our colleagues, quickly recognised as key workers in the pandemic, who have put their health on the line every day to feed the nation. We acted quickly to protect their physical wellbeing as the first supermarket to install screens at checkouts, as well as introducing queue and social distancing marshalls, and providing masks, gloves and sanitiser. We have shown the nation's gratitude by guaranteeing triple the average colleague bonus – a pot of over £100m with payments for a full time colleague of over £1,000, and by increasing colleague discount from 10% to 15%. We have also thought about their mental wellbeing – marking occasions such as 'time to talk' day and making new resources available on our wellbeing site. In addition, we considered the adverse impact of job losses in other industries on household finances, creating a hardship fund which has paid out over £200,000 in grants to our colleagues.

Most importantly, to recognise the vital role our hard working key worker colleagues have played in feeding the nation through the pandemic, we have increased the hourly rate for customer assistants in store from £9.20/hour to £10/hour from April 2021, an increase of nearly 9%, and the first food retailer to pay £10/hour. This means that the hourly rate for store colleagues has increased 46% from £6.83/hour in 2015 as we fulfil our people ambition of 'a fair day's pay for a fair day's work'.

Shareholders have benefitted from a total ordinary dividend for the period ended 31 January 2021 of 7.15p, up 5.6%, and a special dividend of 4p paid in January 2021. We have also accelerated the expansion of our online business, created new channels and increased brand warmth, which will benefit the business for years to come.

Finally, being mindful of the impact of the pandemic on the communities we live and work in, we have donated £10m of food to restock Britain's food banks (and committed to a further £5m in 2021/22), increased our Community Champion hours, donated £500,000 to charities supporting homelessness through the Morrisons Foundation and are the only supermarket to make all of our pharmacies domestic violence safe spaces. The rapid expansion of our business and creation of new channels has created over 23,000 much needed jobs in the communities we operate in. We have also supported the other keyworkers keeping the nation going through the pandemic through shopping hours for NHS, discounts for keyworkers, and delivering food box orders to hospitals.

Outcomes in 2020/21

When deciding on outcomes for the incentive plans, the Committee carefully considered what the appropriate and fair result should be given the unprecedented impact of COVID-19 and the experience of all stakeholders. As stated in last year's report, targets had been set with normal competitive trading conditions in mind, and of course this year has been highly abnormal. The Committee carefully weighed the beneficial impact of closed hospitality and non-essential retail on sales, as well as the substantial costs and short term cash flow impacts of managing COVID-19, and the negative profit impact on aspects of trade – cafés and fuel particularly. At the start of the pandemic, management were asked to play their full part in feeding the nation and were asked to do what was right for customers, colleagues, suppliers, shareholders, the community, and the environment.

This year, in addition to business performance, the Committee also considered the following factors relating to the wider impact of the pandemic:

- Morrisons did not utilise any government support such as the job retention scheme. We are one of the few businesses to have created jobs and positively contributed to the economy in the last year.
- Colleagues have been financially rewarded, with triple the average bonus guaranteed (an investment of over £100m), to recognise the challenges they have faced as keyworkers.
- Shareholder experience has been positive with the special dividend paid.
- Small suppliers were supported through immediate payment terms, and as Britain agriculture's biggest customer we have partnered with farmers to promote products such as the very popular steak promotion.

For both the Annual Bonus Plan and the LTIP, the Committee decided to adjust for the impact of all COVID-19 related costs, such as paying colleagues to shield, over £100m in colleague bonus payments, installing screens and other protective equipment, social distancing measures, payroll for marshals, and restocking Britain's food banks. Having been directed in March 2020 to feed the nation, and protect colleagues and customers, the Committee felt very strongly that management and other incentive participants (all store managers and above) should not be penalised for their outstanding performance through the pandemic, or for taking the necessary steps to protect colleagues and recognise their hard work in difficult circumstances.

Annual Bonus Plan

The Annual Bonus Plan is based on both business and personal performance. The business measures are like-for-like sales growth, profit and productivity.

Like-for-like sales growth (excluding fuel) was 8.6%, which was significantly above the maximum target. The Committee carefully considered the impact of closed hospitality and non-essential retail, but given the sales growth outperformed the grocery market, and a significant proportion came from the rapid expansion of the online business which had to be scaled at speed, felt that the sales result was fully deserved. This gave a full 20% out of 20%.

Productivity savings were £152m which exceeded the maximum target of £150m, despite managing the complexity and disruption of the pandemic and therefore this element also achieved in full, 10% out of 10%.

Profit for the year was significantly impacted by the full costs of managing COVID-19 (£290m), significant lost profit from cafés, fuel, food-to-go and Market Street counters and the decision taken by the Board in December to waive the business rates relief in the year of £230m. This gives a profit before tax and exceptionals result of £201m which is below the threshold for the profit element. The Committee spent considerable time discussing the right and fair treatment of the profit element, and concluded that the full costs of feeding and protecting the nation (£290m) should be adjusted and therefore this element earned 50% out of 50%.

Given management's outstanding response to the pandemic, and the extraordinary levels of personal commitment shown to delivering for all stakeholders, the Committee has decided to award David Potts, Trevor Strain and Michael Gleeson a full 20% out of the maximum 20% for the personal element of the bonus. This takes the total bonus achieved to a payout of 100% of maximum, half of which will be deferred into shares which vest two years after the award under the terms of the deferred share bonus plan. The Committee is satisfied that on balance this is a fair outcome. More information on the targets set and performance against them can be found on pages 66 and 67.

LTIP 2018/21

The performance over the period is summarised below:

Measure[1]	Minimum (25%)	Maximum (100%)	Weighting	Actual performance
Total sales growth (exc. fuel)	£1,100m	£2,000m	40%	33.5%
Adjusted cumulative free cash flow	£730m	£1,000m	40%	0%
Basic earnings per share (EPS) before exceptionals growth p.a.[2]	5%	10%	20%	20.0%

[1] See the definitions on page 64.
[2] Adjusted for full costs of COVID-19 of £290m.

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, both the EPS and adjusted cash flow measures have been recalculated on a pre-IFRS 16 equivalent basis.

The formulaic outcome of the LTIP was 33.5%, which was earned on the sales growth measure only. Both the EPS and the free cash measures were significantly adversely impacted by COVID-19 and did not earn anything on a formulaic basis. The Committee carefully considered the impact of closed hospitality and non-essential retail on sales performance, but considered that like-for-like sales growth (much of which came from the rapid expansion of the online business) outperformed the market and was therefore not an unearned windfall. This element has therefore earned 33.5% out of 40%.

The Committee also carefully considered the impact of the pandemic on the free cash element, which at the end of the second year had been on track for a strong final out turn. The Committee weighed the fact that decisions such as paying small suppliers immediately and increasing stock levels to meet changing customer needs, as well as the significant adverse timing impact of items such as the substantial reduction in fuel volumes, had negatively impacted the free cash result, but decided on

Annual statement by the Chair of the Remuneration Committee continued

balance not to adjust for these. This element therefore earned 0% out of 40%.

The Committee considered that but for the actions taken to feed the nation and create a safe shopping and working environment, the EPS element would have been achieved in full, and therefore the Committee, as for the Annual Bonus Plan, decided to adjust for the full costs of COVID-19 (£290m). The EPS element has therefore earned 20% out of 20%.

This gives an adjusted LTIP outturn of 53.5%, which the Committee believes is a more fair and reflective outcome of the value created for shareholders over the period than a purely formulaic basis.

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, particularly on the remuneration policy, through ongoing dialogue.
Pay for performance	• Assessed performance against targets set for 2020/21 annual bonus and 2018-21 LTIP and considered whether any discretion should be used to adjust formulaic outcomes if necessary. • Reviewed and approved targets for 2021/22 annual bonus and 2021-24 LTIP. • Reviewed the performance of the Executives.
Governance	• Reviewed and considered consequences of the changing investor, governance and reporting requirements. • Reviewed progress of Executives against shareholding requirements. • Approved the 2019/20 Directors' remuneration report. • Approved the remuneration for the new Chief Customer and Marketing Officer.
Pay	• Reviewed Executive Director, Executive Committee and Company Secretary base salaries, in line with wider workforce. • Approved guaranteed triple the average colleague bonus in recognition of work through the pandemic. • Assessed performance of management against the direction to prioritise feeding the nation.
Committee membership	• Welcomed and inducted three new Non-Executive Directors to the Committee.

How our Directors' remuneration report is structured

Implementation of the remuneration policy in 2021/22
pages 63 and 64

Annual Report on remuneration – 2020/21
pages 65 to 72

2020/21 Policy vote

The Committee was pleased with the 97% vote for the implementation of policy at the 2020 AGM, and whilst pleased that the majority of investors similarly voted for the new policy noted the significant vote against. I therefore engaged extensively with our major shareholders to understand the reasons why. A range of views were shared, with the common theme that shareholders wanted greater clarity on how pension allowances for incumbent Executive Directors would be brought into line with the rate for the majority of colleagues. Therefore, following that investor consultation, we have clarified that both the CEO and COO have voluntarily committed to a reduction in their pension levels to those available to the workforce by the end of 2022. The CFO already receives a pension allowance of 5%, in line with the majority of the workforce.

Further, David Potts has agreed to increase his shareholding requirement from 250% to 300% of base salary. The Committee believes that along with the CEO's current shareholding of over 700%, this further demonstrates the Committee's and CEO's commitment to aligning management and shareholders' interests and listening to shareholders' views.

Implementation of the remuneration policy in 2021/22

Base salary

It was agreed with management, being mindful of the pandemic's impact on the wider economy and despite the 9% increase in colleague pay to £10/hour, that the salaries for Trevor Strain and Michael Gleeson would not be increased this year. Their salaries remain unchanged at £665,000 and £490,000 respectively. The Committee was conscious that David Potts has not accepted a pay rise since his appointment in 2015 and therefore offered an increase in line with inflation; however David waived his award for a sixth year and therefore his salary is unchanged at £850,000.

Pension allowance for incumbents

Pension allowances for incumbents were frozen as an absolute cash amount in 2019 and therefore allowances do not increase with any pay awards. Having discussed shareholder feedback with the Committee and management, both the CEO and COO have voluntarily committed to a reduction in their pension levels to those available to the workforce by the end of 2022. Michael Gleeson receives a pension allowance equivalent to 5% of base salary. This is in line with the majority of the workforce.

Chairman and Non-Executive Director fees

The Chairman's fees were increased in February 2019 and therefore fees for the Chairman will next be reviewed in 2022. The Non-Executive base remains at £62,500.

Annual Bonus Plan

The performance measures of the Annual Bonus Plan and their weightings remain unchanged from 2020/21 and are summarised on page 63. 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 which vest in two years under the deferred share bonus plan.

LTIP

In line with the policy approved by shareholders in 2020, awards will be 300% of salary. Performance measures and weightings are unchanged. Further detail on the targets can be found on page 63. This grant will be subject to a two year holding period at vest, and to a post-termination holding requirement.

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 the year. I look forward to your support at the 2021 AGM.

Kevin Havelock, Remuneration Committee Chair
10 March 2021

At a glance

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

Summary of financial measures

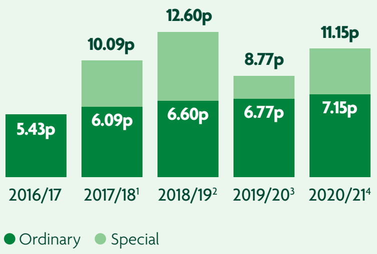
Measure[1]	2020/21	2019/20	2018/19[2]
Profit before tax and exceptionals	**£201m**	£408m	£396m[2]
Basic earnings per share (EPS) before exceptionals	**5.95p**	13.18p	12.85p[2]
Group like-for-like sales (exc. fuel) (%)	**8.6%**	(0.8%)	4.8%
Cumulative adjusted free cash flow (2015/16 onwards)	**£2,173m**	£2,660m	£2,339m

[1] Definitions of these measures are set out on page 64.

[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.

Stakeholder performance indicators

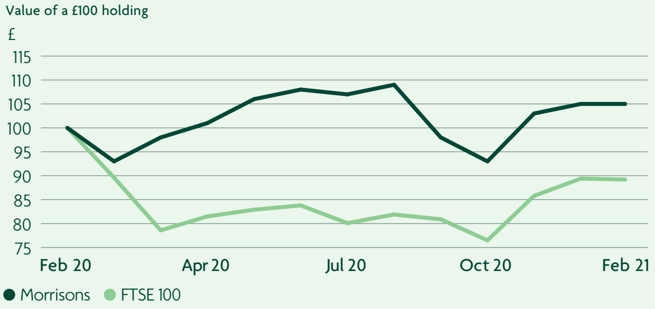
5 year dividend



1 Including 4.00p special dividend.
2 Including 6.00p special interim dividend.
3 Including 2.00p special interim dividend.
4 Including 4.00p special dividend declared and paid in 2021.

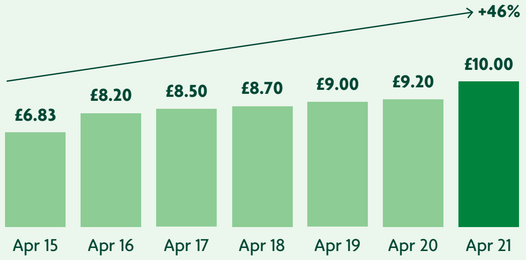
The graph above shows the Group's total dividend over the five year period to 31 January 2021.

12 month total shareholder return (TSR)



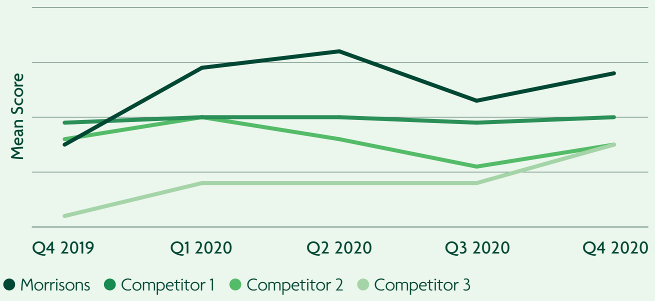
The graph above shows the Group's total shareholder return (TSR) compared with the TSR of the FTSE 100 indices over the 12 month period to 29 January 2021 (the last trading day before the year end).

Investment in colleague pay



Since 2016, we have continued to invest in colleague pay. In 2020/21, we increased the hourly rate for front line store colleagues to £9.20 an hour. A further increase to £10 has been agreed from April 2021.

Customer satisfaction index



The above graph illustrates customer satisfaction quarterly over the last year as the method of data collection changed in the current year.

Directors' remuneration policy

The current Directors' remuneration policy was approved by shareholders on 11 June 2020 at the AGM. The current full policy can be found at www.morrisons-corporate.com. The policy has been in operation for one year.

The principles that underpin our Directors' remuneration policy are:

Drive a long-term sustainable business

Provide clear alignment between Directors and shareholders

Incentivise a balanced approach to the needs of our stakeholders

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, six ways of working and five stakeholder 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 to invest in the shopping trip, reward colleagues and be paid 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 six ways of working.

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

The Committee carefully considers 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, ways of working, and wider workforce remuneration.

Pay and conditions in the wider Group

In 2020/21, an already demanding industry has been challenged more so than any other year. Despite the hospitality restrictions in the UK, the market remains fiercely competitive and we continue to need to attract, motivate and retain the best talent at all levels. Our recruitment drive in the early stages of the pandemic introduced a new talent pool, and we have enjoyed welcoming colleagues and managers with a range of backgrounds into our organisation.

Fair day's pay for colleagues

To recognise the vital role our hard working key worker colleagues have played in feeding the nation through the pandemic, in 2020/21 they were guaranteed triple the average colleague bonus and it was paid quarterly instead of annually to reward our loyal colleagues on a more timely basis. This was worth over £1,000 for a full time colleague. Through the year, colleagues told us they valued having a guaranteed amount and it being paid more regularly, and so when deciding on pay for 2021/22 we listened and responded by increasing the store customer assistant role from £9.20 to £10/hour, with 20p of the 80p increase being funded by the normalised cost of colleague bonus. We are proud to be the first grocery retailer to hit this milestone rate.

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 63.	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 benefits), 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 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.

Directors' remuneration policy continued

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 straightline 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%[1] 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. 1 From 2021/22, the CEO has volunteered to increase his shareholding requirement to 300%.	Not applicable.	Not applicable.

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, other than continued employment.

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 64.

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 159.

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.

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 six ways of working. Further detail on pay and conditions in the wider Group is provided on page 64.

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.

Directors' remuneration policy continued

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	As above	As above	As above	As above

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 it deems 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. 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.

Implementation of remuneration policy in 2021/22

Base salary

It was agreed with management, being mindful of the pandemic's impact on the wider economy and despite the 9% increase in colleague pay to £10/hour, that the salaries for Trevor Strain and Michael Gleeson would not be increased this year. Their salaries remain unchanged at £665,000 and £490,000 respectively. The Committee was conscious that David Potts has not accepted a pay rise since his appointment in 2015 and therefore offered an increase in line with inflation; however this was waived for a sixth year and therefore his salary is unchanged at £850,000.

Benefits and pension

David Potts and Trevor Strain each receive a pension supplement frozen at their 2019/20 benefit level. Having discussed shareholder feedback with the Committee and management, both the CEO and COO have voluntarily committed to a reduction in their pension levels to those available to the workforce by the end of 2022.

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

Annual Bonus

The structure of the bonus, including maximum potential (200% of salary) and the requirement to defer 50% of any bonus in shares which vest in two years under the deferred share bonus plan (DSBP) is in line with the Directors' remuneration policy (pages 58 to 62).

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 64.

Scorecard measures for 2021/22 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 are linked to strategy, and the areas under the 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.

All targets have been set on the assumption of current rates of tax (including 19% corporation tax) and the impact of any changes will be considered at vesting.

LTIP

2021-24 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 sustained turnaround, maximising shareholder returns, and incentivising management to prioritise consistent and sustainable growth over short-term profit. The Committee considered the distorting effect of the pandemic, particularly on the 2020/21 sales result as a base for future targets.

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 2021-24 will be 300% of salary. This grant will be subject to a two year post-vest holding period.

All targets have been set on the assumption of current rates of tax (including 19% corporation tax) and the impact of any changes will be considered at vesting.

2021-24 LTIP Target setting

Measure[1]	Weighting	Threshold (25% payout)	Mid point (50% payout)	Maximum (100% payout)
Total sales growth (exc. fuel)	**40%**	**+£400m**	**+£633m**	**+£1,100m**
Adjusted free cash flow	**40%**	**+£800m**	**+£900m**	**+£1,100m**
EPS before exceptionals growth	**20%**	**5%**	**6%**	**8%**

[1] Vesting on a straight line basis.

Sales

The Committee has set the threshold for sales growth lower than the prior year, but the maximum higher. Total sales in 2020/21 benefitted from the closure of hospitality and the growth in online, which means the base level is higher than in normal trading conditions. Consensus for like-for-like sales growth is negative for 2021/22, meaning significant growth rates would be required in years two and three to achieve the £1.1bn+ of additional sales.

Free cash flow

The threshold target is unchanged from prior year, but the maximum has been increased by £150m, even though continued free cash flow generation should be viewed in the context of significant property disposals and structural improvements in working capital already achieved by management.

EPS

8% profit growth every year for three years is an extremely stretching target, and significantly above consensus, which averages at 3% per annum for the next two years. The Committee remains firmly of the belief that it is not in the best interests of shareholders to incentivise profit growth at the expense of investments in the shopping trip.

Implementation of remuneration policy in 2021/22 continued

Chairman and Non-Executive fees

Having been recently reviewed, there are no changes to the fees for the Chairman or Non-Executive Directors.

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 157
Strategic scorecard	Group like-for-like sales growth (exc. fuel)	As defined in the Glossary on page 157
	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 157
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 (EPS) before exceptionals 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 158

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[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 to pay 'a fair day's pay for a fair day's work'. The Board receives 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 market leading increase from £9.20 to £10/hour agreed for April 2021 – an increase of over 45% in six years and, the first grocery retailer to achieve this milestone rate.
- 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).
- In 2020/21, to recognise the key role they were playing in feeding the nation in difficult and challenging circumstances, front line, hourly paid colleagues were paid triple the average colleague bonus, guaranteed and paid quarterly rather than annually. For full time colleagues, this was an additional payment for the year of more than £1,000.
- We have reorganised our store and depot 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 be popular, offering a range of discounts to colleagues such as discounts with online retailers. This has continued to be well used, with average savings of nearly £14 per month per user.
- 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. Kevin Havelock, 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: suggestion of our very popular food bank 'pick up packs' which customers can buy and donate in store, additions to our food box range including the Eid box, 'big night in' and afternoon tea boxes, adding a 'bags' option to the tills to save scanning the barcode, engineers in our manufacturing sites designing their own PPE, and introducing colour coded hygiene kits in store.

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.

Annual Report on remuneration – 2020/21

Audited information

Single total figure of remuneration

The table below sets out the single total figure of remuneration and breakdown for each Director for 2020/21 and the comparative figure for 2019/20. Michael Gleeson was appointed as Chief Financial Officer on 3 February 2020.

	2020/21								2019/20							
	Salary/ fees £000	Benefits[1] £000	Annual bonus[2] £000	LTIP[3] £000	Pension benefits[4] £000	Total £000	Total fixed remuneration	Total variable remuneration	Salary/ fees £000	Benefits £000	Annual bonus[2] £000	LTIP[5] £000	Pension benefits[4] £000	Total £000	Total fixed remuneration	Total variable remuneration
Executive Directors																
D Potts	850	28	1,700	1,396	204	4,178	1,082	3,096	850	28	828	2,057	213	3,976	1,091	2,885
T Strain	665	40	1,330	1,003	156	3,194	861	2,333	650	46	633	1,444	149	2,922	845	2,077
M Gleeson[6]	490	48	980	131	26	1,675	564	1,111	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Non-Executive Directors																
R Anand	120	–	–	–	–	120	120	–	109	–	–	–	–	109	109	–
N Davidson[7]	24	–	–	–	–	24	24	–	102	–	–	–	–	102	102	–
S Given[7]	43	–	–	–	–	43	43	–	–	–	–	–	–	–	–	–
K Havelock	100	–	–	–	–	100	100	–	89	–	–	–	–	89	89	–
A Higginson	420	94	–	–	–	514	514	–	420	84	–	–	–	504	504	–
L McGowan[7]	43	–	–	–	–	43	43	–	–	–	–	–	–	–	–	–
B Richards[7]	63	–	–	–	–	63	63	–	102	–	–	–	–	102	102	–
J Townsend[7]	57	–	–	–	–	57	57	–	–	–	–	–	–	–	–	–
C A van Kralingen[7]	25	–	–	–	–	25	25	–	102	–	–	–	–	102	102	–
P Vennells	90	–	–	–	–	90	90	–	89	–	–	–	–	89	89	–

1 Taxable benefits for the Executive Directors include a car allowance (or other car benefit), transport costs and private health provision. All Directors received the Group's normal staff discount entitlement, which is non-taxable. Applicable Sharesave plans granted in given financial years are also included in this figure (for Executive Directors). M Gleeson's benefits include £3,365 of relocation costs.

2 50% of the annual bonus is deferred in shares for a period of two years. There are no performance conditions attached to the deferred elements other than continued service.

3 Awards granted under the LTIP in March 2018 are due to vest in March 2021. The performance conditions relating to the 2018-21 LTIP award ended on 31 January 2021 and the vest value of the 2018-21 award is therefore calculated on the average share price of the last quarter of the financial year £1.7848 up to 29 January 2021 (the last trading day before year end). The 2020/21 figures also include the value of dividends accrued on the 2018-21 LTIP award at the time of vesting. The values of the dividends are £233,432, £167,676 and £21,970 for D Potts, T Strain and M Gleeson respectively. Further detail on the 2018-21 LTIP is provided on page 68.

4 D Potts received cash in lieu of pension, equal to 24% of base salary. T Strain received cash in lieu of pension of 23% of base salary. M Gleeson received cash in lieu of pension, equal to 5% of salary. None of the Executive Directors have a prospective entitlement to a defined benefit pension by reason of qualifying services. Due to the timing of his appointment as CFO versus payroll dates M Gleeson received £1,500 of pension allowance relating to his previous role in the 2020/21 financial year.

5 The value of the 2017-20 LTIP vest that was disclosed in the 2019/20 Directors' remuneration report was based on an indicative price as 1 February 2020. The value of the 2017-20 LTIP has been restated to reflect the actual March 2020 vest value.

6 M Gleeson was appointed to CFO on 3 February 2020.

7 N Davidson and C A van Kralingen resigned on 24 April 2020, B Richards resigned on 10 September 2020. J Townsend was appointed on 6 July 2020, and S Given and L McGowan on 12 August 2020.

Annual Bonus Plan

Annual bonus achieved 2020/21

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 2020/21 (£000)
D Potts	**200%**	**200%**	**1,700**	**50%**	**850**
T Strain	**200%**	**200%**	**1,330**	**50%**	**665**
M Gleeson	**200%**	**200%**	**980**	**50%**	**490**

Group financial and strategic scorecard

		Achieved as a % of maximum			
Performance measure[1]	Weighting (as a % of total annual bonus opportunity)	Threshold	Maximum	Actual achievement	Payout (as a % of total annual bonus opportunity)
Group financial					
Profit before tax and exceptionals	**50%**	**£409m**	**£441m**	**£201m**	**50%**
Strategic scorecard					
Productivity improvement/cost reduction	**10%**	**£100m**	**£150m**	**£152m**	**10%**
Group LFL sales growth (exc. fuel)	**20%**	**1%**	**2.5%**	**8.6%**	**20%**
Other measures					
Personal objectives	**20%**				**20%**

1 Performance measures are defined on page 64.

Annual Report on remuneration – 2020/21 continued

Audited information continued

2020/21 Annual Bonus Plan outturn

For the Annual Bonus Plan the Committee decided to adjust for the impact of all COVID-19 related costs, such as tripling the average colleague bonus at a cost of over £100m, absence, paying colleagues to shield, social distancing measures, payroll for marshals, and restocking Britain's food banks. Having been directed in March 2020 to feed the nation, and protect colleagues and customers, the Committee felt very strongly that management should not be penalised for their outstanding performance through the pandemic.

Profit before tax and exceptionals

At the time targets were set, consensus for profit was £432m, and therefore the maximum target of £441m (an 8% increase on prior year and following a 3% increase during 2019/20) was appropriately stretching. Due to the costs of operating through the COVID-19 pandemic, the actual profit outturn was £201m. As above, the Committee decided it was fair and reasonable to adjust for these costs (£290m), and therefore this element earned 50% out of 50%.

Like-for-like

In a non pandemic year, 1%-2.5% like-for-like sales growth would have been a strong performance, and a stretching range in the context of the prior year growth of (0.8)%. Clearly the whole industry benefitted from the closure of hospitality, leisure industries and non-essential retail for large parts of the year, and the Committee considered this when assessing the actual outcome of 8.6%. The Committee also took into consideration the facts that Morrisons had grown its online and other delivery channels very quickly, further expanded wholesale supply, and outperformed the markets in which it operates for the majority of the year, and therefore a significant proportion of the additional sales growth was as a result of actions taken by management. This element has earned a full 20% out of 20%.

Productivity

Despite five years of strong performance on productivity and therefore the addressable cost base being a reducing opportunity, the maximum target was increased from £130m in the prior year to £150m. £152m was achieved against this stretch target, and so 10% out of 10% has been earned. In setting productivity targets going forward, the Committee is mindful of the need to balance productivity savings with investing in the customer shopping trip, and will set targets accordingly.

Personal objectives

Stretching and measurable objectives are set by the Committee at the start of the financial year, taking into account our seven priorities, and the ambitions for our five stakeholders: customers, colleagues, suppliers, shareholders and environment & community. Some specific targets have been removed as they are commercially sensitive.

D Potts

Objective	Summary of performance	Weighting
Implementation of fix, rebuild, grow and sustain strategy for profitable growth	• Delivered a wide reaching property improvement programme including new store openings, refits and the rapid expansion of Amazon and store pick facilities	3.33%
Develop capability	• Delivered retail store restructure to increase management cover and capability • Conducted a complete review of the leadership team including hiring critical operational leadership roles in retail, manufacturing and logistics • Completed the external hiring process to appoint a new Chief Customer and Marketing Officer for the Group	3.33%
Continue to reach 'more and more people' through convenience, online, wholesale and popular and useful services	• Rapid expansion of Amazon and store pick locations • Won new wholesale partners plus creation of new 'bulk orders' business • Launched three other new channels: food boxes, doorstep deliveries, and groceries via Deliveroo	3.33%
Lead the business through the challenges driven by Brexit	• Brexit stability group has been leading planning across 12 work streams	3.33%
Develop the growth plan to include food services	• Opened second and third Market Kitchens with a fourth underway • Pivoted cafés and baristas to take out operations, drove footfall back into cafés after first lockdown	3.33%
To develop a clear internal plan and be on track at the end of the financial year to reduce our own-brand plastic footprint by 50% in 2025	• Achieved continued plastic reduction throughout the year – on track to hit target	3.33%

T Strain

Objective	Summary of performance	Weighting
Improve competitiveness by delivering planned activity for the year	• Accelerated investment in Morrisons price list and customer favourites. Price deflation throughout the year	6.67%
Deliver improvement in margin in line with plan	• Strong cash margin growth and operational leverage, enabling reinvestment back into price, service, range and an improved customer shopping trip	6.67%
Improve availability	• Good availability and kept shelves full, with supply chain, manufacturing and logistics responding to pandemic plans with flexibility and speed	6.67%

M Gleeson

Objective	Summary of performance	Weighting
Deliver cost reduction programmes, and cash flow objectives	• Led the delivery of productivity improvements despite the impact of absence and other disruption, particularly in half one. Navigated the impact of COVID-19 on debt, particularly its impact on demand and consequently on working capital. Took the prudent step of securing £400m of additional short-term facilities early in the crisis	6.67%
Help lead a better Morrisons, where the finance function is an enabler of the Company's plans and delivery	• Recognising the impacts of the pandemic on the business's priorities, reorganise the finance team to enable a more effective response to the challenges and introduced modernised ways of working	6.67%
Execute plans for non-core/non-strategic assets	• Moved focus early in the pandemic to navigate the capital and productivity and operational investments to deliver the additional capacity required to feed the nation in very short timescales	6.67%

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 each Director contributed personally and materially to the Company's COVID-19 response, as follows:

- programme of customer and colleague safety measures including screens at checkouts, in cafés and the hygiene stations in stores. We were the first retailer to have screens installed at every checkout and every till updated with £45 contactless limit;
- tripled our online business;
- maintained service to customers despite absence peaking at 18% across the Group, increased colleagues by over 30% and hired 18,000 in the first few weeks of the pandemic;
- distribution of £10m of food to food banks;
- attracted new customers through our proposition, and our key worker discounts for NHS, teachers and blue light card holders;
- as a result of playing our full part in feeding the nation, brand warmth has increased throughout the year;
- the benefit of our vertically integrated manufacturing business was evident as we were able to respond quickly to customer demand, streamlining ranges which enabled us to increase volume 25% in the early days of lockdown, despite also dealing with high sickness absence and the complexities of social distancing etc. in factories;
- logistics were able to respond to sustained increased demand through the first lockdown and subsequent waves despite challenges of absence and social distancing;
- developed four new channels: food boxes, doorstep deliveries, groceries via Deliveroo and bulk orders;
- navigated the profit challenges of COVID-19 costs, lost profit through closed cafés, changing customer demand across the product range, reduced demand for fuel and food-to-go; and
- thought proactively about how to support small suppliers, and changed our payment terms with them to pay immediately.

Taking into account performance against personal objectives, the Committee has decided to award David Potts, Trevor Strain and Michael Gleeson each the maximum of this element. This takes the total Annual Bonus achieved to a payout of maximum of 100% 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 two 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.

Annual Report on remuneration – 2020/21 continued

Audited information continued

LTIP awards

2018-21 LTIP

For the LTIP, the Committee decided to adjust for the impact of all COVID-19 related costs, such as tripling the average colleague bonus at a cost of over £100m, absence, paying colleagues to shield, installing screens and other protective equipment, social distancing measures, payroll for marshals, and restocking Britain's food banks. Having been directed in March 2020 to feed the nation, and protect colleagues and customers, the Committee felt very strongly that management and the other LTIP participants (store manager and above) should not be penalised for their outstanding performance through the pandemic.

The formulaic outcome of the LTIP was 33.5%, which was earned on the sales growth measure only. Both the EPS and the free cash measures were significantly adversely impacted by the COVID-19 pandemic and did not earn anything on a formulaic basis.

Total sales growth

The Committee carefully considered the impact of closed hospitality and other industries on sales performance in the financial year, but considered that like-for-like sales growth (much of which came from the rapid expansion of the online business) outperformed the market and was therefore not an unearned windfall. This element has therefore earned 33.5% out of 40%

Earnings per share (EPS)

The Committee considered that but for the actions taken to feed the nation and create a safe shopping and working environment, the EPS element would have been achieved in full, and therefore the Committee, as for the Annual Bonus, decided to adjust for the full costs of COVID-19 (£290m). The EPS element has therefore earned 20% out of 20%.

Adjusted free cash flow

The Committee also carefully considered the impact of the pandemic on the free cash element, which at the end of the second year had been on track for a strong final outturn. The Committee weighed the fact that decisions such as paying small suppliers immediately and increasing stock levels to meet changing customer needs as well as the significant adverse impact of items such as the substantial reduction in fuel volumes had adversely impacted the free cash result, but decided on balance not to adjust for these. This element therefore earned 0% out of 40%.

This gives an adjusted LTIP outturn of 53.5%, which the Committee believes is a more fair and reflective outcome of the value created for shareholders over the period than a purely formulaic basis.

Awards granted under the LTIP in March 2018 are scheduled to vest in March 2021. The performance period relating to these awards ended on 31 January 2021.

The original targets for the 2018-21 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 2018-21[4] vesting and IFRS 16 adjusted outcome	Actual LTIP vesting (% of maximum)
Total sales growth (exc. fuel)	40%	£1,100m	£2,000m	£1,806m	£1,806m	33.5%
Adjusted cumulative free cash flow[2]	40%	£730m	£1,000m	£120m	£366m	0%
Basic earnings per share (EPS) before exceptionals growth p.a.[3]	20%	5%	10%	(20.9%)	10.3%[5]	20.0%

[1] Performance measures are defined on page 64.
[2] Cumulative adjusted free cash flow over the vesting period. Adjusted free cash flow as defined on page 64.
[3] Basic earnings per share (EPS) before exceptionals growth rate p.a. over the vesting period. Baseline basic EPS before exceptionals of 12.03p based on 2017/18 profit before exceptionals.
[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.
[5] Adjusted for full £290m of COVID-19 costs.

2020-23 LTIP

The table below sets out the share awards made to the Executive Directors during 2020/21 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	31 March 2020	Conditional award	300% of salary	2,550	25%	29 January 2023	see table below
T Strain	31 March 2020	Conditional award	300% of salary	1,995	25%	29 January 2023	see table below
M Gleeson	31 March 2020	Conditional award	300% of salary	1,470	25%	29 January 2023	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 (£1.7911 per share). The exercise price is £nil.

The table below sets out the performance conditions attached to the awards made during the year. These awards were granted in March 2020.

Measure[1,2]	Period over which the measure applies	Weighting (% of maximum award)	Threshold (25%)	Maximum (100%)
Total sales growth (exc. fuel)	Three year performance period	40%	+£630m	+£1,065m
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% growth p.a.	8% growth p.a.

1 Performance measures are defined on page 64.
2 Vesting is on a straight-line basis between points.

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 and M Gleeson has an option to purchase 6,737 shares at a fixed price of £1.87p on 1 July 2021, both under the Morrisons Sharesave award subject to continued service.

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 (increasing to 300% for the CEO only from 2021/22 financial year). 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. Michael Gleeson has not yet met his requirement, but is within the five year period to build up his shareholding.

Executive Director	Shareholding requirement (% salary)[1]	Shareholding as at 31 January 2021 (% salary)[2,3]	Shares owned outright[6]	Deferred shares not subject to performance[4]	Sharesave options not subject to performance	LTIP shares subject to performance[5]	Total interests in shares
D Potts	250%	736%	3,046,282	860,533	7,078	3,785,749	7,699,642
T Strain	250%	365%	1,032,104	625,145	–	2,863,619	4,520,868
M Gleeson	250%	93%	249,188	–	6,737	1,188,216	1,444,141

1 Increased to 300% from financial year 2021/22 for CEO.
2 Includes shares held under the deferred share bonus plan (DSBP) on an after tax basis. DSBP awards are conditional awards.
3 For the purposes of calculating the shareholding as a percentage of salary, the three month average share price of £1.7824 up to 29 January 2021 (the last trading day of the financial year ended 31 January 2021) has been used.
4 The number of shares awarded in respect of the 2019/20 Annual Bonus Plan (deferred element) (conditional award) was D Potts 229,959 and T Strain 175,851 shares. These were awarded on a share price of £1.8001 (the five day average close price of the trading days prior to grant), and based on grant price their values were £413,950 for D Potts and £316,550 for T Strain. M Gleeson was not granted shares under this award due to his appointment for the 2020/21 financial year.
5 1,217,416, 874,477 and 114,580 shares represent LTIP awards granted to D Potts, T Strain and M Gleeson respectively in March 2018 which are due to vest in March 2021. Performance targets for these awards are disclosed in the section headed '2018/21 LTIP' on page 68. 70,796 shares represent an additional LTIP award granted to M Gleeson in March 2017 which are due to vest in March 2021. Performance targets for these awards are disclosed in the section headed '2017/20 LTIP' on page 63 of the 2019/20 Directors' remuneration report.
6 The LTIP 2017/20, which vested on 23 March 2020, resulted in 532,512, 373,557, and 46,777 shares for D Potts, T Strain and M Gleeson respectively.

Annual Report on remuneration – 2020/21 continued

Audited information continued

Non-Executive Director shareholdings as at 29 January 2021 (the last trading day of the financial year) are set out in the table below. All Non-Executive Directors have three years from their appointment to build up their shareholding.

Non-Executive Directors	Current shareholding	Shareholding met[1]
R Anand	22,500	Yes
N Davidson[3]	12,800	No
S Given[2]	–	No
K Havelock	100,000	Yes
A Higginson	126,402	Yes
C A van Kralingen[3]	13,000	No
L McGowan	20,000	Yes
B Richards[3]	14,407	No
J Townsend	25,000	Yes
P Vennells	12,745	No

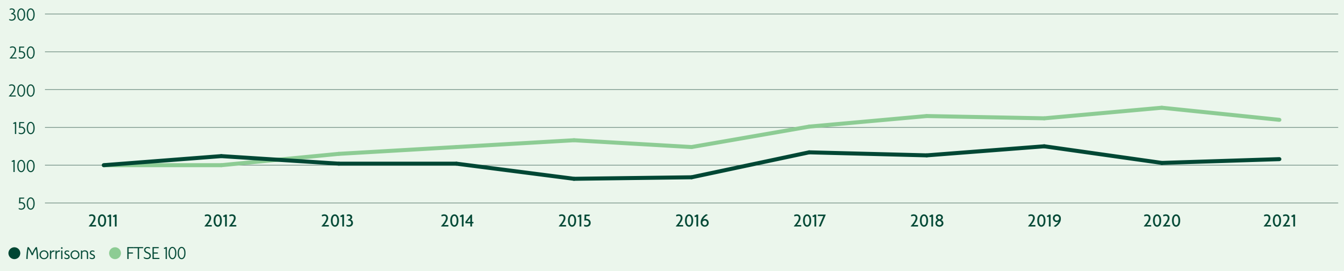
[1] The three month average price to 29 January 2021 was £1.7824.
[2] In accordance with the NED Shareholding policy, Susanne Given has until 12 August 2023 to build her shareholding and has committed to do so.
[3] The shareholding stated for N Davidson, B Richards and C A van Kralingen was the shareholding at the point of their resignation.

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

Unaudited information

Total shareholder return (TSR)

Performance graph and table



The graph above shows the Group's total shareholder return (TSR) compared with the TSR of the FTSE 100 index over the ten year period to 29 January 2021 (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	2011/12	2012/13	2013/14	2014/15	2015/16[1]	2016/17	2017/18	2018/19	2019/20[2]	2020/21
Total remuneration (£000)	D Potts	–	–	–	–	2,252	2,794	5,957	4,502	3,976	4,178
	D Philips	2,502	1,089	1,089	2,101	50	366	–	–	–	–
Annual bonus payment (% of maximum opportunity)	D Potts	–	–	–	–	73%	100%	98.7%	61%	48.7%	100%
	D Philips	90%	0%	0%	60%	–	–	–	–	–	–
LTIP vesting level achieved (% of maximum opportunity)	D Potts	–	–	–	–	–	–	96.3%	94.6%	93.5%	53.5%
	D Philips	–	0%	0%	0%	0%	50%	–	–	–	–

[1] D Potts was appointed on 16 March 2015 and D Philips stepped down from the Board on 16 February 2015.
[2] 2019/20 remuneration has been updated. The value of the 2017-20 LTIP vest that was disclosed in the 2019/20 Directors' remuneration report was based on an indicative price, calculated on the three month average closing price of £1.955 up to 31 January 2020 (the last trading day before year end). The value of the 2017/20 LTIP award has been updated to reflect the March 2020 value.

Unaudited information continued

Percentage change in Directors' remuneration

The table below sets out the change in total remuneration paid to the Directors from 2019/20 and 2020/21 and the average percentage change from 2019/20 and 2020/21 paid to employees of the PLC and the Group as a whole.

		Salary and fees	Taxable benefits	Annual bonus
Executive Directors	D Potts	**0.0%**	**0.0%**	**105.3%**
	T Strain	**2.3%**	**(13.0%)**	**110.1%**
	M Gleeson	**n/a**	**n/a**	**n/a**
Non-Executive Directors	R Anand	**10.1%**	**n/a**	**n/a**
	N Davidson	**(76.5%)**	**n/a**	**n/a**
	S Given	**n/a**	**n/a**	**n/a**
	K Havelock	**12.4%**	**n/a**	**n/a**
	A Higginson	**0.0%**	**11.9%**	**n/a**
	L McGowan	**n/a**	**n/a**	**n/a**
	B Richards	**(38.2%)**	**n/a**	**n/a**
	J Townsend	**n/a**	**n/a**	**n/a**
	C A van Kralingen	**(75.5%)**	**n/a**	**n/a**
	P Vennells	**1.1%**	**n/a**	**n/a**
Employee pay	All PLC employees	**2.3%**	**0.0%**	**209.2%**
	All Group employees	**2.4%**	**0.0%**	**209.2%**

The changes in fees above represent a number of changes in role. The following appointments were made: Susanne Given and Lyssa McGowan on 12 August 2020, Jeremy Townsend on 6 July 2020 and the following stepped down from the Board, C A van Kralingen on 29 April 2020, B Richards on 10 September 2020 and N Davidson on 26 April 2020.

Pay ratios

The table below sets out the ratio of the Chief Executive's pay (as outlined on page 65), 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
2020/21	Option B	219:1	199:1	171:1
2019/20	Option B	230:1	217:1	180:1

Option B under the reporting requirements has again 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. 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.

The change in ratio from 2019/20 to 2020/21 is due to tripling the average colleague bonus payment and the increase in the colleagues' hourly rate, as well as a significant reduction in LTIP vest year-on-year The business is satisfied that the median pay ratio is consistent with the pay, reward and progression policies for the Company's UK employees as whole.

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	**£4,178,395**
75th percentile colleague	£22,006	**£24,435**
50th percentile colleague	£19,044	**£20,965**
25th percentile colleague	£17,515	**£19,038**

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

Annual Report on remuneration – 2020/21 continued

Unaudited information continued

Relative importance of spend on pay

The table below sets out the total spend on remuneration in the 2019/20 and 2020/21 financial years compared with distributions to shareholders.

	2020/21 £m	2019/20 £m	Difference £m
Total cost of remuneration for all PLC employees	**£1,109m**	£1,000m	£109m
Profit distributed by way of dividends	**£261m**	£302m	£(41)m

The Committee and its advisers

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

R Anand	21 January 2016	To date
N Davidson	3 November 2015	26 April 2020
S Given	12 August 2020	To date
K Havelock (Chair since 1 May 2020)	1 February 2018	To date
A Higginson	22 January 2015	To date
L McGowan	12 August 2020	To date
B Richards	2 September 2015	10 September 2020
J Townsend	6 July 2020	To date
C A van Kralingen	1 September 2017	29 April 2020
P Vennells	21 January 2016	To date

The Chief Executive Officer, the Chief Operating Officer, the Chief Financial 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. During the year the Committee chair attended Group-wide listening and responding forums and national meetings where colleagues have the opportunity to ask questions and discuss a broad range of company matters including remuneration. Any feedback from employees and shareholders is taken into account as part of the Code expectations regarding items such as clarity, culture and risk. For example, the Committee regularly communicates with its shareholders both publicly and through consultation, all store managers participate in the same LTIP as the Executive Directors and incentive metrics and targets are designed to hold dynamic tension and create a long-term sustainably successful business without encouraging unnecessary risk.

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. As Willis Towers Watson are members of the Remuneration Consultants Group and operate in accordance with their Code of Conduct the Committee is satisfied that their advice 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 £65,980 on a time and expense basis.

Statement of voting at the 2020 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	1,247,787,105	65.17%	666,751,457	34.83%	5,108,456	1,919,647,018

Statement of voting at the 2020 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	**1,862,012,229**	**97.21%**	**53,344,784**	**2.79%**	**4,289,959**	**1,919,646,972**

Kevin Havelock, Remuneration Committee Chair
10 March 2021

Statutory disclosures

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

Disclosure	
Financial instruments	pages 122 to 124
Financial risk management	pages 122 to 123
Future developments	pages 1 to 38
Dividends	page 100
Greenhouse gas emissions	page 28
Corporate governance report	pages 39 to 53
Directors of the Group	pages 42 to 43
Employee involvement	pages 18, 19 and 41

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

Disclosure	
Interest capitalised	pages 104 to 111 and 117
Long Term Incentive Plans	page 132
Waiver of Directors' emoluments	page 63

Political donations

No political donations were made in the financial year, in line with the Group's policy (2020: nil).

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 and emerging risks as set out on pages 33 to 38 and the other matters discussed in connection with the viability statement on page 38, the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements. Further information can be found on page 90.

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.

Statutory disclosures continued

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 Directors for such liabilities and costs to the fullest extent permitted by law.

Substantial shareholdings

As at 31 January and 9 March 2021, 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 31 January 2021		As at 9 March 2021	
	Number of shares	% of share capital	Number of shares	% of share capital
Silchester International Investors LLP	**289,355,491**	**12.01**	**310,779,289**	**13.01**
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**
Schroders PLC	**122,203,920**	**5.07**	**Less than 5%[1]**	
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**

[1] In the period from 31 January 2021 to the date of this report, we received a further notification in accordance with DTR5 from Silchester International Investors LLP, disclosing a holding of 310,779,289 ordinary shares (13.01%). We also received a notification from Schroders PLC that they have reduced their holdings to below 5%.

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.

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 2020, a special resolution was passed to renew the authority given at the AGM held in June 2019 for the purchase by the Group of up to 240,504,106 ordinary shares, representing approximately 10% of the issued ordinary share capital at that time.

During the period, 4,751,802 (2020: 36,699,143) ordinary shares were issued to employees exercising share options and under the LTIP scheme. In addition, 5,494,159 (2020: 551,491) 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

We have always described that the turnaround of this great British business would be led by colleagues, and as such we have five people ambitions, which includes being a business where everyone feels welcome and celebrated. This is promoted through a safe and supportive environment free from racism, discrimination, harassment, bullying and victimisation.

We strive towards an environment where 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 have the opportunity to progress. We also encourage employment from anyone who wants to make a positive impact, with every application given full and fair consideration.

Dignity and respect underpins our behaviour towards all customers, colleagues and candidates. To ensure individual needs are considered, the Group will make reasonable adjustments, where required, to the selection process, work environment or practices to support those who need it.

The Group is more mindful than ever of mental health and wellbeing; and 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.

Like most businesses, we know we are on a journey around diversity, inclusion, belonging and wellbeing; however we are committed to improving and remaining responsive to customers, colleagues and the wider communities we serve, and truly being a business where everyone is welcome and celebrated.

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. To deliver our policy, each division and subsidiary company has a comprehensive health and safety management system, which contains the policy and procedures for complying with the Health and Safety at Work Act 1974, including the provision, based on risk assessment, of safe working practices for all 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.

Over the past year, our intense management of the COVID-19 pandemic has shown how we prioritise the health and safety of customers, colleagues and stakeholders. We have monitored COVID-19 developments at different levels, across different communities and work type situations; giving us an understanding of COVID-19 Safety.

We are proud of our fast paced response and pleased with the feedback from hundreds of Enforcement visits to our stores, food factories and logistics depots. These inspections have resulted in numerous compliments about our leading COVID-19 Safe standards and our practices have been shared as best practice in the industry. As the pandemic continues, our response to feeding the nation and keeping COVID-19 Safe will remain a top priority.

By order of the Board

Jonathan Burke, Company Secretary
10 March 2021

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 year. Under that law the Directors have prepared the Group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. Additionally, the Financial Conduct Authority's Disclosure Guidance and Transparency Rules require the Directors to prepare the Group financial statements in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in 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, 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 for the Group, international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union, and for the Company, United Kingdom Accounting Standards, comprising FRS 101 have been followed, 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 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 keeping adequate accounting records that are sufficient to show and explain the Group's 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 comply with the Companies Act 2006.

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

Directors' confirmations

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's 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 Group financial statements, which have been prepared in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group;
- the Company financial statements, which have been prepared in accordance with United Kingdom Accounting Standards, comprising FRS 101, give a true and fair view of the assets, liabilities, financial position and loss of the Company; 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's 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's 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
10 March 2021

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 31 January 2021 and of the Group’s profit and the Group’s cash flows for the 52 week period then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- 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.

We have audited the financial statements, included within the Annual Report and Financial Statements (the ‘Annual Report’), which comprise: the consolidated and Company statements of financial position as at 31 January 2021; the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of cash flows, and the consolidated and Company statements of changes in equity for the 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.

Separate opinion in relation to international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union

As explained in the basis of preparation note on page 90, the Group, in addition to applying international accounting standards in conformity with the requirements of the Companies Act 2006, has also applied international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

In our opinion, the Group financial statements have been properly prepared in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

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.

Other than those disclosed in note 1.6 to the financial statements, we have provided no non-audit services to the Group in the period under audit.

Our audit approach

Context

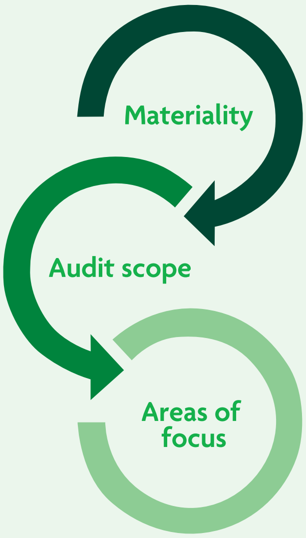
As a result of COVID-19 the majority of our audit procedures have been performed remotely. During the course of the audit we have however been able to attend stock counts, fixed asset inspections and cash cycle counts whilst carefully observing the lockdown restrictions and pandemic safety protocols. Despite the remote working, we have been able to obtain the audit evidence requested to support our opinion, and we have been able to appropriately challenge management on the key accounting and audit matters. Our challenge has been most prominent in terms of the treatment and disclosure of exceptional items, and the key assumptions used within the trading stores’ impairment model.

Independent auditors' report continued

to the members of Wm Morrison Supermarkets PLC

Our audit approach

Overview



Materiality

- Overall Group materiality: £20,000,000 based on professional judgement having considered a number of profit before tax and exceptionals bases and a revenue basis (2020: £20,400,000, which was based on 5% of profit before exceptional items and net retirement benefit interest income). The change of basis in how we set materiality to 2020 was due to the impacts of COVID-19 on profit in 2021.
- Overall Company materiality: £18,000,000 (2020: £18,300,000) allocated to the company as part of the Group audit.
- Performance materiality: £15,000,000 (Group) and £13,500,000 (Company).

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. In addition, we determined that a certain account balance in a further reporting unit was 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.
- The Group engagement team performed the audit procedures for each reporting unit in the scope of our Group audit, which accounted for 99% of total Group revenue and 99% 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.
- Commercial income and manually calculated promotional funding.
- Impairment of intangible assets.
- Shrinkage provision.
- Exceptional items (Group only).
- Valuation of Retirement benefits.
- Impact of COVID-19.

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined in the Auditors' responsibilities for the audit of the financial statements section, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

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. Audit procedures performed by the engagement team included:

- 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; and
- auditing the risk of management override of controls, including through testing journal entries and other adjustments for appropriateness, testing accounting estimates (because of the risk of management bias), and evaluating the business rationale of significant transactions outside the normal course of business.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. 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.

The impact of COVID-19 is a new key audit matter this year. IFRS 16 Lease Accounting, which was a key audit matter last year, is no longer included because of the prior year key audit matter being specific to the transition accounting for IFRS 16. As this was audited in the prior year and no significant issues were identified as a result of this work, the subsequent accounting under IFRS 16 is not deemed to be a key audit matter. Otherwise, the key audit matters below are consistent with last year.

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 93 (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: £5,772m, Company: £1,572m) and right of use assets representing leasehold land and buildings (Group: £997m, Company: £1,090m) at 31 January 2021. 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. In addition, the COVID-19 pandemic has created greater consumer uncertainty. We focused on this area because of the judgement required in applying various estimations when testing for impairment and impairment write backs and the significant carrying value of freehold and leasehold property. Management considers each store location 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. The Group has recognised a net impairment write back of £141m (£199m impairment write back offset by £58m impairment charge). The £58m impairment charge includes £42m in relation to property, plant and equipment, £13m in relation to right-of-use assets and £3m in relation to investment property. The £199m impairment write back includes £144m in relation to property, plant and equipment, £54m in relation to right-of-use assets and £1m in relation to investment property. The Company has recognised a net impairment write back of £77m (£108m impairment write back offset by £31m impairment charge). The £31m impairment charge includes £15m in relation to property, plant and equipment, £14m in relation to right-of-use assets and £2m in relation to investment property. The £108m impairment write back includes £64m in relation to property, plant and equipment, £43m in relation to right-of-use assets and £1m in relation to investment property.	**Value in use** In relation to the value-in-use assessment we have: • obtained the Group's and Company's financial plan covering FY22 and medium term outlook (upon which the forecasts underpinning the value in use calculations are based); • challenged management's forecasts by seeking evidence over the key assumptions and compared future cash flow performance to historical 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 assumptions. We determined that the valuations performed by management were reasonable. In addition, we evaluated the adequacy of the disclosures made in notes 3.3 and 3.4 (Group) and notes 11.7 and 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
Commercial income and manually calculated promotional funding (Group and Company) Refer to page 93 (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 on page 94. 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. We also recognise 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 manually calculated element to the invoicing. We focused on the manually calculated 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 manually calculated 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 balance sheet items to supporting documentation including supplier agreements and independent external confirmations from supplier. This included testing accrued items on the balance sheet to subsequent post year end invoicing as well as independent confirmations; • used data analytics to identify any unusual items and where such items were identified these were agreed to supporting documentation; • tested a sample of supplier arrangements recognised in the income statement to supporting agreements and invoices. We have also assessed supplier dispute provisions at the year-end for comfort over items recognised in the income statement; • cut-off work involved testing a sample of commercial income and the manually calculated elements of promotional funding recognised both pre and post the period end and evaluating by reference to documentation from suppliers that the timing of recognition was appropriate; • our credit note testing focused on credit notes raised after the period end in order to identify any instances of commercial income or the manually calculated elements of promotional funding being subsequently reversed; • 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.
Impairment of intangible assets (Group and Company) Refer to page 93 (sources of estimation uncertainty), note 3.1 (accounting policies) and notes 3.2 and 11.6 (goodwill and intangible assets). Intangible assets of £328m are recognised on the Group balance sheet and £309m on the Company balance sheet, 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 £67m for the Group and the Company has been recognised in relation to intangible assets (software and systems).	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.

Key audit matter	How our audit addressed the key audit matter
Shrinkage provision (Group and Company) Refer to page 93 (sources of estimation uncertainty), note 5.1 (accounting policies), notes 5.2 and 11.3 (inventory). Inventory of £814m is recognised on the balance sheet of the Group and £514m on the Company balance sheet. The inventory valuation is reduced by provisions including those relating to estimated losses due to shrinkage (note 5.1 and 11.3). We focused on this due to the estimation uncertainty and judgements involved in determining the level of provision required for 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.
Exceptional items (Group) Refer to page 92 (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 £201m is stated before £16m of IAS 19 pension interest income and a net charge from exceptional items of £52m, representing: • £66m of costs associated with the online and home delivery expansion; • an impairment write back from the impact of store picks of £76m; • £56m of restructuring and store closure costs; • £7m net write back of impairment and provision for onerous contracts, which includes a net £2m impairment for property, plant and equipment (excluding impact of store pick above) and intangible assets, and a net £9m credit in relation to provision for onerous contracts; • £2m profit arising on disposal and exit of properties; and • £15m of other exceptional costs. 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 historical assessments made for similar circumstances; • challenged management on the classification of exceptional items through consideration of the application of the accounting policy including those items classified as 'other exceptional costs'; and • challenged management over disclosures relating to exceptional items to ensure that these were appropriate and consistent with the individual exceptional items and the work performed. We did not identify any material issues in our work over those items presented as exceptional.
Valuation of Retirement benefits (Group and Company) Refer to page 93 (critical accounting judgements), 93 (sources of estimation uncertainty), notes 8 and 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: £5,518m and Company: £1,952m) and liabilities (Group: £4,800m and Company £1,661m) within the schemes are significant and material. The net surplus position of the schemes at 31 January 2021 was £718m for the Group and £291m 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.

Independent auditors' report continued

to the members of Wm Morrison Supermarkets PLC

Key audit matter	How our audit addressed the key audit matter
Impact of COVID-19 (group and parent) Refer to the strategic report for the impact of COVID-19 on the Group and Company's financial performance during the year. Management has considered the implications of COVID-19 across its business, with specific focus on its going concern assessment, the impairment of non-financial assets, liquidity disclosures and the disclosures within the Annual Report and Financial Statements. Management has considered a base case model using a like-for-like sales assumptions and assessed the forecast underlying profit, liquidity headroom and net debt position as part of their going concern assessment. Management has further modelled a severe but plausible downside by reducing the like-for-like sales assumption, and concluded that the forecast underlying profit, liquidity exposure and level of net debt are not impacted sufficiently to change their assessment on the entity's ability to continue as a going concern. Furthermore, management has performed a reverse stress test which shows like-for-like sales would have to reduce by an implausible level for the business to be considered unviable. Management's view is that there are no additional impairment triggers from the impact of COVID-19 beyond the impact of the annual impairment reviews in relation to fixed and intangible assets previously described in this report. As a result of the impact of COVID-19 on the wider economy, we have determined that management's consideration of the impact of COVID-19 to be a key audit matter.	We considered the impact of COVID-19 in our audit risk assessment, including the going concern risk of the Group. Based on the Directors' assessment and our audit procedures described below, we consider going concern to be a normal risk for both the Group and the Company. In assessing management's consideration of the impact of COVID-19, we have undertaken the following audit procedures: • obtained from management their latest assessments that support the Board's conclusions with respect to the going concern basis of preparation of the financial statements; • evaluated management's base case forecast and severe but plausible downside scenarios and challenged the adequacy and appropriateness of the underlying assumptions, including a decrease in like-for-like sales; and • in conjunction with the above we have also reviewed management's analysis of both liquidity and covenant compliance to satisfy ourselves that no breaches are anticipated over the period of assessment. Our conclusion in respect of going concern is included in the 'Going concern' section on page 83. We have reviewed management's assessment of the impact of COVID-19 on the carrying value of each category of assets and any adjustments made. We evaluated and challenged management on how they reflected the impact on future cash flows, of COVID-19, in their impairment analyses and the consistency of their assumptions with the forecasts used in their going concern assessment. We have reviewed management's disclosures in the financial statements in relation to COVID-19 and are satisfied that they are consistent with the risks affecting the Group, their impact assessment and the procedures that we have performed.

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 two components, being Wm Morrison Supermarkets PLC and Safeway Stores Limited, which were determined as financially significant because they individually contribute more than 15% of the Group's profit before tax. In addition, we determined that a certain account balance (Investments in Joint Ventures) in a further reporting unit was 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.

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 99% 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	£20,000,000.	£18,000,000.
How we determined it	Professional judgement having considered a number of profit before tax and exceptionals bases and a revenue basis.	Allocated to the Company as part of the Group audit.
Rationale for benchmark applied	We applied this benchmark as profit before exceptionals and tax is the most relevant metric against which the performance of the Group is most commonly measured. However, revenue is also another key benchmark used to assess the performance and growth of the Group. In the current year, there have been significant one-off costs which have reduced the profit levels and, therefore, using an unadjusted profit measure is not deemed appropriate. As such, we have used our professional judgement in selecting a materiality level that sits within a range of profit before tax and exceptionals bases and a revenue basis, that is more reflective of the size of the Group and its performance in the year, excluding these one-off costs.	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 components 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 £18,000,000.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £15,000,000 for the Group financial statements and £13,500,000 for the Company financial statements.

In determining the performance materiality, we considered a number of factors – the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls – and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £1,000,000 (Group audit) (2020: £1,000,000) and £900,000 (Company audit) (2020: £913,500) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the Directors' assessment of the Group's and the Company's ability to continue to adopt the going concern basis of accounting included:

- We obtained from management their latest assessments that support the Board's conclusions with respect to the going concern basis of preparation of the financial statements;
- We evaluated management's base case forecast and severe but plausible downside scenarios and challenged the adequacy and appropriateness of the underlying assumptions, including a decrease in like-for-like sales; and
- In conjunction with the above we have also reviewed management's analysis of both liquidity and covenant compliance to satisfy ourselves that no breaches are anticipated over the period of assessment.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

In relation to the Company's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

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 our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

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 period ended 31 January 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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.

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.

Corporate governance statement

The Listing Rules require us to review the Directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement, included within the Corporate governance report is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- the Directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- the disclosures in the Annual Report and Financial Statements that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- the Directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the Group's and Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- the Directors' explanation as to their assessment of the Group's and Company's prospects, the period this assessment covers and why the period is appropriate; and
- the Directors' statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the Directors' statement regarding the longer-term viability of the Group was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the Group and Company and their environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- the Directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Company's position, performance, business model and strategy;
- the section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- the section of the Annual Report describing the work of the Audit Committee.

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

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.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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 obtained 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 7 years, covering the years ended 1 February 2015 to 31 January 2021.

John Ellis (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
10 March 2021

Consolidated income statement

52 weeks ended 31 January 2021

	Note	2021 Before exceptionals £m	2021 Exceptionals (note 1.4) £m	2021 Total £m	2020 Before exceptionals £m	2020 Exceptionals (note 1.4) £m	2020 Total £m
Revenue	1.2	**17,598**	**–**	**17,598**	17,536	–	17,536
Cost of sales		**(17,097)**	**(113)**	**(17,210)**	(16,855)	(52)	(16,907)
Gross profit		**501**	**(113)**	**388**	681	(52)	629
Other operating income		**92**	**–**	**92**	94	–	94
Profit/(loss) on disposal and exit of properties		**–**	**2**	**2**	–	66	66
Administrative expenses		**(287)**	**59**	**(228)**	(262)	(6)	(268)
Operating profit	1.6	**306**	**(52)**	**254**	513	8	521
Finance costs	6.2	**(111)**	**–**	**(111)**	(111)	–	(111)
Finance income	6.2	**6**	**16**	**22**	5	19	24
Share of profit of joint venture (net of taxation)	4.2	**–**	**–**	**–**	1	–	1
Profit before taxation		**201**	**(36)**	**165**	408	27	435
Taxation	2.2	**(58)**	**(11)**	**(69)**	(94)	7	(87)
Profit for the period attributable to the owners of the Company		**143**	**(47)**	**96**	314	34	348
Earnings per share (pence)							
Basic	1.5			**3.99**			14.60
Diluted	1.5			**3.95**			14.44

All of the results shown above relate to continuing operations.

Consolidated statement of comprehensive income

52 weeks ended 31 January 2021

Other comprehensive (expense)/income	Note	2021 £m	2020 £m
Items that will not be reclassified to profit or loss			
Remeasurement of defined benefit schemes	8.2	**(248)**	231
Tax on defined benefit schemes	2.3	**32**	(38)
		(216)	193
Items that may be reclassified subsequently to profit or loss			
Cash flow hedging movement		**41**	(57)
Exchange differences on translation of foreign operations		**1**	(2)
Tax on items that may be reclassified subsequently to profit or loss	2.3	**(7)**	10
		35	(49)
Other comprehensive (expense)/income for the period, net of tax		**(181)**	144
Profit for the period attributable to the owners of the Company		**96**	348
Total comprehensive (expense)/income for the period attributable to the owners of the Company		**(85)**	492

Consolidated statement of financial position

As at 31 January 2021

	Note	2021 £m	2020 £m
Assets			
Non-current assets			
Goodwill and intangible assets	3.2	**328**	381
Property, plant and equipment	3.3	**7,358**	7,147
Right-of-use assets	3.4	**997**	942
Investment property	3.6	**59**	58
Retirement benefit surplus	8.2	**754**	960
Investment in joint venture	4.2	**31**	39
Trade and other receivables	3.7	**70**	71
Derivative financial assets	7.3	**9**	–
		9,606	9,598
Current assets			
Inventories	5.2	**814**	660
Trade and other receivables	5.3	**336**	353
Current tax asset		**27**	–
Derivative financial assets	7.3	**13**	1
Cash and cash equivalents		**240**	305
		1,430	1,319
Assets classified as held-for-sale	3.5	**–**	3
		1,430	1,322
Total assets		**11,036**	10,920
Liabilities			
Current liabilities			
Trade and other payables	5.4	**(2,837)**	(3,051)
Borrowings	6.3	**(54)**	(237)
Lease liabilities	6.4	**(72)**	(72)
Derivative financial liabilities	7.3	**(18)**	(36)
		(2,981)	(3,396)
Non-current liabilities			
Borrowings	6.3	**(1,986)**	(1,108)
Lease liabilities	6.4	**(1,299)**	(1,304)
Derivative financial liabilities	7.3	**(2)**	(7)
Retirement benefit deficit	8.2	**(36)**	(16)
Deferred tax liabilities	2.3	**(463)**	(472)
Provisions	5.5	**(53)**	(76)
		(3,839)	(2,983)
Total liabilities		**(6,820)**	(6,379)
Net assets		**4,216**	4,541
Shareholders' equity			
Share capital	6.6	**241**	240
Share premium	6.6	**201**	192
Capital redemption reserve	6.7	**39**	39
Merger reserve	6.7	**2,578**	2,578
Retained earnings and other reserves	6.7	**1,157**	1,492
Total equity attributable to the owners of the Company		**4,216**	4,541

The notes on pages 90 to 133 form part of these financial statements. The financial statements on pages 86 to 133 were approved by the Board of Directors on 10 March 2021 and were signed on its behalf by:

Michael Gleeson, Chief Financial Officer

Consolidated statement of cash flows

52 weeks ended 31 January 2021

	Note	2021 £m	2020 £m
Cash flows from operating activities			
Cash generated from operations	5.6	**286**	1,017
Interest paid		**(116)**	(104)
Taxation paid		**(81)**	(87)
Net cash inflow from operating activities		**89**	826
Cash flows from investing activities			
Interest received		**–**	1
Dividends received from joint venture	10.1	**8**	9
Proceeds from the disposal of property, plant and equipment, investment property, right-of-use assets and assets held-for-sale		**27**	34
Purchase of property, plant and equipment, investment property and right-of-use assets		**(461)**	(429)
Purchase of intangible assets		**(77)**	(81)
Acquisition of business (net of cash received)	4.3	**(1)**	(1)
Net cash outflow from investing activities		**(504)**	(467)
Cash flows from financing activities			
Purchase of trust shares	6.6	**–**	(10)
Settlement of share awards	6.6	**(10)**	(2)
Proceeds from exercise of employee share options	6.6	**9**	14
New borrowings		**934**	347
Repayment of borrowings		**(237)**	(278)
Repayment of lease obligations		**(85)**	(87)
Dividends paid	1.8	**(261)**	(302)
Net cash inflow/(outflow) from financing activities		**350**	(318)
Net (decrease)/increase in cash and cash equivalents		**(65)**	41
Cash and cash equivalents at start of period		**305**	264
Cash and cash equivalents at end of period	6.5	**240**	305

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

	Note	2021 £m	2020 £m
Net (decrease)/increase in cash and cash equivalents		**(65)**	41
Cash inflow from increase in borrowings		**(934)**	(347)
Cash outflow from repayment of borrowings		**237**	278
Cash outflow from repayment of lease liabilities		**85**	87
Non-cash movements on lease liabilities[2]		**(80)**	(66)
Other non-cash movements		**46**	(57)
Opening net debt[1]		**(2,458)**	(2,394)
Closing net debt[1]	6.5	**(3,169)**	(2,458)

[1] Net debt is defined in the Glossary on page 159.

[2] Non-cash movement on lease liabilities comprise £15m (2020: £36m) in relation to new leases and £65m (2020: £30m) from the remeasurement of existing leases.

Consolidated statement of changes in equity

52 weeks ended 31 January 2021

		Attributable to the owners of the Company						
	Note	Share capital £m	Share premium £m	Capital redemption reserve £m	Merger reserve £m	Hedging reserve £m	Retained earnings £m	Total equity £m
Current period								
At 3 February 2020		**240**	**192**	**39**	**2,578**	**(37)**	**1,529**	**4,541**
Profit for the period		**–**	**–**	**–**	**–**	**–**	**96**	**96**
Other comprehensive income/(expense):								
Cash flow hedging movement		**–**	**–**	**–**	**–**	**41**	**–**	**41**
Exchange differences on translation of foreign operations		**–**	**–**	**–**	**–**	**–**	**1**	**1**
Remeasurement of defined benefit schemes	8.2	**–**	**–**	**–**	**–**	**–**	**(248)**	**(248)**
Tax in relation to components of other comprehensive income	2.3	**–**	**–**	**–**	**–**	**(7)**	**32**	**25**
Total comprehensive income/(expense) for the period		**–**	**–**	**–**	**–**	**34**	**(119)**	**(85)**
Employee share option schemes:								
Share-based payments charge	1.7	**–**	**–**	**–**	**–**	**–**	**20**	**20**
Settlement of share awards	6.6	**–**	**–**	**–**	**–**	**–**	**(9)**	**(9)**
Share options exercised	6.6	**1**	**9**	**–**	**–**	**–**	**–**	**10**
Dividends	1.8	**–**	**–**	**–**	**–**	**–**	**(261)**	**(261)**
Total transactions with owners		**1**	**9**	**–**	**–**	**–**	**(250)**	**(240)**
At 31 January 2021		**241**	**201**	**39**	**2,578**	**(3)**	**1,160**	**4,216**

		Attributable to the owners of the Company						
	Note	Share capital £m	Share premium £m	Capital redemption reserve £m	Merger reserve £m	Hedging reserve £m	Retained earnings £m	Total equity £m
Prior period								
At 4 February 2019		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

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 31 January 2021 (2020: 52 weeks ended 2 February 2020) in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 (IFRS) and the applicable legal requirements of the Companies Act 2006. In addition to complying with international accounting standards in conformity with the requirements of the Companies Act 2006, the financial statements also comply with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

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 to one decimal place. 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.

Going concern

The financial statements have been prepared on the going concern basis as the Directors have a reasonable expectation that the Group has adequate resources for a period of at least 12 months from the date of approval, having reassessed the principal and emerging risks facing the Group and determined that there are no material uncertainties to disclose.

The COVID-19 pandemic has had a significant impact on customer behaviour during the 52 weeks ended 31 January 2021, with stockpiling in the early weeks of the pandemic and then the effects of transitioning in and out of lockdown across the UK. This has created unprecedented challenges for the sector and impacted the Group's near-term priorities. The Group responded quickly to these challenges, to play its part in feeding the nation. As an essential retailer providing groceries across the UK, all stores continued to trade throughout the period, and with increasing trends towards the 'in-home' market, supermarket and online sales have had strong like-for-like growth during the 52 weeks ended 31 January 2021. Fuel sales were affected by reduced demand during periods of lockdown, with some recovery in between those periods. Profit before tax and exceptionals was impacted during the year by the considerable direct costs associated with COVID-19.

The Directors' assessment of the Group's ability to continue as a going concern includes an assessment of cash flow forecasts which incorporate an estimated impact of the ongoing COVID-19 pandemic on the Group. This includes the modelling of a number of severe but plausible scenarios based on the experiences during the 52 weeks ended 31 January 2021, recognising the degree of uncertainty that continues to exist.

The Group continues to maintain a robust financial position providing it with sufficient access to liquidity, through a combination of cash and committed facilities, to meet its needs in the short and medium term. The Group has a centralised treasury function which manages funding, liquidity and other financial risk in accordance with the Board-approved Treasury Policy, as detailed on page 122.

In September 2019 the Group issued a 12 year £350m sterling bond, ahead of the maturity of the €282m Eurobond which was repaid in June 2020. During the year the Group took up the option of extending its main £1,350m revolving credit facility (RCF) by a year to June 2025 and obtained three new £100m RCFs. Since 31 January 2021, all four of the £100m RCFs have been extended with £200m now maturing in September 2021, £100m in March 2022 and £100m in July 2022, taking the total committed RCFs from £1,450m to £1,750m. As at 31 January 2021, the Group had net debt (excluding leases) of £1,798m.

As at 31 January 2021, the Group covenant basis net debt (excluding leases)/EBITDA ratio was 2.4x and the EBITDA/net interest expense ratio was 4.8x, providing sufficient headroom against the covenant limits detailed on page 123. The scenarios modelled demonstrate sufficient liquidity and financial covenant headroom being available. Whilst not a key factor in the Directors' going concern conclusion, the Group does also have other significant potential mitigations at its disposal to improve its short-term liquidity position should the need arise, including scaling back its capital investment programme, and deferring future dividends.

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 31 January 2021.

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 31 January 2021:

- Amendments to the following standards:
  - IFRS 3 'Definition of a Business'
  - IFRS 7, IFRS 9 and IAS 39 'Interest rate benchmark reform'
  - IAS 1 and IAS 8 'Definition of Material'
- Amendments to references to the conceptual framework in IFRS standards.

The Group has considered the above amendments to published standards, and has concluded that these are not relevant to the Group.

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 reassessing 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 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 157 to 159.

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 157.

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 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 write backs of other non-current assets.

During the year the appropriateness of the policy has been reviewed and the policy expanded to capture significant one-off costs incurred where they have resulted in a significant write back of impairments of tangible assets as part of the annual impairment exercise, to provide consistent treatment between the cost of development incurred and the recognition of the impairment write back. As a result the costs in the year relating to the considerable expansion of the online and home delivery business have been treated as exceptional.

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.

In relation to the COVID-19 pandemic, the Directors have ensured that COVID-19 specific costs are within underlying earnings in compliance with the Financial Reporting Council's guidance.

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.

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.

Typically this has 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 reassessed as required by the Group's accounting policies for lease liabilities. Further detail is provided in notes 6.1 and 6.4.

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

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 write back). 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.

In calculating future cash flows for each store location this year, judgement has been applied in making adjustments for both the one-off costs related to the COVID-19 pandemic and the allocation of online store pick cash flows to locations for the first time where a reliable store pick trading history has been established.

Further detail is provided in notes 3.1, 3.2, 3.3 and 3.4.

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 historical 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 31 January 2021

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 (including doorstep delivery), 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

	2021 £m	2020 £m
Sale of goods in-store and online	**14,183**	13,065
Other sales	**922**	800
Total sales excluding fuel	**15,105**	13,865
Fuel	**2,493**	3,671
Total revenue	**17,598**	17,536

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

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

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 157 to 159.

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, and are consistent with how business performance is measured internally. 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 28.7% (2020: 23.1%).

'Profit before exceptionals' and 'earnings per share before exceptionals' measures are not recognised measures under 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 onerous and property-related provisions would typically be included as exceptional items, as would significant impairments or impairment write backs of other non-current assets. During the year the appropriateness of the policy has been reviewed and the policy expanded to capture significant one-off costs incurred where they have resulted in a significant write back of impairments of tangible assets as part of the annual impairment exercise, to provide consistent treatment between the cost of development incurred and the recognition of the impairment write back. As a result the costs in the year relating to the considerable expansion of the online and home delivery business have been treated as exceptional.

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.

	2021 £m	2020 £m
Profit after tax	**96**	348
Add back: tax charge for the period[1]	**69**	87
Profit before tax	**165**	435
Adjustments for:		
Restructuring and store closure costs[1]	**56**	51
Online and home delivery expansion:		
Transformation costs[1]	**66**	–
Impairment write back – store pick[1]	**(76)**	–
Net impairment and provision for onerous contracts[1]	**(7)**	(2)
Profit/loss arising on disposal and exit of properties[1]	**(2)**	(66)
Other exceptional items[1]	**15**	9
Net retirement benefit interest (note 8.2)[1]	**(16)**	(19)
Profit before tax and exceptionals	**201**	408
Normalised tax charge at 28.7% (2020: 23.1%)[1,2]	**(58)**	(94)
Profit before exceptionals after tax	**143**	314
Earnings per share before exceptionals (pence):		
Basic (note 1.5.2)	**5.95**	13.18
Diluted (note 1.5.2)	**5.89**	13.03

[1] Adjustments marked 1 increase post-tax adjusted earnings by £47m (2020: decrease of £34m), as shown in the reconciliation of earnings disclosed in note 1.5.2.
[2] Normalised tax is defined in the Glossary, see page 158 for details.

Restructuring and store closure costs

Restructuring and store closure costs totalled £56m (2020: £51m). Of this amount, there was an additional £21m (2020: £46m) charge for the restructuring of the store management and operations following a delay in the completion of the activity which commenced in the prior year; a £17m (2020: £nil) charge relating to the costs of organising and modernising the ways of working across the head office; a £16m (2020: £nil) charge from reorganisations within logistics to increase the flexibility of the network to respond to changes in the business; £3m (2020: £nil) for restructuring of the manufacturing operations; and £1m credit (2020: £5m cost) relating to store closures.

1 Performance in the period continued

1.4 Profit before exceptionals continued

Online and home delivery expansion

Transformation costs

The costs of the rapid roll out of online and home delivery amount to £66m and comprise of £42m of transformation costs from rapidly increasing the number and capacity of online and home delivery channels available and £24m relating to stock wastage as new process and system integrations relating to store pick were being adapted.

Impairment write back – store pick

Following the Group's annual impairment exercise a write back of £76m has been recognised. The write back relates to the improved utilisation of store assets where store pick online operations have become sufficiently established.

Net impairment and provision for onerous contracts

Following the Group's annual impairment and onerous contract review a net credit of £7m (2020: £2m) has been recognised, excluding the £76m (2020: £nil) impairment write back relating to the online and home delivery expansion as set out above. The net credit of £7m includes:

- a net £2m impairment charge, comprising a £67m impairment charge on intangible assets, a £58m impairment charge on tangible assets offset by a £123m write back of impairment on tangible assets (net £65m tangible asset write back); and
- a net £9m credit recognised in relation to provisions for onerous contracts (see note 5.5).

In total a £74m net impairment write back has been recognised including the £76m write back relating to the improved asset utilisation of store assets from the online and home delivery expansion (£199m impairment write back offset by £125m impairment charge). The £199m impairment write back includes £144m in relation to property, plant and equipment, £54m in relation to right-of-use assets and £1m in relation to investment property (see notes 3.3, 3.4 and 3.6 respectively). The £125m impairment charge includes £42m in relation to property, plant and equipment, £13m in relation to right-of-use assets, £3m in relation to investment property and £67m in relation to intangible assets (see notes 3.3, 3.4, 3.6 and 3.2 respectively).

In the 52 weeks ended 2 February 2020, there was a net annual impairment and onerous contract credit of £2m. An impairment write back of £15m was recognised in addition to a £2m charge in relation to provisions for onerous contracts. A further £10m credit recognised following changes to estimates in respect of lease terms and a £21m charge in respect of amounts provided for onerous commitments and receivables in respect of contract payments.

Profit/loss arising on disposal and exit of properties

Profit arising on disposal and exit of properties was £2m, net of fees incurred.

In the 52 weeks ended 2 February 2020 a £66m profit was realised of which £64m related to the sale of land and buildings of the Camden store.

Other exceptional items

Other exceptional items include:

- a £9m charge relating to additional bonuses paid to Colleagues during the year who would not ordinarily have been eligible for the bonus scheme;
- a £4m net charge relating to costs incurred in relation to legal cases in respect of historical events; and
- a £2m charge relating to the increased mark down of excess stock and one-off costs relating to Brexit.

In the 52 weeks ended 2 February 2020, there was £9m of other exceptional items, including a £6m charge relating to one-off costs associated with improvements to the Group's distribution network as part of a programme to increase network capacity and support the accelerated roll out of wholesale supply and a net £3m charge in respect of other net exceptional costs.

Taxation

The total tax charge for the 52 week period ended 31 January 2021 of £69m includes an exceptional tax charge of £11m (2020: £7m credit) being a £41m (2020: £nil) charge due to the change in the standard rate of corporation tax in respect of deferred tax (see note 2.3) and a £30m (2020: £7m) credit in relation to other exceptional items.

1 Performance in the period continued

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 (2020: 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:

			2021			2020
	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	**95.8**	**2,398.1**	**3.99**	347.9	2,382.5	14.60
Effect of dilutive instruments						
Share options and LTIPs	**–**	**25.2**	**(0.04)**	–	26.3	(0.16)
Diluted EPS	**95.8**	**2,423.3**	**3.95**	347.9	2,408.8	14.44

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:

			2021			2020
	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	**95.8**	**2,398.1**	**3.99**	347.9	2,382.5	14.60
Adjustments to determine profit before exceptionals (note 1.4)	**47.0**	**–**	**1.96**	(34.0)	–	(1.42)
	142.8	**2,398.1**	**5.95**	313.9	2,382.5	13.18
Effect of dilutive instruments						
Share options and LTIPs	**–**	**25.2**	**(0.06)**	–	26.3	(0.15)
Diluted EPS before exceptionals	**142.8**	**2,423.3**	**5.89**	313.9	2,408.8	13.03

1 Performance in the period continued

1.6 Operating profit

	2021 £m	2020[1] £m
The following items have been included in arriving at operating profit:		
Employee costs (note 1.7)	**2,138**	1,845
Depreciation and impairment:		
Property, plant and equipment (note 3.3)	**405**	371
Right-of-use assets (note 3.4)	**63**	60
Investment property (note 3.6)	**2**	3
Net impairment write back (notes 3.3, 3.4 and 3.6)	**(141)**	(30)
Amortisation and impairment:		
Intangible assets (note 3.2)	**71**	91
Net impairment charge (note 3.2)	**67**	15
Other lease expenses:		
Short-term leases longer than one month	**16**	5
Leases of low-value assets, excluding short-term	**2**	2
Variable lease payments	**–**	–
Value of inventories expensed	**13,472**	13,608

During the year, the Group waived the £230m of 2020/21 business rates relief for the 52 weeks ended 31 January 2021 it had received from the UK Government to support businesses through the early days of the COVID-19 pandemic. This has been recognised within profit before exceptionals.

Commercial income

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

	2021 £m	2020 £m
Marketing and advertising funding	**88**	78
Volume-based rebates	**152**	113
Total commercial income	**240**	191

Auditor remuneration

During the period, PricewaterhouseCoopers LLP, the Group's auditor, provided the following services:

	2021 £m	2020 £m
Audit services		
Fees payable to the Group's auditor for the audit of the Group and the Company financial statements	**0.8**	0.8
Fees payable to the Group's auditor for the audit of the Group's subsidiaries pursuant to legislation	**0.3**	0.3
Non-audit services		
Other services	**0.2**	0.1
	1.3	1.2

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 Performance in the period continued

1.7 Employees and Directors

	2021 £m	2020 £m
Employee benefit expense for the Group during the period		
Wages and salaries	**1,870**	1,605
Social security costs	**144**	126
Share-based payments	**20**	24
Retirement benefit costs	**104**	90
	2,138	1,845

In the 52 weeks ended 31 January 2021, there was £57m (2020: £49m) of exceptional costs in addition to the employee benefit expenses shown in the table above (see note 1.4). This amount included £nil (2020: £2m) in the form of share-based payments.

	2021 No.	2020 No.
Average monthly number of people, including Directors		
Stores	**99,769**	81,092
Manufacturing	**9,006**	9,373
Distribution	**6,220**	5,763
Centre	**3,052**	2,391
	118,047	98,619

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 65). There are no Executive Directors (2020: 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.

	2021 £m	2020 £m
Senior managers		
Wages and salaries	**21**	19
Social security costs	**4**	4
Share-based payments	**5**	8
Retirement benefit costs	**1**	1
	31	32

1.8 Dividends

Amounts recognised as distributed to equity holders in the period:

	2021 £m	2020 £m
Final dividend for the period ended 2 February 2020 of 4.84p (2019: 4.75p)	**116**	113
Special final dividend for the period ended 2 February 2020 of nil (2019 4.00p)	**–**	95
Interim dividend for the period ended 31 January 2021 of 2.04p (2020: 1.93p)	**49**	46
Special interim dividend for the period ended 31 January 2021 of 4.00p (2020: 2.00p)	**96**	48
	261	302

The Directors propose a final ordinary dividend in respect of the financial period ended 31 January 2021 of 5.11p per share which will absorb an estimated £123m of shareholders' funds. Subject to approval at the Annual General Meeting (AGM), the final dividend will be paid on 28 June 2021 to shareholders who are on the register of members on 21 May 2021.

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

2 Taxation

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

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

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

- The Netherlands: The Group has operations in the Netherlands as part of its produce supply chain. Local corporation taxes of £2.1m were paid during 2021 (2020: £0.7m);
- Hong Kong: Offices in Hong Kong were established in 2011 and source many of the Group's non-food products. Local corporation taxes of £nil were paid during 2021 (2020: £0.5m); 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 £38m as a result of historical 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

	2021 £m	2020 £m
Current tax		
UK corporation tax	**47**	60
Foreign tax	**2**	3
Adjustments in respect of prior periods	**4**	(4)
	53	59
Deferred tax		
Origination and reversal of timing differences	**(20)**	22
Adjustments in respect of prior periods	**(5)**	6
Impact of change in tax rate	**41**	–
	16	28
Tax charge for the period	**69**	87

2.2.2 Tax on items charged in other comprehensive income and equity

	2021 £m	2020 £m
Remeasurements of defined benefit retirement schemes	**(32)**	38
Cash flow hedges	**7**	(10)
Share-based payments	**–**	2
Total tax on items included in other comprehensive income and equity (note 2.3)	**(25)**	30

2.2.3 Tax reconciliation

The reconciliation below shows how the tax charge of £69m (2020: £87m) has arisen on profit before taxation of £165m (2020: £435m).

The tax for the period is higher (2019: higher) than the standard rate of corporation tax in the UK of 19% (2020: 19%). The differences are explained below:

	2021 £m	2020 £m
Profit before taxation	**165**	435
Profit before taxation at 19% (2020: 19%)	**31**	83
Effects of:		
Recurring items:		
Expenses not taxable/deductible for tax purposes	**(3)**	(5)
Disallowed depreciation on UK properties	**27**	24
Deferred tax on Safeway acquisition assets	**(6)**	(6)
Non-recurring items:		
Profit on property transactions	**(1)**	(3)
Adjustments in respect of prior periods	**(1)**	2
Effect of change in tax rate	**41**	–
Impairment write back non-taxable	**(19)**	(8)
Tax charge for the period	**69**	87

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 42.0% (2020: 20.0%). The effective tax rate was 23.0% (2020: 1.0%) above the UK statutory tax rate of 19% (2020: 19%). The main item increasing the effective tax rate is a deferred tax charge arising as a result of a change in the rate at which deferred tax is provided (see below).

The normalised tax rate for the year was 28.7% (2020: 23.1%). The normalised tax rate was 9.7% (2020: 4.1%) above the UK statutory tax rate of 19% (2020: 19%). The main item increasing the normalised tax rate is disallowed depreciation on UK properties which reflects the Group's strategy to maintain a majority freehold estate. The normalised tax rate increased year-on-year due to a reduction in profit before exceptionals.

Legislation to reduce the standard rate of corporation tax to 17% from 1 April 2020 was enacted in Finance Act 2016. The Budget on 11 March 2020 announced that the standard rate of corporation tax would remain at 19% from 1 April 2020 and the legislation was substantively enacted during the year so at 31 January 2021 all deferred tax balances have been calculated at 19%. The deferred tax liability recognised on the balance sheet increased by £55m due to the change in rate at which deferred tax is provided which resulted in a £41m deferred tax charge recognised within exceptional items in the income statement for the period (see note 1.4) and a £14m deferred tax charge recognised in other comprehensive income.

The March 2021 Budget announced an increase in the UK standard rate of corporation tax to 25% from 1 April 2023. The legislation was not enacted during the year so deferred tax has been provided using the enacted rate of 19%. If deferred tax was calculated using the 25% rate the net deferred tax liability recognised at the balance sheet date would be increased from £463m to £602m.

2.3 Deferred tax liabilities

	2021 £m	2020 £m
Deferred tax liability	**463**	472

IAS 12 'Income taxes' requires 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 3 February 2020	352	159	(39)	**472**
(Credited)/charged to profit for the period	(6)	5	(24)	**(25)**
Charged/(credited) to profit for the period – impact of rate change	41	4	(4)	**41**
(Credited)/charged to other comprehensive income and equity	–	(47)	8	**(39)**
Charged/(credited) to other comprehensive income and equity – impact of rate change	–	15	(1)	**14**
At 31 January 2021	387	136	(60)	**463**
Prior period				
At 4 February 2019	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

The analysis of deferred tax liabilities are as follows:

	2021 £m	2020 £m
Deferred tax liability to be settled within 12 months	**25**	12
Deferred tax liability to be settled after more than 12 months	**438**	460
	463	472

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 historical 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 historical 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 reassessed 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 other 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 store locations is a CGU, which together form a grocery group of CGUs supported by corporate assets. Corporate assets include assets which typically service the store estate such as intangible assets, and those used by head office, centralised online operations and vertically integrated suppliers. With the expansion of online store pick, which is operated from store locations to the same pool of customers serviced directly by the store, the cash flows of this sales channel have been considered for the first time this year as part of the store location CGUs where a reliable store pick trading history has been established.

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 write back 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 within other operating 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 3 February 2020	10	735	**745**
Additions	–	84	**84**
Interest capitalised	–	1	**1**
Disposals	–	(4)	**(4)**
Fully written down assets	–	(237)	**(237)**
At 31 January 2021	10	579	**589**
Accumulated amortisation and impairment			
At 3 February 2020	–	364	**364**
Amortisation charge for the period	–	71	**71**
Impairment	–	67	**67**
Disposals	–	(4)	**(4)**
Fully written down assets	–	(237)	**(237)**
At 31 January 2021	–	261	**261**
Net book amount at 31 January 2021	10	318	**328**

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 £14m (2020: £73m). The net book amount of licences at 31 January 2021 was £12m (2020: £15m).

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. The monitoring of specific impairment triggers and the annual impairment review conducted by the Group, having applied the same methodology and key assumptions as for property, plant and equipment as set out in note 3.3, resulted in an impairment charge of £67m (2020: £15m) in relation to intangible assets. This impairment primarily relates to software assets impacted by a move to more cloud-based solutions during the 52 weeks ended 31 January 2021. 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 £44m (2020: £43m). The cost of internal labour capitalised during the year is £22m (2020: £15m).

Prior 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

3.3 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 3 February 2020	3,841	4,192	636	2,119	**10,788**
Additions	10	20	9	477	**516**
Interest capitalised	–	1	–	–	**1**
Disposals	(3)	(6)	(6)	(53)	**(68)**
Fully written down assets	–	(6)	(4)	(188)	**(198)**
At 31 January 2021	3,848	4,201	635	2,355	**11,039**
Accumulated depreciation and impairment					
At 3 February 2020	439	1,838	385	979	**3,641**
Depreciation charge for the period	–	108	15	282	**405**
Impairment	15	6	–	21	**42**
Impairment write back	(68)	(49)	(18)	(9)	**(144)**
Disposals	–	(6)	(6)	(53)	**(65)**
Fully written down assets	–	(6)	(4)	(188)	**(198)**
At 31 January 2021	386	1,891	372	1,032	**3,681**
Net book amount at 31 January 2021	3,462	2,310	263	1,323	**7,358**
Assets under construction included above	–	4	–	15	**19**

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 (2020: £199m).

Impairment

The Group considers each store location as a separate CGU and therefore considers every location for impairment annually. The Group calculates each location'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 locations 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 location in the current year, adjusted for COVID-19 one-off costs;
- allocate a proportion of the Group's central costs to each location on an appropriate basis;
- allocate online store pick cash flows to locations where a reliable store pick trading history has been established (included for the first time this year, due to the rapid expansion of online store pick during the year);
- allocate an element of future capital cost, including energy efficiency spend required as part of environmental strategy;
- project cash flows over the next three years by applying forecast sales and cost growth assumptions in line with the Group budget;
- project cash flows beyond year three by applying a long-term growth rate;
- discount the cash flows using a pre-tax rate of 9.0% (2020: 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; and
- consideration is given to any significant one-off factors impacting the locations during the current year and any strategic, climate-related, Brexit or market factors which may impact future 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.

The Group also considers its corporate assets for impairment annually. The Group calculates the recoverable amount of its corporate assets and compares this amount to its book value. The recoverable amount is based on the 'value-in-use' calculation undertaken for the store location CGU assessment, less the carrying value of the location CGUs. As at 31 January 2021, there was no indication of impairment of the corporate assets as part of this assessment. In addition to this assessment, the Group undertakes an obsolescence review to identify any specific corporate assets which require impairment on an ongoing basis.

Having applied the above methodology and assumptions, the Group has recognised a net impairment write back of £102m (£144m impairment write back offset by £42m impairment charge) during the year in respect of property, plant and equipment (2020: net £34m impairment write back; £93m impairment write back offset by £59m impairment charge). This movement reflects fluctuations from store level trading performance and local market conditions.

At 31 January 2021, the assumptions to which the value-in-use calculation is most sensitive are the discount and cash flow growth rates. The Group has estimated that a reasonably possible change of +1% discount rate or -1% growth rate would result in a c.£70m loss and -1% discount rate or +1% growth rate would result in a c.£40m gain. The impairment model is also sensitive to the inclusion of store pick in individual CGUs which could impact future impairment assessments.

Prior period	Freehold land £m	Freehold buildings £m	Leasehold property improvements £m	Plant, equipment, fixtures and vehicles £m	Total £m
Cost					
At 4 February 2019	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	479	1,769	378	855	3,481
Depreciation charge for the period	–	107	16	248	371
Impairment	11	9	8	31	59
Impairment write back	(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

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 3 February 2020	1,769	97	**1,866**
Additions	78	–	**78**
Transfers from investment property	15	–	**15**
Disposals	(6)	–	**(6)**
Fully written down assets	(23)	(5)	**(28)**
At 31 January 2021	1,833	92	**1,925**
Accumulated depreciation and impairment			
At 3 February 2020	881	43	**924**
Depreciation charge for the period	47	16	**63**
Impairment	8	5	**13**
Impairment write back	(54)	–	**(54)**
Transfers from investment property	15	–	**15**
Disposals	(5)	–	**(5)**
Fully written down assets	(23)	(5)	**(28)**
At 31 January 2021	869	59	**928**
Net book amount at 31 January 2021	964	33	**997**

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 write back of £41m (£54m impairment write back offset by £13m impairment charge) during the year in respect of right-of-use assets (2020: net £1m impairment write back; £24m impairment write back offset by £23m impairment charge). This movement reflects fluctuations from store level trading performance and local market conditions.

At 31 January 2021, the assumptions to which the value-in-use calculation is most sensitive are the discount and cash flow growth rates. The Group has estimated that a possible change of +1% discount rate or -1% growth rate would result in a c.£15m loss and -1% discount rate or +1% growth rate would result in a c.£10m gain. The impairment model is also sensitive to the inclusion of store pick in individual CGUs which could impact future impairment assessments.

3 Operating assets continued

3.4 Right-of-use assets continued

Prior period	Leasehold land and buildings £m	Leased plant, equipment, fixtures and vehicles £m	Total £m
Cost			
At 4 February 2019	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	844	44	888
Depreciation charge for the period	44	16	60
Impairment	23	–	23
Impairment write back	(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

3.5 Assets classified as held-for-sale

	2021 £m	2020 £m
At start of period	**3**	39
Transfers from property, plant and equipment at net book value	**–**	3
Disposals	**(3)**	(39)
At end of period	**–**	3

During the 52 weeks ended 2 February 2020, 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.

During the 52 weeks ended 2 February 2020, the Group disposed of £38m of assets previously classified as held-for-sale in relation to its Camden site. The consideration included £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 was discounted, resulting in a profit on disposal of £64m after disposal costs in the 52 week period ended 2 February 2020. Consideration receivable is included within trade and other receivables, on a discounted basis.

3 Operating assets continued

3.6 Investment property

Current period	Freehold £m	Leasehold £m	Total £m
Cost			
At 3 February 2020	43	161	**204**
Additions	1	5	**6**
Transfers to right-of-use assets	–	(15)	**(15)**
Disposals	(1)	(27)	**(28)**
At 31 January 2021	43	124	**167**
Accumulated depreciation and impairment			
At 3 February 2020	20	126	**146**
Depreciation charge for the period	–	2	**2**
Impairment	2	1	**3**
Impairment write back	–	(1)	**(1)**
Transfers to right-of-use assets	–	(15)	**(15)**
Disposals	(1)	(26)	**(27)**
At 31 January 2021	21	87	**108**
Net book amount at end of period	22	37	**59**

Included in other operating income is £9m (2020: £15m) of rental income generated from investment properties. At the end of the period the fair value of freehold investment properties was £32m (2020: £37m), 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	Freehold £m	Leasehold £m	Total £m
Cost			
At 4 February 2019	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	19	138	157
Depreciation charge for the period	1	2	3
Impairment	4	7	11
Impairment write back	(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

3 Operating assets continued

3.7 Trade and other receivables – non-current

	2021 £m	2020 £m
Finance leases – Group is lessor	**8**	8
Other receivables	**62**	63
	70	71

The Group is the lessor on a number of property leases, many of which contain rent review terms that require rents to be reassessed on a periodic basis. The rent reassessments 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.

	2021 £m	2020 £m
Less than one year	**1**	1
After one year but not more than five years	**4**	4
More than five years	**6**	7
Total undiscounted lease payments	**11**	12
Unearned finance income	**(3)**	(4)
Net investment in the lease	**8**	8

Finance lease income of £nil (2020: £1m) has been recognised in the 52 weeks ended 31 January 2021.

Operating leases

The table below summarises the maturity profile of undiscounted minimum operating lease payments due to the Group.

	2021 £m	2020 £m
Less than one year	**10**	10
One to two years	**6**	9
Two to three years	**6**	6
Three to four years	**5**	5
Four to five years	**4**	4
More than five years	**22**	17
Total undiscounted lease payments receivable	**53**	51

Operating lease income of £13m (2020: £15m) has been recognised in the 52 weeks ended 31 January 2021. This includes £nil (2020: £1m) relating to variable lease payments that do not depend on an index or rate.

Other receivables

Other receivables of £62m (2020: £63m) comprise deferred consideration due after more than one year in relation to the disposal of the Camden site in the prior period. The amount includes £35m (2020: £33m) of deferred cash consideration on a discounted basis and £27m (2020: £30m) representing the fair value of a future lease of a newly constructed supermarket and convenience store on part of the site.

As at 31 January 2021, 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

	2021 £m	2020 £m
Contracts placed for future capital expenditure not provided in the financial statements (property, plant and equipment, right-of-use assets and intangible assets)	**55**	37
Contracts placed for future leases not provided in the financial statements	**31**	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 c.51% interest in MHE JVCo Limited. 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	2021 £m	2020 £m
Non-current assets	**41**	55
Current assets	**21**	22
Current liabilities	**(1)**	(1)
Net assets	**61**	76
Group's share of net assets	**31**	39
Profit	**1**	2
Group's share of profit	**–**	1

The Group's share of profit amounted to £0.3m in the year (2020: £0.9m).

4.3 Business combinations

On 9 September 2020, the Group acquired 100% of the ordinary share capital of Lowlands Nursery Limited (formerly known as Lansen Nursery Limited), a leading supplier of outdoor plants. This acquisition complements the Group's existing Flowerworld business, providing more locally grown horticulture at a more competitive price for customers. Total consideration was £4m and goodwill recognised in the transaction was negligible.

In the 52 weeks ended 2 February 2020, the Group paid £1m deferred consideration relating to the acquisition of Chippindale Foods Limited in the 52 weeks ended 3 February 2019.

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 and that have an original maturity of three months or less. 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.

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. Consistent with this classification, the reported cash flows are reported within cash generated from operations within the Consolidated statement of cash flows.

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

	2021 £m	2020 £m
Finished goods	**814**	660

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

	2021 £m	2020 £m
Commercial income trade receivables	**6**	7
Accrued commercial income	**47**	28
Other trade receivables	**142**	175
Less: provision for impairment of trade receivables	**(5)**	(4)
Trade receivables	**190**	206
Prepayments and accrued income	**128**	116
Other receivables	**18**	31
	336	353

The carrying amounts of trade and other receivables approximates to their fair value at 31 January 2021 and 2 February 2020.

In the 52 weeks ended 31 January 2021, £20m (2020: £25m) of deferred cash consideration has been received in relation to the sale of the Camden site on 13 December 2019. Within the Consolidated statement of cash flows this has been included within Proceeds from the disposal of property, plant and equipment, investment property, right-of-use assets and assets held-for-sale.

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%	1%	11%	61%	100%	
Gross carrying amount – trade receivables	149	38	4	1	3	**195**
Provision for impairment of trade receivables	–	–	(1)	(1)	(3)	**(5)**

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%	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)**

As at 31 January 2021 and 2 February 2020, 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 7 March 2021, £6m of the £6m commercial income trade receivables balance had been settled and all of the £47m accrued commercial income balance invoiced, of which £35m had been settled.

5.4 Trade and other payables

	2021 £m	2020 £m
Trade payables	**2,335**	2,467
Less: commercial income due, offset against amounts owed	**(32)**	(21)
	2,303	2,446
Other taxes and social security payable	**64**	131
Other payables	**104**	58
Accruals and deferred income	**366**	416
	2,837	3,051

Included within accruals and deferred income is £2m (2020: £1m) in respect of deferred commercial income. Amounts accrued in relation to store restructuring activity are included within accruals and deferred income at 31 January 2021.

As at 7 March 2021, £24m of the £32m commercial income due above had been offset against payments made.

Trade payables include £556m (2020: £672m) where suppliers have chosen to receive early payment under the Group's supply chain finance facilities (see note 7.2).

5 Working capital and provisions continued

5.5 Provisions

	Onerous contracts £m	Other provisions £m	Total £m
At 3 February 2020	48	28	**76**
Charged to profit for the period	7	1	**8**
Utilised during the period	(7)	(5)	**(12)**
Released during the period	(16)	(4)	**(20)**
Unwinding of discount	1	–	**1**
At 31 January 2021	33	20	**53**

Included within the above balance at 31 January 2021 is £7m (2020: £16m) relating to a balance due within one year. The provision is revised regularly in response to market conditions. During the period, a £9m credit 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 and provisions for dilapidations on certain leased buildings, for the cost of restoring assets to their required condition.

5.6 Cash generated from operations

	2021 £m	2020 £m
Profit for the period	**96**	348
Net finance costs	**89**	87
Taxation charge	**69**	87
Share of profit of joint venture (net of tax)	**–**	(1)
Operating profit	**254**	521
Adjustments for:		
Depreciation and amortisation	**541**	525
Impairment	**125**	108
Impairment write back	**(199)**	(123)
(Profit)/loss arising on disposal and exit of properties	**(2)**	(66)
Gain arising on reduction of lease terms	**–**	(10)
Defined benefit scheme contributions paid less operating expenses	**(6)**	(5)
Share-based payments charge	**20**	26
(Increase)/decrease in inventories[1]	**(154)**	53
Increase in Trade and other receivables[1]	**(3)**	(14)
(Decrease)/increase in Trade and other payables[1]	**(267)**	29
Decrease in provisions[1]	**(23)**	(27)
Cash generated from operations	**286**	1,017

Total working capital outflow (the sum of items marked 1 in the table) is £447m (2020: £41m inflow) in the year. This includes £nil (2020: £2m) as a result of the current year charges in respect of onerous contracts and accruals of onerous commitments and £7m (2020: £63m) of non-cash exceptional charges, net of £22m (2020: £41m) of onerous payments and £42m (2020: £1m) exceptional and other non-operating payments. When adjusted to exclude these items, the operating working capital outflow is £390m (2020: £18m inflow).

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 term 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 4% (2020: 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 discount rates applied in the measurement of the lease liabilities represent the Group's incremental borrowing rates. 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 reassessed, 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. In the Consolidated statement of cash flows the finance cost element is reported within interest paid and the capital repayment of the liability is reported within Repayment of lease obligations.

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 reassessed 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

	2021 £m	2020 £m
Interest payable on short-term loans and bank overdrafts	**(5)**	(4)
Interest payable on bonds	**(45)**	(43)
Interest on lease liabilities	**(60)**	(63)
Interest capitalised	**2**	2
Total interest payable	**(108)**	(108)
Provisions: unwinding of discount (note 5.5)	**(1)**	(2)
Other finance costs	**(2)**	(1)
Finance costs[1]	**(111)**	(111)
Bank interest and other finance income	**3**	4
Finance lease income	**–**	1
Other receivables: unwinding of discount	**3**	–
Finance income before exceptionals[1]	**6**	5
Net retirement benefit interest (notes 1.4 and 8.2)	**16**	19
Finance income	**22**	24
Net finance costs	**(89)**	(87)

[1] Net finance costs before exceptionals marked 1 amount to £105m (2020: £106m).

6.3 Borrowings

The Group had the following current borrowings and other financial liabilities measured at amortised cost:

	2021 £m	2020 £m
Current		
€282m euro bond 2.25% June 2020	**–**	237
Other short-term borrowings	**54**	–
	54	237

The Group had the following non-current borrowings and other financial liabilities measured at amortised cost:

	2021 £m	2020 £m
Non-current		
£250m sterling bonds 4.625% December 2023	**249**	249
£250m sterling bonds 3.50% July 2026	**267**	269
£250m sterling bonds 4.75% July 2029	**246**	245
£350m sterling bonds 2.50% October 2031	**347**	347
Revolving credit facility	**877**	(2)
	1,986	1,108

Borrowing facilities

Information in relation to the Group's borrowing facilities are detailed in the liquidity risk section of note 7.2.

6 Capital and borrowings continued

6.3 Borrowings continued

Maturity of borrowings

The table below summarises the maturity profile of the Group's borrowings based on contractual, undiscounted payments, which include future interest payments. As a result, amounts shown below do not agree to the amounts disclosed in the statement of financial position for borrowings, which exclude future interest payments. Trade and other payables (note 5.4) are also excluded from this analysis.

	2021 £m	2020 £m
Less than one year	**95**	280
One to two years	**41**	41
Two to three years	**290**	41
Three to four years	**29**	290
Four to five years	**909**	29
More than five years	**948**	978

Fair values

The fair value of 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:

	2021		2020	
	Amortised cost £m	Fair value £m	Amortised cost £m	Fair value £m
Total borrowings: non-current and current	**2,040**	**2,199**	1,345	1,475

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

	2021 £m	2020 £m
Current lease liabilities	**72**	72
Non-current lease liabilities	**1,299**	1,304
	1,371	1,376

Maturity of lease liabilities

The table below summarises the maturity profile of the Group's lease liabilities based on contractual, undiscounted payments.

	2021 £m	2020 £m
Less than one year	**129**	131
One to two years	**124**	125
Two to three years	**117**	120
Three to four years	**110**	113
Four to five years	**107**	106
More than five years	**1,557**	1,601

Lease liabilities include periods beyond extension and break option dates if the Group is reasonably certain to extend or continue the lease. As at 31 January 2021, the undiscounted future rentals payments relating to periods beyond what is considered reasonably certain total £58m for breaks and £912m for lease extensions (2020: £57m and £841m respectively). The lease extensions relate to leases where the initial term expires between 13 and 63 years after the year end, with some extensions available of up to 25 years.

The interest expense on lease liabilities during the periods ended 31 January 2021 and 2 February 2020 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.

6 Capital and borrowings continued

6.4 Lease liabilities continued

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). Property leases typically include rent review terms that require rents to be adjusted on a periodic basis, following market rent or capped increases in inflation measurements. A number of these property leases also contain clauses to extend, or exit leases early. These clauses are negotiated with the lessors to ensure appropriate options are available for the Group's operations in future years, for example to minimise the risk that a store, still profitable at the end of the initial lease term, will be forced to close.

The depreciation expense for leased assets during the periods ended 31 January 2021 and 2 February 2020 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 £163m (2020: £157m).

6.5 Analysis of net debt[1]

	Note	2021 £m	2020 £m
Fuel and energy price contracts	7.3	**9**	–
Non-current financial assets		**9**	–
Foreign exchange forward contracts	7.3	**1**	–
Fuel and energy price contracts	7.3	**12**	1
Current financial assets		**13**	1
Bonds[2]	6.3	**–**	(237)
Other short-term borrowings[2]	6.3	**(54)**	–
Cross-currency interest rate swaps[2]	7.3	**–**	(4)
Lease liabilities[2]	6.4	**(72)**	(72)
Foreign exchange forward contracts	7.3	**(17)**	(17)
Fuel and energy price contracts	7.3	**(1)**	(15)
Current financial liabilities		**(144)**	(345)
Bonds[2]	6.3	**(1,109)**	(1,110)
Revolving credit facility[2]	6.3	**(877)**	2
Lease liabilities[2]	6.4	**(1,299)**	(1,304)
Foreign exchange forward contract	7.3	**(1)**	–
Fuel and energy price contracts	7.3	**(1)**	(7)
Non-current financial liabilities		**(3,287)**	(2,419)
Cash and cash equivalents		**240**	305
Net debt[1]		**(3,169)**	(2,458)

[1] Net debt is defined in the Glossary on page 159.

Total net liabilities from financing activities (the sum of items marked [2] in the table) is £3,411m in the 52 weeks ended 31 January 2021 (2020: £2,725m). Of the £686m increase (2020: £49m) in net liabilities from financing activities, £74m (2020: £67m) relates to non-cash movements and £612m (2020: £18m decrease) relates to cash movements.

6.6 Called-up share capital

	Number of shares millions	Share capital £m	Share premium £m	Total £m
At 3 February 2020	2,405	240	192	**432**
Share options exercised and shares issued under LTIP schemes[1]	5	1	9	**10**
At 31 January 2021	2,410	241	201	**442**

[1] The £1m and £9m movement in share capital and share premium have been rounded up to ensure that the total share capital and total share premium positions are correctly stated.

All issued shares are fully paid and have a par value of 10p per share (2020: 10p per share). The Group did not acquire any of its own shares for cancellation in the 52 weeks ended 31 January 2021 or the 52 weeks ended 2 February 2020. 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.

6 Capital and borrowings continued

6.6 Called-up share capital continued

Trust shares

Included in retained earnings is a deduction of £19m (2020: £30m) in respect of own shares held at the reporting date. This represents the cost of 8,720,882 (2020: 14,215,041) of the Group's ordinary shares (nominal value of £0.9m (2020: £1.4m)). 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 31 January 2021 was £16m (2020: £26m). 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 none (2020: 4,881,284) of its own shares to hold in trust for consideration of £nil (2020: £10m), and utilised 5,494,159 (2020: 551,491) trust shares to satisfy awards under the Group's employee share plans.

Proceeds from exercise of share awards

The Group issued 4,751,802 (2020: 8,532,407) 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 £9m (2020: £14m), which has been presented as a £1m addition to share capital and a £9m addition to share premium in the period to ensure that share capital and share premium agree in total. In addition, the Group issued no (2020: 28,166,736) shares under the Group's Long Term Incentive Plan (LTIP) scheme for nominal value, with all current year schemes being settled through trust shares.

Settlement of share awards

During the 52 weeks ended 31 January 2021, the Group has settled 5,494,159 of share options out of trust shares which have vested during the period net of tax. During the period there was a £9m (2020: £2m) charge to retained earnings in relation to the settlement of share awards, comprising £10m (2020: £2m) of cash paid on behalf of the employees, rather than selling shares on the employees' behalf to settle the employees' tax liability on vesting of the share options, offset by a £1m non-cash settlement credit (2020: £nil).

6.7 Reserves

	2021 £m	2020 £m
Capital redemption reserve	**39**	39
Merger reserve	**2,578**	2,578
Hedging reserve	**(3)**	(37)
Retained earnings	**1,160**	1,529
Total	**3,774**	4,109

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. During the 52 weeks ended 31 January 2021, net debt has increased by £711m. Throughout the period, the Group has comfortably complied with the gearing and fixed charge cover covenants attaching to its revolving credit facility (see note 7.2).

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 are 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.

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 31 January 2021 was £1,078m (2020: £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 (see note 5.4).

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.

Cash and committed facilities

As at 31 January 2021, the Group has £240m (2020: £305m) of cash and cash equivalent and £2,850m (2020: £2,797m) of total committed facilities, comprising bond debt of £1,100m (2020: £1,347m) and £1,750m (2020: £1,450m) of committed bank facilities. As at 31 January 2021, the Group has £870m (2020: £1,450m) of undrawn committed bank facilities available.

The Group has a syndicated committed revolving credit facility of £1.35bn. During the 52 weeks ended 31 January 2021, the Group extended this facility by a further year, resetting its five year term and resulting in a maturity date of June 2025. The revolving credit facility incurs committed fees and interest charges at a spread above LIBOR. The Group had £470m (2020: £1,350m) of undrawn committed headroom available on this facility as at 31 January 2021.

7 Financial risk and hedging continued

7.2 Financial risk management continued

Cash and committed facilities continued

In the 52 weeks ended 31 January 2021, the Group has obtained three new £100m 364 day committed revolving credit facilities, the maturity dates of which were extended following the year end, to September 2021 (£200m) and March 2022 (£100m). In addition, the Group has a further £100m revolving credit facility with an original maturity date of July 2020, which was extended to mature in July 2022 (see note 10.3). These committed facilities were undrawn as at 31 January 2021 (2020: undrawn).

All committed bank facilities have the same financial covenants. These financial covenants are set at a ratio of a maximum 3.5x 'net debt (excluding leases)/EBITDA' and a minimum 2.0x 'EBITDA/net interest expense' (ratios as defined in the lending agreements). As at 31 January 2021, the Group covenant basis net debt (excluding leases)/EBITDA ratio was 2.4x (2020: 1.1x) and the EBITDA/net interest expense ratio was 4.8x (2020: 6.0x). In the event of default of covenants, the principal amounts of borrowings and any interest accrued become repayable on demand.

The Group also has a number of uncommitted facilities which are available to meet short-term borrowing requirements, and incur interest charges according to usage. As at 31 January 2021, the Group had £54m of borrowings on uncommitted facilities (2020: £nil).

Wm Morrison Supermarkets PLC's senior unsecured debt obligations continue to be rated Baa2 with Moody's, on a stable outlook. Moody's reaffirmed its rating on 9 June 2020, following the release of the results for the period ended 2 February 2020 and considering the impact of COVID-19.

Interest rate risk

The Group seeks to protect itself against adverse movements in interest rates by aiming to maintain at least 60% of its total borrowings at fixed interest rates. As at the reporting date, 54% (2020: 100%) of the Group's borrowings are at a fixed interest rate. The reduction in the proportion of borrowings at fixed interest rates is due to a temporary increase in net debt funded by committed bank facilities which are at a floating interest rate. The proportion of fixed rate borrowings is expected to return above 60% in the relatively short-term.

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.

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 £8m post-tax profit or loss exposure in relation to the euro and £3m 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.

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 £15m (2020: £6m) for the hedged amount.

7 Financial risk and hedging continued

7.3 Derivative financial assets and liabilities

Derivative financial assets	2021 Fair Value £m	2021 Notional Value £m	2020 Fair Value £m	2020 Notional Value £m
Current				
Foreign exchange forward contracts	**1**	**46**	–	32
Fuel and energy price contracts	**12**	**49**	1	1
	13	**95**	1	33
Non-current				
Foreign exchange forward contracts	**–**	**1**	–	–
Fuel and energy price contracts	**9**	**67**	–	–
	9	**68**	–	–

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	2021 £m	2021 Notional Value £m	2020 Fair Value £m	2020 Notional Value £m
Current				
Cross-currency interest rate swaps	**–**	**–**	4	240
Foreign exchange forward contracts	**17**	**435**	17	411
Fuel and energy price contracts	**1**	**11**	15	53
	18	**446**	36	704
Non-current				
Foreign exchange forward contracts	**1**	**25**	–	–
Fuel and energy price contracts	**1**	**15**	7	35
	2	**40**	7	35

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.

	2021 £m		2020 £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)	–
Inflow	**–**	**–**	242	–
Forward contracts – cash flow hedges:				
Outflow	**(462)**	**(23)**	(443)	–
Inflow	**445**	**23**	426	–
Derivatives settled on a net basis				
Energy price contracts – cash flow hedges:				
Inflow/(outflow)	**11**	**9**	(15)	(7)

Cash flow hedges

In the 52 weeks ended 31 January 2021, cross-currency swaps designated as cash flow hedges with a notional principal amount of €282m, settled on the maturity of the €282m euro bond.

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 profit before exceptionals. 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.

The position of each scheme at 31 January 2021 is as follows:

	2021 £m	2020 £m
CARE Schemes	**754**	960
RSP	**(36)**	(16)
Net retirement benefit surplus	**718**	944

The disclosures below show the details of the schemes combined:

Statement of financial position	2021 CARE £m	2021 RSP £m	2020 CARE £m	2020 RSP £m
Fair value of scheme assets	**5,111**	**407**	5,013	389
Present value of obligations	**(4,357)**	**(443)**	(4,053)	(405)
Net retirement benefit surplus/(deficit)	**754**	**(36)**	960	(16)

Income statement:	2021 CARE £m	2021 RSP £m	2020 CARE £m	2020 RSP £m
Past service cost	**–**	**–**	–	–
Administrative costs paid by the Schemes – recognised in administrative expenses	**2**	**1**	2	1
Settlement and curtailment gain	**(3)**	**–**	–	–
Net interest on net retirement benefit surplus/deficit – finance (income)/expense	**(16)**	**–**	(20)	1
Total expense (credited)/charged to income statement	**(17)**	**1**	(18)	2
Statement of other comprehensive income:				
Remeasurements in other comprehensive income – charge/(credit)[1]	**225**	**22**	(204)	(27)

[1] In the 52 weeks ended 31 January 2021, there was a further £1m charge following the write off of a receivable balance relating to retirement benefits which was not part of the Net retirement benefit surplus.

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.

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 four 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:

	2021 CARE £m	2021 RSP £m	2020 CARE £m	2020 RSP £m
Equities (quoted)	**560**	**126**	574	158
Corporate bonds (quoted)	**519**	**–**	511	–
Diversified growth funds (quoted)	**–**	**31**	–	40
Credit funds (unquoted)	**441**	**–**	466	–
Liability driven investments (unquoted)	**2,628**	**249**	2,782	190
Annuity policies (unquoted)	**936**	**–**	649	–
Cash (quoted)	**27**	**1**	31	1
	5,111	**407**	5,013	389

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

During the 52 weeks ended 31 January 2021, the Morrisons and Safeway CARE Schemes entered into new buy-in policies that provide insurance for a proportion of the pensioner populations. These policies are in addition to the two buy-in policies previously entered into by the Safeway Scheme. The policies pay income to the Schemes that is exactly equal to the benefits paid to the insured populations. 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 populations.

8 Retirement benefits continued

8.3 Scheme assets continued

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:

	2021 CARE £m	2021 RSP £m	2020 CARE £m	2020 RSP £m
Fair value of scheme assets at start of period	**5,013**	**389**	4,471	349
Interest income	**84**	**7**	121	9
Return on scheme assets excluding interest	**126**	**17**	554	70
Employer contributions	**2**	**3**	8	1
Benefits paid	**(112)**	**(8)**	(139)	(39)
Administrative expenses	**(2)**	**(1)**	(2)	(1)
Fair value of scheme assets at end of period	**5,111**	**407**	5,013	389

Scottish Limited Partnership

The Group has previously entered into a pension funding partnership structure with the CARE Schemes whereby the partnership structure holds properties which are 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. The CARE Schemes were entitled to receive fixed distributions of £6.6m p.a. until 2033 subject to certain conditions.

During the 52 weeks ended 31 January 2021, the Group and the Schemes' Trustees have agreed to reorganise the limited partnership structure, so that future distributions will be made to the RSP. The pension funding partnership structure was amended to permanently cease fixed distributions to the CARE Schemes. On the same day, Wm Morrison Supermarkets PLC and the RSP, entered into a new pension funding partnership. As a partner, the RSP is entitled to receive a fixed distribution of £6.8m p.a. from the profits of the partnership for 13 years from 2020, subject to certain conditions. The fixed distribution is comparable to the distributions that would have been made under the previous partnership structure.

The fixed distributions made to the RSP are reflected in the Group financial statements as employer retirement benefit contributions. The RSP's interest in the partnership structure reduces the scheme's deficit on a funding basis, although the agreement does not affect the position directly on an IAS 19 accounting basis, because the investment held by the RSP does not qualify as a scheme asset 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:

	2021 CARE £m	2021 RSP £m	2020 CARE £m	2020 RSP £m
Defined benefit obligation at start of period	**(4,053)**	**(405)**	(3,741)	(391)
Interest expense	**(68)**	**(7)**	(101)	(10)
Actuarial (loss)/gain – demographic assumptions	**(32)**	**–**	92	–
Actuarial loss – financial assumptions	**(371)**	**(49)**	(592)	(58)
Actuarial gain – experience	**52**	**10**	150	15
Settlement and curtailment gain	**3**	**–**	–	–
Benefits paid	**112**	**8**	139	39
Defined benefit obligation at end of period	**(4,357)**	**(443)**	(4,053)	(405)

The durations of the defined benefit obligations at the end of the 2021 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	2021 CARE	2021 RSP	2020 CARE	2020 RSP
Discount rate applied to scheme liabilities (% p.a.)	**1.5%**	**1.5%**	1.8%	1.8%
Inflation assumption (RPI) (% p.a.)	**3.0%**	**3.0%**	2.9%	2.9%

Life expectancies	2021 CARE	2021 RSP	2020 CARE	2020 RSP
Longevity in years from age 65 for current pensioners				
Male	**21.1**	**n/a**	20.9	n/a
Female	**22.5**	**n/a**	22.3	n/a
Longevity in years from age 65 for current members aged 45				
Male	**22.8**	**n/a**	22.6	n/a
Female	**24.4**	**n/a**	24.2	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 31 January 2021 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 2019 core projections and a long-term rate of improvement of 1.5% p.a. For the 52 weeks ended 2 February 2020, the Group 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 in both the Morrison and Safeway Schemes, with CMI 2018 core 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)

	2021 CARE	2021 RSP	2020 CARE	2020 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%/2.9%**	**–**	2.0%/2.8%	–
Rate of increase of retirement benefits in deferment: CPI inflation capped at either 2.5% p.a. or 5% p.a. (% p.a.)	**-/2.3%**	**2.3%/-**	-/2.0%	2.0%/-
CPI inflation (% p.a.)	**2.3%**	**2.3%**	2.0%	2.0%/-

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.

		2021 CARE £m	2021 RSP £m	2020 CARE £m	2020 RSP £m
Discount rate applied to Scheme obligations	+/- 0.1% p.a.	**-/+90**	**-/+9**	-/+85	-/+8
Inflation assumption (RPI and associated assumptions)	+/- 0.1% p.a.	**+/-70**	**+/-9**	+/-65	+/-7
Longevity	+ one year	**+150**	**–**	+145	–

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 31 January 2021 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 31 January 2021, 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 Morrison Scheme this 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. The International Accounting Standards Board (IASB) have been considering amendments to the current version of IFRIC 14, however the IASB has decided not to finalise these amendments and is considering whether to develop new proposals. The legal advice received by the Group has concluded that the above accounting treatment should not be materially affected by the previous proposed amendments to IFRIC 14.

The current best estimate of Group contributions to be paid to the defined benefit schemes for the accounting period commencing 1 February 2021 is £9m (2020: £9m). 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 31 January 2021, the Group paid contributions of £97m to the MPRS (2020: £78m), and expects to contribute £105m for the following period (2020: £80m).

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 £20m (2020: £26m).

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	19 May 2020	17 May 2019	15 May 2018	16 May 2017
Share price at grant date	£1.88	£2.11	£2.55	£2.44
Fair value of options granted	£6.8m	£6.3m	£13.2m	£16.5m
Exercise price	£1.52m	£1.78	£1.87	£1.84
Dividend yield	5.59%	4.6%	3.96%	2.08%
Annual risk-free interest rate	0.40%	0.71%	0.56%	0.30%
Expected volatility[1]	19.35%	20.61%	24.9%	28.1%

[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.

	2021		2020	
	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**	**51,306**	1.83	47,570
Granted	**1.52**	**28,060**	1.78	20,905
Exercised	**1.84**	**(4,752)**	1.70	(8,532)
Forfeited	**1.79**	**(20,088)**	1.82	(8,637)
Outstanding at end of period	**1.68**	**54,526**	1.83	51,306
Exercisable at end of period	**1.84**	**199**	1.70	19

	2021			2020		
	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	**1.90**	**1.84**	**4,752**	2.03	1.70	8,532

	2021	2020
Share options outstanding at the end of the period		
Range of exercise prices	**£1.52 to £1.87**	£1.70 to £1.87
Weighted average remaining contractual life	**1.62 years**	1.44 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 2020. The schemes granted in 2020 vest in 2023 and 2024.

All LTIP schemes granted 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	6 Oct 2020	31 March 2020	14 Oct 2019	19 April 2019	18 Sept 2018	22 March 2018	24 Oct 2017	22 March 2017	25 Oct 2016
Option fair value at grant date	**£1.71**	**£1.79**	£1.96	£2.23	£2.62	£2.09	£2.34	£2.37	£2.28
Fair value of share awards	**£3.2m**	**£29.3m**	£1.0m	£27.2m	£0.9m	£27.3m	£2.0m	£29.4m	£9.2m

	2021 Share awards thousands	2020 Share awards thousands
Movement in outstanding share awards		
Outstanding at start of period	**33,985**	54,168
Granted	**18,273**	12,714
Exercised	**(8,920)**	(28,167)
Forfeited	**(5,752)**	(4,730)
Outstanding at end of period	**37,586**	33,985
Exercisable at end of period	**–**	–

The weighted average remaining contractual life of the share awards is 1.3 years (2020: 1.2 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 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	2020/21 scheme	2019/20 scheme
Share price at grant date	**£1.80**	£2.25
Exercise price	**£nil**	£nil
Fair value of share awards granted	**£1.3m**	£1.7m

	2021 Share awards thousands	2020 Share awards thousands
Movement in outstanding share awards		
Outstanding at start of period	**3,373**	3,549
Granted	**695**	771
Exercised	**(1,247)**	(947)
Outstanding at end of period	**2,821**	3,373

The weighted average remaining contractual life of the share awards is 0.9 years (2020: 1.0 year).

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 31 January 2021, the Group received a dividend of £8m (2020: £9m) from MHE JVCo Limited. The Group has a c.51% interest in MHE JVCo Limited (see note 4.2).

10.2 Guarantees, contingent liabilities and contingent assets

Guarantees

Following the disposal of the land and building of its customer fulfilment centre at Dordon to a third party in June 2017, 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 £29m (2020: £30m).

Data theft claim

The Group has previously had a legal case brought by a number of current and former colleagues relating to employee data theft in the 52 weeks ended 1 February 2015. In December 2017, the High Court concluded that the Group was vicariously liable for the actions of the former employee who conducted the data theft. The Group launched an appeal of this judgment to the High Court and subsequently to the Supreme Court.

The Supreme Court hearing took place in November 2019. On 1 April 2020, the Supreme Court ruled in favour of the Group and the claim was entirely dismissed. This brought an end to the matter, other than for recovery of legal costs from the claimants. An interim payment has been received by the Group in respect of these costs and a debtor recognised for additional amounts to be received. These amounts have been included within 'other exceptional items'. The Group has previously disclosed an unquantified contingent liability in respect of the potential settlement. Following the Supreme Court ruling, this contingent liability no longer exists. Since 31 January 2021, the Group has received full and final settlement of outstanding legal costs.

Interchange fee claim

The Group, along with other claimants, has had an ongoing claim against Mastercard in respect of bank interchange fees. In the 52 weeks ended 31 January 2021, the Supreme Court found in favour of the claim against Mastercard and determined the fixing of interchange fees by Mastercard over many years was an unlawful infringement of competition law. The Supreme Court's definitive decision means that the case will now be remitted back to the Competition Appeal Tribunal to determine the level of damages payable to the Group. At this stage the Group is not able to quantify the amount of settlement which it will receive, and accordingly no asset has been recognised in the financial statements in the 52 weeks ended 31 January 2021. In addition, legal costs associated with this claim will be recovered, and the Group has made an estimate of the amount of fees to be recovered. The income receivable has been included within 'other exceptional items'.

10.3 Post-balance sheet events

On 27 February 2021, the Group acquired 100% of the share capital of Falfish (Holdings) Limited, a leading supplier of fresh seafood, for consideration of £9m. The Directors consider this event to be a non-adjusting post-balance sheet event.

Since 31 January 2021, the Group has extended the duration of its four existing £100m committed revolving credit facilities (RCF) as follows: two £100m RCFs now mature in September 2021, a £100m RCF matures in March 2022 and a £100m RCF matures in July 2022.

Wm Morrison Supermarkets PLC
Company statement of financial position

As at 31 January 2021

	Note	2021 £m	2020 £m
Fixed assets			
Intangible assets	11.6	**309**	361
Property, plant and equipment	11.7	**2,450**	2,258
Right-of-use assets	11.8	**1,090**	1,093
Investment property	11.9	**22**	18
Investments	11.10	**307**	6
Investment in joint venture	11.11	**31**	39
		4,209	3,775
Current assets			
Inventories		**514**	409
Debtors due within one year	11.12	**5,456**	5,757
Debtors due after more than one year	11.13	**8**	8
Pension asset due after more than one year	11.20	**291**	364
Derivative financial assets due within one year	11.17	**13**	1
Derivative financial assets due after more than one year	11.17	**9**	–
Cash and cash equivalents		**156**	218
		6,447	6,757
Creditors – amounts falling due within one year	11.14	**(3,667)**	(4,050)
Lease liabilities due within one year	11.16	**(99)**	(120)
Derivative financial liabilities due within one year	11.17	**(18)**	(36)
		(3,784)	(4,206)
Net current assets		**2,663**	2,551
Total assets less current liabilities		**6,872**	6,326
Creditors – amounts falling due after more than one year	11.15	**(1,986)**	(1,108)
Lease liabilities due after more than one year	11.16	**(1,331)**	(1,363)
Derivative financial liabilities due after more than one year	11.17	**(2)**	(7)
Pension liabilities due after more than one year	11.20	**–**	(16)
Deferred tax liabilities	11.18	**(109)**	(118)
Provisions for liabilities	11.19	**(46)**	(58)
		(3,474)	(2,670)
Net assets		**3,398**	3,656
Shareholders' equity			
Share capital	11.21	**241**	240
Share premium	11.21	**201**	192
Capital redemption reserve	11.22	**39**	39
Merger reserve	11.22	**940**	940
Retained earnings and other reserves[1]	11.22	**1,977**	2,245
Total shareholders' funds		**3,398**	3,656

[1] Included within Retained earnings and other reserves is profit after tax of £45m (2020: £33m loss). After adjusting for exceptionals, profit before exceptionals after tax is £28m (2020: £66m).

The accounting policies on pages 136 to 138 and the notes on pages 139 to 151 form part of these financial statements.

The financial statements on pages 134 to 151 were approved by the Board of Directors and authorised for issue on 10 March 2021. 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 31 January 2021

		Attributable to the owners of the Company						
	Note	Share capital £m	Share premium £m	Capital redemption reserve £m	Merger reserve £m	Hedging reserve £m	Retained earnings £m	Total shareholders' funds £m
Current period								
At 3 February 2020		**240**	**192**	**39**	**940**	**(37)**	**2,282**	**3,656**
Profit for the period		**–**	**–**	**–**	**–**	**–**	**45**	**45**
Other comprehensive income/(expense):								
Cash flow hedging movement		**–**	**–**	**–**	**–**	**41**	**–**	**41**
Remeasurement of defined benefit schemes	11.20	**–**	**–**	**–**	**–**	**–**	**(103)**	**(103)**
Tax in relation to components of other comprehensive income	11.18	**–**	**–**	**–**	**–**	**(7)**	**16**	**9**
Total comprehensive income/(expense) for the period		**–**	**–**	**–**	**–**	**34**	**(42)**	**(8)**
Employee share option schemes:								
Share-based payments charge	11.5	**–**	**–**	**–**	**–**	**–**	**10**	**10**
Settlement of share awards	6.6	**–**	**–**	**–**	**–**	**–**	**(9)**	**(9)**
Share options exercised	6.6	**1**	**9**	**–**	**–**	**–**	**–**	**10**
Dividends	1.8	**–**	**–**	**–**	**–**	**–**	**(261)**	**(261)**
Total transactions with owners		**1**	**9**	**–**	**–**	**–**	**(260)**	**(250)**
At 31 January 2021		**241**	**201**	**39**	**940**	**(3)**	**1,980**	**3,398**

		Attributable to the owners of the Company						
	Note	Share capital £m	Share premium £m	Capital redemption reserve £m	Merger reserve £m	Hedging reserve £m	Retained earnings £m	Total shareholders' funds £m
Prior period								
At 4 February 2019		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

The accounting policies on pages 136 to 138 and the notes on pages 139 to 151 form part of these financial statements.

Wm Morrison Supermarkets PLC
Company accounting policies

52 weeks ended 31 January 2021

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 31 January 2021 (2020: 52 weeks ended 2 February 2020). 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 presentation requirements of international accounting standards in conformity with the requirements of the Act, but make amendments where necessary in order to comply with the Act and take advantage of FRS 101 disclosure exemptions.

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) paragraphs 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) 111 (cash flow statement information); and
   (iii) 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 92 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 31 January 2021:

- Amendments to the following standards:
  - IFRS 3 'Definition of a Business'
  - IFRS 7, IFRS 9 and IAS 39 'Interest rate benchmark reform'
  - IAS 1 and IAS 8 'Definition of Material'
- Amendments to references to the conceptual framework in IFRS standards

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 write backs 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.

Notes to the Company financial statements

52 weeks ended 31 January 2021

11 Company financial statements continued

11.4 Profit and loss account

The profit after tax for the Company for the 52 weeks ended 31 January 2021 was £45m (2020: £33m loss). After adjusting for exceptional items, profit before exceptionals after tax is £28m (2020: £66m). The profit before exceptionals after tax in the 52 weeks ended 31 January 2021 includes dividends received from subsidiary undertakings of £nil (2020: £23m).

	2021 £m	2020 £m
Employee benefit expense for the Company during the period		
Wages and salaries	**963**	866
Social security costs	**76**	72
Other pensions costs	**60**	51
Share-based payments	**10**	11
	1,109	1,000

The average monthly number of people, including Directors, employed by the Company is 61,734 (2020: 50,527).

The Company's auditor, PricewaterhouseCoopers LLP charged £0.7m (2020: £0.6m) for audit services in the year and £0.2m (2020: £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 £10m (2020: £11m).

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 3 February 2020	719	**719**
Additions	84	**84**
Interest capitalised	1	**1**
Disposals	(4)	**(4)**
Fully written down assets	(236)	**(236)**
At 31 January 2021	564	**564**
Accumulated amortisation and impairment		
At 3 February 2020	358	**358**
Amortisation charge for the period	70	**70**
Impairment	67	**67**
Disposals	(4)	**(4)**
Fully written down assets	(236)	**(236)**
At 31 January 2021	255	**255**
Net book amount at 31 January 2021	309	**309**

Other intangibles include software development costs and licences. Within this asset class, there are assets under construction of £13m (2020: £73m). The net book amount of licences at 31 January 2021 totals £11m (2020: £13m).

11 Company financial statements continued

11.6 Intangible assets continued

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 £67m (2020: £15m) has been recognised in relation to intangible assets. The methodology applied by the Company is the same methodology as applied by the Group, see note 3.2 for further details.

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 £44m (2020: £42m). Interest is capitalised at the effective interest rate of 4% (2020: 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 3 February 2020	869	1,557	520	947	**3,893**
Additions	13	15	7	277	**312**
Acquisition of business	–	2	–	–	**2**
Transfers from right-of-use assets	–	–	–	19	**19**
Disposals	(2)	(1)	(6)	(25)	**(34)**
Fully written down assets	–	(6)	–	(78)	**(84)**
At 31 January 2021	880	1,567	521	1,140	**4,108**
Accumulated depreciation and impairment					
At 3 February 2020	141	743	285	466	**1,635**
Depreciation charge for the period	–	36	12	128	**176**
Impairment	3	2	–	10	**15**
Impairment write back	(24)	(20)	(15)	(5)	**(64)**
Transfers from right-of-use assets	–	–	–	11	**11**
Disposals	–	–	(6)	(25)	**(31)**
Fully written down assets	–	(6)	–	(78)	**(84)**
At 31 January 2021	120	755	276	507	**1,658**
Net book amount at 31 January 2021	760	812	245	633	**2,450**

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 £880m (2020: £869m) relating to non-depreciable land and £2m (2020: £17m) 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 (2020: £71m). Interest is capitalised at the effective interest rate of 4% (2020: 5%) incurred on borrowings.

The Company considers that each store location is a separate cash generating unit (CGU) and therefore considers every location for impairment annually. The Company calculates each location'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. Consistent with the Group, the methodology applied by the Company has changed as at 31 January 2021 to include cash flows from online store pick as part of the store location CGU assessment, where a reliable store pick trading history has been established. This has been included on the basis that the expansion in online store pick is serviced from store locations to the same pool of customers directly serviced by the store.

Having applied the methodology and assumptions, the Company has recognised a net impairment write back of £49m (£64m impairment write back offset by £15m impairment charge) during the year in respect of property, plant and equipment (2020: net £7m impairment write back; £39m impairment write back offset by £32m impairment charge). This movement reflects fluctuations from store level trading performance and local market conditions. Of the £64m impairment write back, £62m was due to the inclusion of cash flows from online store pick during the year.

At 31 January 2021, the assumptions to which the value in use calculation is most sensitive to are the discount and cash flow growth rates. The Company has estimated a possible change of +1% discount rate or -1% growth rate would result in a c.£20m loss and a -1% discount rate or +1% growth rate would result in a c.£20m gain. The impairment model is also sensitive to the inclusion of store pick in individual CGUs which could impact future impairment assessments.

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 3 February 2020	2,020	183	**2,203**
Additions	73	–	**73**
Transfer from investment property	15	–	**15**
Transfer to property, plant and equipment	–	(19)	**(19)**
Disposals	(5)	–	**(5)**
Fully written down assets	(6)	(36)	**(42)**
At 31 January 2021	2,097	128	**2,225**
Accumulated depreciation and impairment			
At 3 February 2020	1,011	99	**1,110**
Depreciation charge for the period	71	26	**97**
Impairment	10	4	**14**
Impairment write back	(43)	–	**(43)**
Transfer from investment property	15	–	**15**
Transfer to property, plant and equipment	–	(11)	**(11)**
Disposals	(5)	–	**(5)**
Fully written down assets	(6)	(36)	**(42)**
At 31 January 2021	1,053	82	**1,135**
Net book amount at 31 January 2021	1,044	46	**1,090**

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 write back of £29m (£43m impairment write back offset by £14m impairment charge) during the year in respect of right-of-use assets (2020: net £4m impairment write back; £19m write back of impairment offset by £15m impairment charge). This movement reflects fluctuations from store level trading performance and local market conditions.

At 31 January 2021, the assumptions to which the value in use calculation is most sensitive to are the discount and cash flow growth rates. The Company has estimated a change of +1% discount rate or -1% growth rate would result in a c.£10m loss and a -1% discount rate or +1% growth rate would result in a c.£10m gain. The impairment model is also sensitive to the inclusion of store pick in individual CGUs which could impact future impairment assessments.

11 Company financial statements continued

11.9 Investment property

	Freehold £m	Leasehold £m	Total £m
Cost			
At 3 February 2020	22	84	**106**
Additions	1	5	**6**
Transfers to right-of-use assets	–	(15)	**(15)**
Disposals	–	–	**–**
At 31 January 2021	23	74	**97**
Accumulated depreciation and impairment			
At 2 February 2020	12	76	**88**
Depreciation charge	–	1	**1**
Impairment	1	1	**2**
Impairment write back	–	(1)	**(1)**
Transfers to right-of-use assets	–	(15)	**(15)**
Disposals	–	–	**–**
At 31 January 2021	13	62	**75**
Net book amount at end of period	10	12	**22**

Included in other operating income is £4m (2020: £8m) of rental income generated from investment properties. At the end of the period the fair value of freehold investment properties was £14m (2020: £17m), 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).

11.10 Investments

	2021 £m	2020 £m
Net book amount		
At start of period	**6**	6
Additions	**301**	–
At end of period	**307**	6

On 30 July 2020, the Company established Wm Morrison Property Partnership 4 Limited Partnership with a £297m investment as its Capital partner. This entity was created as part of the restructure of the Scottish Limited Partnership arrangement as detailed on page 148.

On 9 September 2020, the Company acquired 100% of the ordinary share capital of Lowlands Nursery Limited (formerly known as Lansen Nursery Limited), a leading supplier of outdoor plants. Total consideration was £4m.

In addition to the investments detailed above, the Company continues to hold a £6m investment in Chippindale Foods Limited and investments in other related undertakings, which in aggregate are less than £1m as at 31 January 2021.

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 152.

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. During the 52 weeks ended 31 January 2021, the Company received £8m (2020: £9m) of dividend income from its investment. The carrying value of the Company's investment in the joint venture at 31 January 2021 is £31m (2020: £39m). The Company has assessed this investment for impairment as at the reporting date and accordingly recognised a £8m impairment (2020: £28m) in respect of its investment. 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

	2021 £m	2020 £m
Trade debtors	**168**	181
Amounts owed by Group undertakings	**5,019**	5,333
Current tax asset	**137**	140
Prepayments and accrued income	**132**	103
	5,456	5,757

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 31 January 2021 (2020: £nil).

11.13 Debtors – amounts falling due after more than one year

	2021 £m	2020 £m
Finance leases – Company is lessor	**8**	8

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 rent reassessments are normally based on changes in market rate or capped increase in measures of inflation.

Finance leases

The table below summarises the maturity profile of undiscounted finance lease payments due to the Company.

	2021 £m	2020 £m
Less than one year	**1**	1
After one year but not more than five years	**4**	4
More than five years	**6**	7
Total undiscounted lease payments receivable	**11**	12
Unearned finance income	**(3)**	(4)
Net investment in the lease	**8**	8

Finance lease income of £nil (2020: £1m) has been recognised in the 52 weeks ended 31 January 2021.

Operating leases

The table below summarises the maturity profile of undiscounted operating lease payments due to the Company.

	2021 £m	2020 £m
Less than one year	**5**	5
One to two years	**4**	4
Two to three years	**4**	3
Three to four years	**3**	3
Four to five years	**3**	2
More than five years	**13**	8
Total undiscounted lease payments receivable	**32**	25

Operating lease income of £7m (2020: £8m) has been recognised in the 52 weeks ended 31 January 2021. This includes £nil (2020: £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

	2021 £m	2020 £m
Trade creditors	**1,936**	2,264
€282m euro bond 2.25% June 2020	**–**	237
Other short-term borrowings	**54**	–
Amounts owed to Group undertakings	**1,238**	1,025
Other taxation and social security	**33**	125
Other creditors	**95**	54
Accruals and deferred income	**311**	345
	3,667	4,050

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

	2021 £m	2020 £m
£250m sterling bonds 4.625% December 2023	**249**	249
£250m sterling bonds 3.50% July 2026	**267**	269
£250m sterling bonds 4.75% July 2029	**246**	245
£350m sterling bonds 2.5% October 2031	**347**	347
Revolving credit facility	**877**	(2)
	1,986	1,108

As at 31 January 2021, there are £948m (2020: £978m) 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 £2,389m (2020: £2,469m).

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 31 January 2021, the Company extended this facility by a further year, resetting its five year term and resulting in a maturity date of June 2025. The revolving credit facility incurs committed fees and interest charges at a spread above LIBOR. The Company had £470m (2020: £1,350m) of undrawn committed headroom available on this facility as at 31 January 2021.

In the 52 weeks ended 31 January 2021, the Company has obtained three new £100m 364 day committed revolving credit facilities, the maturity dates of which were extended following the year end, to September 2021 (£200m) and March 2022 (£100m). In addition the Company has a further £100m revolving credit facility with an original maturity date of July 2020, which was extended to mature in July 2022 (see note 11.25). The committed facilities were undrawn as at 31 January 2021 (2020: undrawn).

The Company also has a number of uncommitted facilities which are available to meet short-term borrowing requirements, and incur interest charges according to usage. As at 31 January 2021, the Company had £54m of borrowings on uncommitted facilities (2020: £nil).

11 Company financial statements continued

11.16 Lease liabilities

	2021 £m	2020 £m
Current lease liabilities	**99**	120
Non-current lease liabilities	**1,331**	1,363
	1,430	1,483

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.

	2021 £m	2020 £m
Total cash outflow for lessee leases	**210**	196
Interest expense on lease liabilities	**60**	63
Expense for short-term leases longer than one month	**16**	5
Expense for leases of low-value assets, excluding short-term	**2**	2
Expense of variable lease payments	**–**	–

11.17 Derivative financial assets and liabilities

Derivative financial assets	2021 Fair Value £m	2021 Notional Value £m	2020 Fair Value £m	2020 Notional Value £m
Current				
Foreign exchange forward contracts	**1**	**46**	–	32
Fuel and energy price contracts	**12**	**49**	1	1
	13	**95**	1	33
Non-current				
Foreign exchange forward contracts	**–**	**1**	–	–
Fuel and energy price contracts	**9**	**67**	–	–
	9	**68**	–	–
Derivative financial liabilities				
Current				
Cross-currency interest rate swaps	**–**	**–**	4	240
Foreign exchange forward contracts	**17**	**435**	17	411
Fuel and energy price contracts	**1**	**11**	15	53
	18	**446**	36	704
Non-current				
Foreign exchange forward contracts	**1**	**25**	–	–
Fuel and energy price contracts	**1**	**15**	7	35
	2	**40**	7	35

Further details of the derivative financial instruments are provided in note 7, including significant assumptions underlying the valuation and the amounts recognised in profit and loss.

11 Company financial statements continued

11.18 Deferred tax liabilities

	2021 £m	2020 £m
Deferred tax liability	**188**	192
Deferred tax asset	**(79)**	(74)
Net deferred tax liability	**109**	118

IAS 12 'Income taxes' requires 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 3 February 2020	133	59	(74)	**118**
Charged to profit for the period	2	10	(12)	**–**
Charged/(credited) to other comprehensive income and equity	–	(16)	7	**(9)**
At 31 January 2021	135	53	(79)	**(109)**
Prior period	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

11.19 Provision for liabilities

	Onerous contracts £m	Other property provisions £m	Total £m
At 3 February 2020	43	15	**58**
Charged to profit for the period	7	1	**8**
Utilised during the period	(5)	(1)	**(6)**
Released during the period	(13)	(2)	**(15)**
Unwinding of discount	1	–	**1**
At 31 January 2021	33	13	**46**

Included with the above balance at 31 January 2021 is £7m (2020: £11m) relating to a balance due within one year. The provision is revised regularly in response to market conditions. During the period, £7m has been charged to the onerous contracts provision 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 certain leased buildings, for the cost of restoring assets to their required condition.

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:

	2021 £m	2020 £m
CARE Scheme	**249**	364
RSP	**42**	(16)
Net pension asset	**291**	348

11 Company financial statements continued

11.20 Pensions continued

11.20.1 Defined benefit schemes: summary and description continued

Statement of financial position:	2021 CARE £m	2021 RSP £m	2020 CARE £m	2020 RSP £m
Fair value of scheme assets	**1,467**	**485**	1,468	389
Present value of obligations	**(1,218)**	**(443)**	(1,104)	(405)
Net pension asset	**249**	**42**	364	(16)

Income statement	2021 CARE £m	2021 RSP £m	2020 CARE £m	2020 RSP £m
Administrative costs paid by Schemes – recognised in administrative expenses	**1**	**1**	1	1
Settlement and curtailment gain	**(2)**	**–**	–	–
Change in SLP asset	**26**	**–**		
Net interest on net pension (asset)/liability – finance (income)/expense	**(6)**	**(1)**	(8)	1
Total expense charged/(credited) to income statement	**19**	**–**	(7)	2
Statement of other comprehensive income:				
Remeasurements in other comprehensive income – charge/(credit) [1]	**96**	**6**	(73)	(27)

[1] In the 52 weeks ended 31 January 2021, there was a further £1m charge following the write off of a receivable balance relating to retirement benefits which was not part of the net pension asset.

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.

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 and one buy-in annuity policy), 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 Company.

Fair value of Scheme assets:

	2021 CARE £m	2021 RSP £m	2020 CARE £m	2020 RSP £m
Equities (quoted)	**157**	**126**	212	158
Corporate bonds (quoted)	**121**	**–**	119	–
Diversified growth funds (quoted)	**–**	**31**	–	40
Credit funds (unquoted)	**173**	**–**	178	–
Liability driven investments (unquoted)	**852**	**249**	924	190
Scottish Limited Partnership (unquoted)	**–**	**78**	26	–
Annuity policies (unquoted)	**156**	**–**	–	–
Cash (quoted)	**8**	**1**	9	1
	1,467	**485**	1,468	389

For definitions of liability driven investments, annuity policies and credit funds, see note 8.3.

During the 52 weeks ended 31 January 2021, the CARE Scheme entered into a new buy-in policy that provides insurance for a proportion of the pensioner population. The policy pays 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.

11 Company financial statements continued

11.20 Pensions continued

11.20.2 Scheme assets continued

The movement in the fair value of the Schemes' assets over the period was as follows:

	2021 CARE £m	2021 RSP £m	2020 CARE £m	2020 RSP £m
Fair value of scheme assets at start of period	**1,468**	**389**	1,261	349
Interest income	**25**	**8**	35	9
Return on scheme assets excluding interest	**25**	**33**	204	70
Employer contributions	**–**	**64**	–	1
Change in SLP assets	**(26)**	**–**	–	–
Benefits paid	**(24)**	**(8)**	(31)	(39)
Administrative expenses	**(1)**	**(1)**	(1)	(1)
Fair value of scheme assets at end of period	**1,467**	**485**	1,468	389

Scottish Limited Partnership

The Company has previously entered into a pension funding partnership structure with the CARE Scheme whereby the partnership structure holds properties which are leased back to the Company in return for rental income payments. The Company retains control over these properties, including the flexibility to substitute alternative properties. The CARE Scheme was entitled to receive fixed distributions of £2.2m p.a. until 2033 subject to certain conditions.

During the 52 weeks ended 31 January 2021, the Company and the Schemes' Trustees have agreed to reorganise the limited partnership structure, so that future distributions will be made to the RSP. The pension funding partnership structure was amended to permanently cease fixed distributions to both the Company and Safeway Stores Limited CARE Schemes. On the same day, the Company and the RSP, entered into a new pension funding partnership. As a new partner, the RSP is entitled to receive a fixed distribution of £6.8m p.a. from the profits of the SLP for 13 years from 2020, subject to certain conditions. The fixed distribution is comparable to the distributions that would have been made to the Group's CARE Schemes under the previous partnership structure (see page 127).

The RSP Scheme's (2020: CARE Scheme's) interests in the SLP increases the net pension asset on the FRS 101 accounting basis because the investments held by the Scheme qualify as an asset for Company FRS 101 purposes.

11.20.3 Present value of obligations

The movement in the defined benefit obligation over the period was as follows:

	2021 CARE £m	2021 RSP £m	2020 CARE £m	2020 RSP £m
Defined benefit obligation at start of period	**(1,104)**	**(405)**	(977)	(391)
Current service cost	**–**	**–**	–	–
Interest expense	**(19)**	**(7)**	(27)	(10)
Actuarial (loss)/gain – demographic assumptions	**(30)**	**–**	27	–
Actuarial loss – financial assumptions	**(108)**	**(49)**	(162)	(58)
Actuarial gain – experience	**17**	**10**	4	15
Settlement and curtailment gain	**2**	**–**	–	–
Benefits paid	**24**	**8**	31	39
Defined benefit obligation at end of period	**(1,218)**	**(443)**	(1,104)	(405)

The durations of the defined benefit obligations at the end of the 2021 reporting period are: RSP 20 years; CARE 23 years. The weighted average duration of the Schemes is 22 years.

11 Company financial statements continued

11.20 Pensions continued

11.20.4 Significant actuarial assumptions

The following are the principal actuarial assumptions at the reporting date (expressed as weighted averages):

Financial assumptions	2021 CARE	2021 RSP	2020 CARE	2020 RSP
Discount rate applied to scheme liabilities (% p.a.)	**1.5%**	**1.5%**	1.9%	1.8%
Inflation assumption (RPI) (% p.a.)	**3.0%**	**3.0%**	2.9%	2.9%

Life expectancies	2021 CARE	2021 RSP	2020 CARE	2020 RSP
Longevity in years from age 65 for current pensioners				
Male	**21.1**	**n/a**	20.9	n/a
Female	**22.5**	**n/a**	22.3	n/a
Longevity in years from age 65 for current members aged 45				
Male	**22.8**	**n/a**	22.6	n/a
Female	**24.4**	**n/a**	24.2	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 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 FRS 101.

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 31 January 2021 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 2019 core projections and a long-term rate of improvement of 1.5% p.a. For the 52 weeks ended 2 February 2020 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 2018 core projections and a long-term rate of improvement of 1.5% p.a.

Related actuarial assumptions (expressed as weighted averages)

	2021 CARE	2021 RSP	2020 CARE	2020 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%/2.9%**	**–**	2.0%/2.8%	–
Rate of increase of pensions in deferment: CPI inflation capped at either 2.5% p.a. or 5% p.a. (% p.a.)	**-/2.3%**	**2.3%/-**	-/2.0%	2.0%/-
CPI inflation (% p.a.)	**2.3%**	**2.3%**	2.0%	2.0%

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.

		2021 CARE	2021 RSP	2020 CARE	2020 RSP
Discount rate applied to Scheme obligations	+/-0.1% p.a.	**-/+30**	**-/+9**	-/+25	-/+8
Inflation assumption (RPI and associated assumptions)	+/-0.1% p.a.	**+/-20**	**+/-9**	+/-20	+/-7
Longevity	+one year	**+40**	**–**	+40	n/a

11 Company financial statements continued

11.20 Pensions continued

11.20.5 Funding

The CARE Scheme is entirely funded by the Company. The Company along with other subsidiaries of the Company 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 FRS 101 purposes for the period to 31 January 2021 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 31 January 2021, 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). The International Accounting Standards Board (IASB) have been considering amendments of the current version of IFRIC 14, however the IASB has decided not to finalise these amendments and is considering whether to develop new proposals. The legal advice received by the Company has concluded that the above accounting treatment should not be materially affected by the previous proposed amendments to IFRIC 14.

The current best estimate of Company contributions to be paid to the defined benefit schemes for the accounting period commencing 31 January 2021 is £7m (2020: £3m). This estimate includes amounts payable from the SLP.

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 31 January 2021, the Company paid contributions of £56m to the MPRS (2020: £50m), and expects to contribute £57m for the following period (2020: £50m).

11.21 Share capital

	Number of shares millions	Share capital £m	Share premium £m	Total £m
At 2 February 2020	2,405	240	192	**432**
Share options exercised	5	1	9	**10**
At 31 January 2021	2,410	241	201	**442**

All issued shares are fully paid and have a par value of 10p per share (2020: 10p per share).

For further details on share capital and share premium, see note 6.6.

11.22 Reserves

	2021 £m	2020 £m
Capital redemption reserve	**39**	39
Merger reserve	**940**	940
Hedging reserve	**(3)**	(37)
Retained earnings	**1,980**	2,282
Total	**2,956**	3,224

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.

11 Company financial statements continued

11.22 Reserves continued

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 31 January 2021, this intercompany loan balance was partially settled through a qualifying consideration of £nil (2020: £262m). As a result, none of the merger reserve balance was realised in the period (2020: £262m).

Hedging reserve

This represents the gains and losses arising on derivatives used for cash flow hedging.

11.23 Capital commitments

	2021 £m	2020 £m
Contracts placed for future capital expenditure not provided in the financial statements (property, plant and equipment, right-of-use assets and intangible assets)	**36**	31
Contracts placed for future leases not provided in the financial statements	**31**	34

11.24 Guarantees, contingent liabilities and contingent assets

Guarantees

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 31 January 2021 was £nil (2020: £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 £29m (2020: £30m).

Data theft claim

The Company has previously had a legal case brought by a number of current and former colleagues relating to employee data theft in the 52 weeks ended 1 February 2015. The details of this case can be found in note 10.2.

Interchange fee claim

The Company, along with other claimants, has had an ongoing claim against Mastercard in respect of bank interchange fees. In the 52 weeks ended 31 January 2021, the Supreme Court found in favour of the claim against Mastercard and determined that the fixing of interchange fees by Mastercard over many years was an unlawful infringement of competition law. The details of this case can be found in note 10.2.

11.25 Post-balance sheet events

Since 31 January 2021, the Company has extended the duration of its four existing £100m committed revolving credit facilities (RCF) as follows: two £100m RCFs now mature in September 2021, a £100m RCF matures in March 2022 and a £100m RCF matures in July 2022.

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 31 January 2021 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 Limited[3]	Isle of Man	Holding company	100%
Fisherdale Properties Limited	United Kingdom	Dormant	100%
Flower World Limited	United Kingdom	Dormant	100%
Ipsolus Limited	United Kingdom	Dormant	100%
Lowlands Nursery Limited	United Kingdom	Wholesale of flowers and plants	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 Property Partnership 4 Limited Partnership[7]	United Kingdom	Property 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%
Falfish (Holdings) Limited[8]	United Kingdom	Preparation and supply of seafood	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[9]	Jersey	Property investment	100%
Glowrace Limited	United Kingdom	Real estate management	37%
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[9]	Jersey	Property investment	100%
Maypole Limited[10]	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	Dormant	100%
Oldwest Limited[9]	United Kingdom	Dormant	100%

Related undertakings of other Group companies continued

Name	Country of incorporation	Principal activity	Interest
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[9]	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	Dormant	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[11]	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[9]	Jersey	Property investment	100%
Stores Group Limited	United Kingdom	Dormant	100%
The Home & Colonial Stores Limited	United Kingdom	Dormant	100%
The Medical Hall Limited[12]	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	Dormant	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	Dormant	100%
Wm Morrison GP 1 Limited	United Kingdom	Dormant	100%
Wm Morrison GP 2 Limited	United Kingdom	Dormant	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	Dormant	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	Dormant	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 Unit 15 Cardew Industrial Estate, Redruth, Cornwall, TR15 1SS.
9 Registered address IFC1, Esplanade, St Helier, Jersey, JE1 2ST.
10 Registered address 1st & 2nd floors, Elizabeth House, Les Ruettes Brayes, St Peter Port, Guernsey, GY1 1EW.
11 Registered address Suites 41/42 Victoria House, 26 Main Street, Gibraltar.
12 Registered address 1st Floor, 5 Secretary's Lane, Gibraltar GX11 1AA.

Five year summary

52 weeks ended 31 January 2021

Consolidated income statement

	2021 £m	2020 £m	2019 £m	2018[1,2] £m	2017[2] £m
Revenue	**17,598**	17,536	17,735	17,262	16,317
Cost of sales	**(17,210)**	(16,907)	(17,083)	(16,629)	(15,713)
Gross profit	**388**	629	652	633	604
Other operating income	**92**	94	88	78	76
Profit/loss on disposal and exit of properties and sale of business and investments	**2**	66	–	19	32
Administrative expenses	**(228)**	(268)	(308)	(272)	(244)
Operating profit	**254**	521	432	458	468
Finance costs	**(111)**	(111)	(153)	(94)	(160)
Finance income	**22**	24	23	14	15
Share of profit of joint venture (net of tax)	**–**	1	1	2	2
Profit before taxation	**165**	435	303	380	325
Taxation	**(69)**	(87)	(70)	(69)	(20)
Profit for the period attributable to the owners of the Company	**96**	348	233	311	305
Profit before tax and exceptionals[3]	**201**	408	396	374	337
Profit before exceptionals after tax[3]	**143**	314	303	285	253
Earnings per share (pence):					
Basic	**3.99**	14.60	9.89	13.30	13.11
Diluted	**3.95**	14.44	9.67	13.03	12.95
Basic earnings per share before exceptionals[3]	**5.95**	13.18	12.85	12.19	10.86
Dividend per ordinary share (pence)	**11.15**	8.77	12.60	10.09	5.43

[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 157 to 159.

Consolidated statement of financial position

	2021 £m	2020 £m	2019 £m	2018 £m	2017[1] £m
Assets					
Goodwill and intangible assets	**328**	381	404	428	445
Property, plant and equipment	**7,358**	7,147	7,094	7,027	7,227
Right-of-use assets	**997**	942	929	970	–
Investment property	**59**	58	60	69	33
Retirement benefit surplus	**754**	960	730	612	293
Investment in joint venture	**31**	39	47	53	56
Trade and other receivables	**70**	71	8	8	–
Derivative financial assets	**9**	–	15	16	16
Non-current assets	**9,606**	9,598	9,287	9,183	8,070
Current assets	**1,430**	1,319	1,340	1,275	1,176
Assets classified as held-for-sale	**–**	3	39	4	–
Liabilities					
Current liabilities	**(2,981)**	(3,396)	(3,349)	(3,080)	(2,864)
Other financial liabilities	**(1,988)**	(1,115)	(1,112)	(1,246)	(1,555)
Lease liabilities	**(1,299)**	(1,304)	(1,328)	(1,354)	–
Deferred tax liabilities	**(463)**	(472)	(414)	(415)	(417)
Retirement benefit deficit	**(36)**	(16)	(42)	(18)	(21)
Provisions	**(53)**	(76)	(96)	(99)	(326)
Non-current liabilities	**(3,839)**	(2,983)	(2,992)	(3,132)	(2,319)
Net assets	**4,216**	4,541	4,325	4,250	4,063
Shareholders' equity					
Share capital	**241**	240	237	236	234
Share premium	**201**	192	178	159	128
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	**1,157**	1,492	1,293	1,238	1,084
Total equity attributable to the owners of the Company	**4,216**	4,541	4,325	4,250	4,063

[1] Not restated for the impact of IFRS 16 'Leases'.

Supplementary information

52 weeks ended 31 January 2021

	2021	2020	2019	2018[1]	2017[1]
(Decrease)/increase on previous year %					
Revenue	**0.35**	(1.12)	2.74	5.79	1.21
Operating profit before exceptionals	**(40.35)**	0.59	14.61	3.01	27.43
Profit before taxation	**(62.07)**	43.56	(20.26)	16.92	49.77
Profit after taxation	**(72.41)**	49.36	(25.08)	1.97	37.39
Profit before taxation and exceptionals	**(50.74)**	3.03	5.88	10.98	39.26
Diluted earnings per share	**(72.65)**	49.33	(25.79)	0.62	36.74
Ordinary dividend per share	**5.61**	2.58	8.37	12.15	8.60
% of revenue					
Operating profit before exceptionals	**1.74**	2.93	2.88	2.58	2.65
Profit before taxation	**0.94**	2.48	1.71	2.20	1.99
Profit after taxation	**0.55**	1.98	1.38	1.80	1.87
Retail portfolio					
Total number of stores	**497**	492	494	491	491
Petrol filling stations	**338**	335	335	334	334
Total sales area (000s square feet)[2]	**15,037**	14,880	14,884	14,094	14,094
Total supermarket takings exc. fuel (gross) £m[3]	**14,087**	13,735	14,023	14,061	13,591
Average takings per store per week exc. fuel (£000)[3]	**544**	535	547	540	531
Average number of customers per store per week[3]	**18,134**	23,673	24,399	24,164	23,532
Average take per customer (£)[3]	**29.97**	22.60	22.52	22.36	22.62
Employees					
Full time	**35,291**	37,924	39,581	40,162	42,054
Part time	**82,756**	60,695	64,049	65,325	70,311
Total	**118,047**	98,619	103,630	105,487	112,365
Full time equivalent (average)	**76,991**	71,263	72,120	73,210	77,300
Average per FTE employee:					
Revenue (£000s)	**229**	246	246	236	211
Operating profit before exceptionals (£)	**3,974**	7,199	6,448	6,078	5,589
Employee costs (£)	**27,769**	25,890	26,345	26,472	24,900

1 2017 and 2018 have not been restated for the impact of IFRS 16 'Leases'.
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.

<table>
<tr><th>Measures</th><th>Closest equivalent IFRS measure</th><th>Definition and purpose</th><th>Reconciliation for 2020/21 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 64 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>8.6%</td></tr><tr><td>Group LFL (inc. fuel)</td><td>0.1%</td></tr><tr><td>Net new space (inc. fuel)</td><td>0.3%</td></tr><tr><td>Total revenue year-on-year</td><td>0.4%</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 64 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 64 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>£143m being profit before tax and exceptionals (£201m) less a normalised tax charge (£58m) (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>£306m being reported operating profit (£254m) less profit/loss on disposal and exit of properties (£2m), net online and home delivery (£10m) and impairment and provisions for onerous contracts (£7m), plus store restructuring and closure costs (£56m) and other exceptional items (£15m).</td></tr>
</table>

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

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

Glossary continued

Measures	Closest equivalent IFRS measure	Definition and purpose	Reconciliation for 2020/21 Group measures[1]
Profit measures continued			
Net finance costs before exceptionals	Finance costs	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.	A reconciliation of this measure is provided in note 6.2 of the financial statements.
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.	£847m being operating profit before exceptionals (£306m), plus share of profit from joint venture (£nil), depreciation (£470m) and amortisation (£71m).
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.	4.8% being EBITDA before exceptional items (£847m) divided by revenue (£17,598m).
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.	2.8x being operating profit before exceptionals (£306m) divided by net finance costs before exceptionals (£105m).
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 applying the dividend policy. See page 64 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.

[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 2020/21 Group measures[1]
Cash flows and net debt measures			
Free cash flow	No direct equivalent	Movement in net debt before dividends. This measure is used by the Directors as it provides key information on the level of cash generated by the Group before the payment of dividends.	£450m outflow being the movement in net debt (£711m) before payment of dividend (£261m).
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 64 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.	75% being net debt (£3,169m) as a percentage of net assets (£4,216m).
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 (3.9%) equals return divided by average capital employed: Return (£248m) = Profit before exceptionals after tax annualised (£143m) adjusted for annualised net finance costs before exceptionals (£105m). Average capital employed (£6,361m) = Average net assets excluding the net retirement benefit surplus (£3,548m) and average net debt (£2,813m).
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 (£22m) plus payment to exit leases (£nil), included within repayment of lease obligations in the consolidated cash flow statement.

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[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 2021/22

Financial events and dividends	
Quarter one trading statement	11 May 2021
Final dividend record date	21 May 2021
Annual General Meeting	10 June 2021
Final dividend payment date	28 June 2021
Half year end	1 Aug 2021
Interim results announcement	9 Sep 2021
Interim dividend record date	24 Sep 2021
Interim dividend payment date	29 Oct 2021
Financial year end	30 Jan 2022

Company Secretary

Jonathan Burke

Company number

00358949

Registered office

Wm Morrison Supermarkets PLC
Hilmore House
Gain Lane
Bradford
BD3 7DL
Telephone: 0345 611 5000
www.morrisons.com

Investor relations

Telephone: 0345 611 5000
Email: accinvr@morrisonsplc.co.uk

Corporate responsibility enquiries

Telephone: 0345 611 5000

Annual General Meeting

The AGM will be held on 10 June 2021 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 161).

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 2020/21 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 2020/21 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 161.

b) Recycled paper

This document has been printed on recycled paper that is manufactured in mills with ISO 14001 accreditation from 100% recycled fibre. It is totally chlorine free and is an NAPM certified recycled product.

Registrars and shareholding enquiries

Administrative enquiries about the holding of Morrisons shares, such as change of address, change of ownership, dividend payments, '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 08:30 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 31 January 2021 was 36,099 (2020: 36,349) and the number of shares in issue was 2,409,705,929 (2020: 2,404,954,127).

Analysis by shareholder (type)	Number of holders	% holders	Balances at 31 Jan 21	% capital
Private shareholder	33,077	91.64	87,575,080	3.63
Nominee companies	1,071	2.97	2,075,211,868	86.12
Limited companies	1,834	5.08	173,692,971	7.21
Other institutions	97	0.26	72,576,299	3.01
Bank and bank nominees	9	0.02	616,655	0.03
Investment trusts	6	0.02	9,477	0.00
Pension funds	5	0.01	23,649	0.00

Analysis by shareholder (holding)	Number of holders	% holders	Balances at 31 Jan 21	% capital
1–1,000	19,769	54.76	8,081,431	0.34
1,001–10,000	13,735	38.05	42,737,008	1.77
10,001–1,000,000	2,385	6.61	202,011,456	8.38
Over 1,000,000	210	0.58	2,156,876,034	89.51

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 97% 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 20,000 Morrisons grocery products, including over 700 '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.

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 2020/21 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 2020/21 on 11 March 2021 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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