Company registration number: 00358949

# Wm Morrison Supermarkets Limited

# Annual Report and Financial Statements

for the

# 52 weeks ended 30 October 2022

# Contents

# Company information

**Company registration number**
00358949

**Directors**
David Potts
Joanna Goff

**Company Secretary**
Jonathan Burke

**Registered office**
Wm Morrison Supermarkets Limited
Hilmore House
Gain Lane
Bradford
BD3 7DL

**Independent auditors**
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Central Square
29 Wellington Street
Leeds
LS1 4DL

# Strategic report

## Our principal activities and business model

**Principal activities**

The principal activities of Wm Morrison Supermarkets Limited and its subsidiaries (together referred to as ‘Morrisons’ or ‘the Group’) are the retailing of food, clothing, general merchandise products and fuel throughout the United Kingdom.

Morrisons is a retailer, distributor, wholesaler and food manufacturer. We focus on ensuring that we offer the right price for our customers; have friendly colleagues in store; invest in our Market Street service counters; and provide a great choice of fresh, sustainably sourced, high quality produce, with strong links to local British growers and farmers.

In the previous financial period, the Group was acquired by Market Bidco Limited (an entity formed by Clayton, Dubilier & Rice, LLP in its capacity as adviser to Clayton, Dubilier & Rice, LLC as CD&R Fund XI) (‘CD&R’) and the Group de-listed and became privately owned. On 17 November 2021, during the financial period, following its re-registration as a private company, the Company’s name was changed from Wm Morrison Supermarkets PLC to Wm Morrison Supermarkets Limited.

The wider Group includes Market Bidco Limited and other subsidiaries of the ultimate parent entity, Market Topco Limited.

**Business model**

The key principles of our business model and core purpose have remained consistent for some time. Our business model has customers right at its heart but delivers for all stakeholders. Our purpose is ‘to make and provide food we’re all proud of, where everyone's effort is worthwhile, so more and more people can afford to enjoy eating well.’ Our purpose remains relevant and appropriate.

We have been guided by our ‘Fix, Rebuild, Grow, Sustain’ strategy, and have aimed to build a brand that is popular and accessible, broader and stronger. We believe that this has contributed to the delivery of profitable and capital-light growth, particularly through leveraging further our vertically integrated assets. Since the end of the financial period, we have introduced a new focus - to ‘Make Good Things Happen’ - a statement which both supports and improves our relationships with all of our stakeholders.

We have six priorities underpinning our strategy and six ways of working to deliver it, as set out below.

**Priorities**

1. **Serve customers better so more choose Morrisons** - by serving customers better we will earn customers’ decisions to shop more with us and award us a greater share of their spend.
2. **Be more competitive** - we help customers make every penny go further, saving them money on the everyday items they want and need.
3. **Simplify and remove wasted effort** - we are doing fewer things, better prioritised: at the same time balancing urgency and agility with being more planned, organised and landing things right the first time.
4. **Provide easy shopping experiences** - shopping experiences at Morrisons are to be simple, smooth and hassle free, whether this is in a physical store or shopping online.
5. **Grow volume, reduce cost, improve free cash flow** - a reflection of what we are aiming for as an output of serving customers better.
6. **Be the supermarket Britain needs** - this highlights the important relationships we have with all our stakeholders: customers, colleagues, communities, suppliers and owners. To be needed reflects relationships which are highly valued and mutually beneficial to bring success. It could be a relationship where a Morrisons store is at the heart of a community, or it could be a supplier partnership which is trusted, collaborative and results in profitable growth for both parties.

**Ways of working**

1. **Customers first** - we care about our customers and do everything we can to meet their needs.
2. **Listen and respond** - taking the time to talk with and listen to colleagues and customers, and to always do the right thing for them, is at the heart of our plans.
3. **Teamwork** - all of our colleagues play their part in the team and recognise that we go further together. The importance of supportive managers, helping each other, and open and honest communication is recognised.
4. **Work freely in a framework** - colleagues are trusted to make their own decisions within the Morrisons plan, and are encouraged to improve things for customers and for themselves. Colleagues are adventurous, curious, remove barriers and embrace new ideas and ways of working.
5. **Care and respect** - this reflects our care and empathy, the addition of respect reflects how we interact with each other and those we work with.
6. **Grow sales, low on costs** - we will grow sales by starting with our customers and doing what is right for them, and they will reward us with the decision to shop with us.

# Strategic report (continued)

## Our principal activities and business model (continued)

**Business model (continued)**

**Customer promises, colleague promises and environmental promises**

We recognise the importance of looking after our customers and our colleagues, therefore we have created promises to these groups which outline what we are striving for. The customer promises were created to reflect what matters most to customers in their shopping trip. For our colleagues, the commitments reflect what is needed to create a fulfilling and rewarding working environment. As a result, our colleagues know what to expect from working for Morrisons and our leaders have the guidance they need in how best to support their teams. Morrisons is a responsible business and a commitment has been created to reflect our aspirations given the important role it plays in the environment.

Our business is different in many ways: we are a diverse team, united by our ways of working and our food maker and shopkeeper credentials. Every day, our skilled food makers in our manufacturing sites and on Market Street make fresh food for our customers, with almost half of the fresh food we sell being made by us. Our automated production lines increase productivity and efficiency, and reduce waste. We also work collaboratively with our suppliers to carefully source, improve and innovate for products that we do not make ourselves.

By controlling the whole supply chain, we know where our food comes from and we can provide our customers with what they want, when they want it. Our stores are serviced by eight regional distribution centres and one national distribution centre, which supports our growth across all channels. Through our 498 stores, our manufacturing sites, our online business and our wholesale partners, we can leverage our brand to achieve meaningful and sustainable capital-light growth, supported by a strong balance sheet, including a nationwide freehold estate and well-funded pension schemes.

The Group operates through our supermarkets complemented by our online and other home delivery channels, with most customers across Britain having access to several different options available to them to shop with us. We offer online grocery shopping through our own website, Morrisons.com, fulfilled either by in-store picking by Morrisons colleagues to serve home delivery and Click & Collect customers, or via customer fulfilment centres through our partnership with Ocado. The customer fulfilment centres use a centralised picking model to service a large catchment area, leveraging technology, logistics and distribution services with Ocado to deliver our products to customers.

In addition, we sell products through our 'Morrisons on Amazon' home delivery channel. The same-day delivery service is available to Prime members on the Amazon.co.uk website and app. We also supply all Amazon Fresh UK stores with a range of items for customers to purchase. These stores are powered by Amazon's 'Just Walk Out' technology.

Finally, we offer home delivery and takeaway services through our partnership with Deliveroo and GoPuff. Groceries can be ordered online, picked up at a Morrisons store and delivered to local customers in as little as 30 minutes.

Our wholesale business supplies products to the convenience channel via Morrisons Daily convenience stores and supply agreements with wholesale partners. This presents an opportunity for us to leverage our brand strength and integrated supply chain to achieve incremental, profitable and sustainable growth with limited capital expenditure requirements.

**Acquisition of McColl's**

On 9 May 2022, we announced that we had agreed to buy the McColl's trade and the majority of its assets out of administration. Total consideration was £201 million. Wm Morrison Supermarkets Limited had, up until this point, had a wholesaling relationship with McColl's.

On 25 May 2022, the Competition and Markets Authority ('CMA') imposed an Initial Enforcement Order ('IEO') on Morrisons and McColl's. The IEO was effectively a 'hold separate' requirement, which amongst other things prohibited the two companies from integrating or exchanging confidential or commercially sensitive information, until the IEO was revoked or the CMA's investigation was complete. The CMA restrictions were lifted on 27 October 2022, shortly before the financial period end, as the CMA accepted our undertaking to sell 28 stores from the existing McColl's estate in lieu of a Phase 2 investigation.

The acquisition of McColl's provides us with a strong platform for growth in the convenience sector, and, since the completion of the CMA process, we have formally welcomed around 16,000 new colleagues into the Morrisons family. Our plans are centred on investment and growth, to start to restore the business to health, and include:

- a target of Morrisons Daily fascias from 450 to over 1,000 within two years;
- closure of 132 loss-making stores;
- revitalisation of the remainder of the estate; and
- synergies in supply chain, logistics, people, training and administration as we integrate the business.

# Strategic report (continued)

## Our principal activities and business model (continued)

**Business model (continued)**

**Acquisition of McColl's (continued)**

McColl's has, for some time, been constrained by low levels of investment. We will leverage our scale, expertise and our own food-making operations to improve and simplify every aspect of the McColl's business. The store environment, fresh food, competitiveness, training, maintenance and systems will be key parts of our initial focus.

The accelerated and enhanced conversion programme to Morrisons Daily will include investment in the stores' fascias, branding, fitouts, fixtures, refrigeration, flooring and lighting. Conversion to the Morrisons Daily format brings an improved shopping environment and the introduction of an enhanced product range which will offer customers a broader selection of branded and Morrisons own-label fresh foods, food to go and grocery.

# Strategic report (continued)

## Financial results

**Basis of preparation**

In the comparative period, the Company changed its accounting reference date from 31 January to 31 October. Consequently, this Annual Report and consolidated financial statements of the Group represents the 52 week period to 30 October 2022, whereas the comparative period covered the 39 week period to 31 October 2021.

**Acquisition of McColl's**

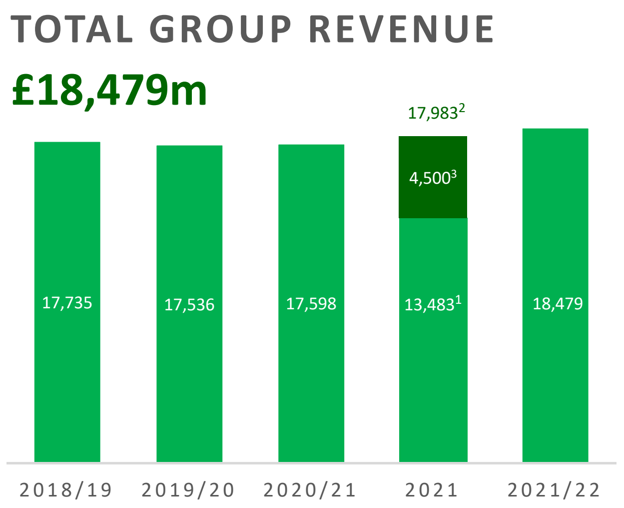
On 9 May 2022, the Group acquired the trade and the majority of the assets of the McColl's group of companies out of administration. Prior to the acquisition, the Group had a wholesaling relationship with McColl's and an agreement for them to convert and trade an increasing number of their stores under the "Morrisons Daily" fascia.

We have consolidated the results of McColl's from the date of acquisition. However, those results reflect a period of continued significant stress for the business following a period in administration and the 'hold separate' enforcement order running through almost to the year end. As a result, we have only just begun to implement our business improvement plan.

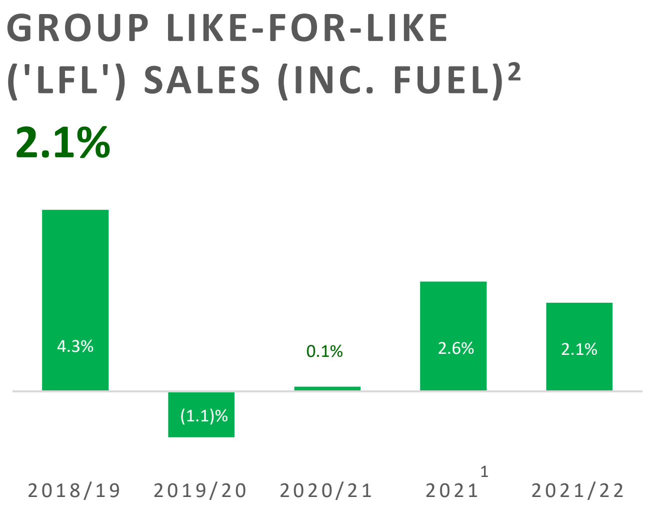
As a result of the above, the results presented within this Annual Report are not directly comparable.

**Revenue**

| | **52 weeks ended 30 October 2022 £m** | 39 weeks ended 31 October 2021 £m |
|---|---|---|
| Sale of goods in-store and online | **13,752** | 10,298 |
| Other sales | **737** | 801 |
| Total sales excluding fuel | **14,489** | 11,099 |
| Fuel | **3,990** | 2,384 |
| **Total revenue** | **18,479** | 13,483 |




[1] 39 weeks ended 31 October 2021, as reported
[2] 12 month comparative, unaudited
[3] 13 weeks ended 31 January 2021, unaudited




[1] Represents a 39 week period
[2] Alternative performance measures are defined in the glossary

Total Group revenue for the year at £18,479m was £4,996m up on the prior 39 week period. This includes post-acquisition McColl's retail revenue but excludes the equivalent wholesale revenue for the same period.

Store and online sales were up £3,454m to £13,752m, of which £463m came from post-acquisition McColl's retail sales, and fuel was up £1,606m to £3,990m. Other sales was down £64m, which reflects the part-year impact of de-recognising wholesale sales to McColl's.

Compared to the equivalent 52 weeks ended 31 October 2021 of £17,983m, total revenue was up £496m (+2.8%).

For the year Group like-for-like sales including fuel was 2.1% and Group like-for-like sales excluding fuel was -4.2%.

## Financial results (continued)

### Results for the period

| | 52 weeks ended 30 October 2022 £m | 39 weeks ended 31 October 2021 £m |
|---|---|---|
| Operating profit/(loss) | **23** | (51) |
| Operating profit before exceptionals and supply chain disruption[1] | **295** | 241 |
| **EBITDA before exceptionals and supply chain disruption**[1] | **903** | 670 |
| Impact of McColl's EBITDA[1] | **37** | n/a |
| **EBITDA before exceptionals, supply chain disruption and excluding McColl's**[1] | **940** | 670 |

[1] Alternative performance measures are defined in the glossary

The reported loss before tax was £33m (39 weeks ended 31 October 2021: loss of £121m). Profit before exceptionals and tax was £186m (39 weeks ended 31 October 2021: £133m).

Consistent with the prior period, the Group incurred a significant level of exceptional costs.

EBITDA before exceptionals and supply chain disruption costs was £903m (39 weeks ended 31 October 2021: £670m) of which the McColl's business contributed a post-acquisition EBITDA loss of £37m. Excluding direct COVID costs of £20m (39 weeks ended 31 October 2021: £49m), the figure was £960m (39 weeks ended 31 October 2021: £719m).

Exceptional costs are fully analysed and explained in note 1.4 to the Group financial statements. These totalled £219m for the year (39 weeks ended 31 October 2021: £254m), in addition to £44m supply chain disruption costs (39 weeks ended 31 October 2021: £30m). The most significant exceptional items in both periods relate to impairments, which are consistently reported as exceptional, and one-off costs relating to the McColl's acquisition in the current period and to the acquisition of the Group by Market Bidco Limited in the prior period.

Details of the McColl's acquisition are included in note 4.3 to the Group financial statements. In summary, McColl's added £463m of retail sales and made a loss before tax and exceptionals of £39m in the period post acquisition. The loss includes £14m for the cost of property rentals under "licence to occupy" the stores, ahead of new leases being negotiated.

### Cash flow and borrowings

Cash generated from operations was an inflow of £735m in the year (39 weeks ended 31 October 2021: inflow of £621m).

Following the acquisition of the Group by Market Bidco Limited, the Group's existing external borrowings were largely repaid during the year, funded by an intercompany loan from the new parent company.

| | Borrowings | | | | |
|---|---|---|---|---|---|
| | Current £m | Non-current £m | Total £m | Cash £m | Borrowings net of cash £m |
| At 31 October 2021 | (838) | (1,107) | (1,945) | 296 | (1,649) |
| **At 30 October 2022** | **(1,843)** | **(84)** | **(1,927)** | **287** | **(1,640)** |

The Group's external debt remaining at 30 October 2022 amounted to £84m of bonds (31 October 2021: £1,107m bonds and £838m revolving credit facility). The balance of the intercompany loan was £1,843m (31 October 2021: £nil). In addition, the Group had £287m cash and cash equivalents at the end of the period (31 October 2021: £296m).

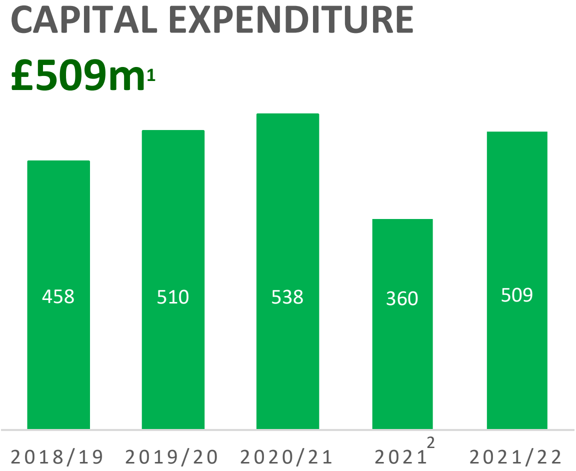
Interest and lease payments in the year were £78m and £78m, respectively (39 weeks ended 31 October 2021: £76m and £59m). The new loan from the parent company is interest free.

The wider Group is funded by external debt held in the immediate parent entity, Market Bidco Limited, and other wider Group entities. Full details of these borrowings can be found in the Annual Reports and consolidated financial statements of the immediate and ultimate parent entities. The covenants attached to the debt are linked to the consolidated financial performance of the wider Group and the Company, along with its subsidiaries Safeway Limited, Safeway Stores Limited and Optimisation Investments Limited, are guarantors to certain facilities held in other wider Group entities.

# Strategic report (continued)

## Financial results (continued)

**Capital expenditure**




[1] Excludes acquisition of businesses and investments in joint ventures
[2] 39 weeks ended 31 October 2021

During the year, the Group invested £509m in tangible and intangible assets (39 weeks ended 31 October 2021: £360m) as well as cash consideration of £191m relating to the McColl's acquisition. Capital investments made in the year relate to maintaining the estate and investing in our stores, including opening our new store at Little Clacton, and £7m in respect of capital expenditure for McColl's since the period of acquisition.

The Group continues to hold the majority of its properties as freeholds, with 87% of our sites being freehold (31 October 2021: 87%), excluding stores acquired as part of the McColl's acquisition.

Subsequent to the year end, the Group agreed a £219m sale and leaseback transaction on seven logistics properties. The Group has undertaken to lease the properties for up to 25 years.

**Working capital**

Net working capital was an inflow of £180m in the year (39 weeks ended 31 October 2021: £155m inflow) with increased trade creditors, mainly due to higher fuel prices and volumes, offsetting higher inventory levels in both periods.

**Financial risk management**

The Group takes actions to mitigate risks arising from credit, foreign exchange and commodity price fluctuations. Details of the Group's policies and approach to managing these risks can be found in note 7 to the Group financial statements.

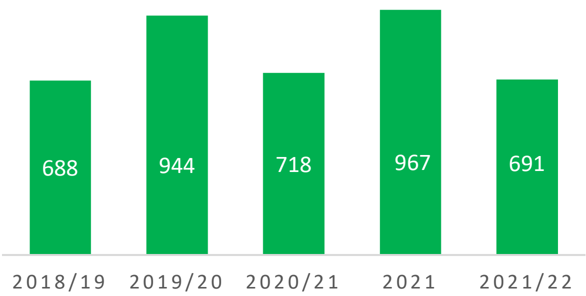
To manage liquidity, the Group manages its underlying operating performance, capital expenditure and working capital, with ongoing support from its parent and in full consideration of the wider Group's debt position. The Group has a centralised treasury function which manages funding, liquidity and other financial risks on behalf of the wider Group, in line with policies set and monitored by the Board.

## Financial results (continued)

**Pensions**

NET RETIREMENT BENEFIT SURPLUS

**£691m**




The Group operates a number of defined benefit schemes which remain well-funded. The Morrisons and Safeway Schemes (the 'CARE' Schemes) are not open to new members and were closed to future accrual in July 2015. The Retirement Saver Plan ('RSP') was closed to future accrual in September 2018.

The net pension accounting surplus at the year end was £691m (31 October 2021: £967m). The current year surplus includes a net £2m surplus relating to two McColl's schemes taken on during the year as a result of the acquisition.

The latest agreed full actuarial valuations were carried out in April 2022. These valuations indicated that, on the agreed funding basis, the Safeway, Morrisons and RSP Schemes had surpluses of £528m, £214m and £37m, respectively.

| | **30 October 2022 £m** | 31 October 2021 £m |
|---|---|---|
| CARE Schemes | **639** | 995 |
| RSP | **50** | (28) |
| McColl's Schemes | **2** | - |
| **Net retirement benefit surplus** | **691** | 967 |

In previous years, the Safeway and Morrison Schemes have purchased annuity policies that provide insurance for a proportion of the relevant pensioner populations. These provide insurance cover matching the benefits payable to the relevant pensioners. Subsequent to the year end, the Wm Morrison 1967 section of the Retirement Saver Pension scheme entered into a new buy-in policy for £762m that will provide insurance for a proportion of that pensioner population (see note 10.3).

In addition the Group operates two defined contribution retirement benefit schemes, which means that 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 the employees receive are dependent on the contributions paid, investment returns, and the form of benefit chosen at retirement.

**Tax**

We understand the importance of the tax contribution that 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 that 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 has recognised a tax credit of £8m for the year based on a loss before tax of £33m (effective rate of 24%). The charge of £126m on a loss before tax of £121m in the prior 39 week period was impacted by a change in the tax rate which significantly increased the deferred tax charge. Adjusting for exceptional items, the current year tax becomes a charge of £33m on a profit before exceptionals of £186m (pre-exceptional effective rate of 18%).

# Strategic report (continued)

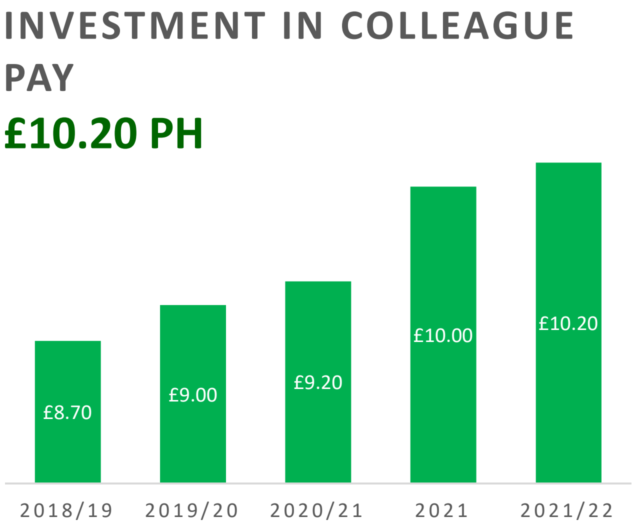
## Financial results (continued)

**Incentive plans**

The Group previously operated a number of long-term share-based incentive schemes which were available to Directors and employees (Sharesave, LTIP and Deferred share bonus). Following the takeover of the Group, the schemes crystallised and/or were discontinued, resulting in a number of transactions reflected in the current and comparative periods (see note 9).

During the current year, a new scheme, the Morrisons Incentive Plan ('MIP'), was introduced whereby certain employees of the Group, including Directors and members of key management, were invited to invest in Preference and Ordinary shares of the ultimate parent company, Market Topco Limited. The share purchases were transacted in September 2022, funded through a combination of an ex-gratia bonus payment linked to a proportionate level of personal funds, plus additional voluntary personal investment. Given the timing of the scheme launch, the share-based payment charge in the year is minimal. Further details are in note 9.5 to the Group financial statements.

**Non-financial highlight**




We continue to deliver our ambition of a fair day's pay for a fair day's work, with base pay increasing to £10.20 per hour for our front line colleagues in sites and stores during the year.

# Strategic report (continued)

## Customers

**Customer proposition**

We continue to listen hard and respond to our customers, and that is as important now as it has ever been. Our team of colleagues, supported by a high quality management team, serve around 10 million customers every week in our 498 conveniently located supermarkets and through our online channels.

In the face of significant cost price inflation across the market and in our supply chain, we have worked hard to maintain competitiveness for our customers. This has included three significant waves of price cut investments, prioritising the products we know matter most to our customers, as well as timely fuel promotions to help customers manage in the cost of living crisis. We have also delivered for customers at the key events, with relevant products including new product development, and market leading deals. We know item availability is the number one driver of satisfaction for our customers, and have made improvements through the year. We opened two new stores in addition to eight ‘Fresh Look’ refits. We have made improvements to our My Morrisons loyalty programme, introducing new offer types such as exclusive prices on branded and own-brand items.

**Customer behaviours**

As the pandemic and restrictions eased, customers started to move back into some of their previous shopping behaviours, resulting in an increase in shopping frequency and a decrease in basket size.

Now we see our customers facing challenges again with the cost of living crisis. This has caused consumer confidence and optimism to decline, with potential for it to remain low for as long as the uncertainty around inflation and the economy continues. This has also affected how customers shop, although this is now centred on how they manage their spend.

When it comes to their grocery shop, customers are making some lifestyle changes such as comparing prices of products using the online channel, shopping around for the best deals, scratch and batch cooking, and sticking to lists. Savvy money-saving techniques like these are being seen across all socio-economic groups, not just for those who are on lower incomes.

Customers are searching for value whilst maintaining the quality of the products they are selecting, and buying cheaper alternatives like supermarket own-brand products is just one of the ways they can reduce their overall spend. These changes can be seen in the growth across the market for own-brand products, predominantly the entry-price point tier. We continue to offer a breadth of choice, to cover all customer needs.

During the year we acquired the McColl’s business, and we have plans in place to listen to our new convenience channel customers in order to respond to meet their needs.

**Value and brand**

We continually focus on making our brand popular across all stakeholder groups: customers, colleagues, suppliers and communities. We believe our brand resonates with customers as it stands for quality fresh food at great value, and we continue to deliver a distinctive offer.

We recognise the competitive market we operate in and the importance of value for money for customers. We aim to provide our customers with the product selection, quality, price, convenience of location and the overall shopping experience that they expect and appreciate.

While we have increased prices as a result of inflationary pressures, we have invested in the prices of the items that we know our customers care about the most.

We are working hard to continue to improve our own-brands for customers. Our wide range of brands means we can cater for many tastes and budget requirements, from our entry-point range, Savers, through to our premium range, The Best. In addition, we cater for many types of dietary and lifestyle choices, for example through our Free From, Plant Revolution, Counted and Nourish ranges, and have continued to innovate with the launch of over 1,000 new products across our own-brand ranges. We have been updating our own-brand packaging in order to modernise and improve on shelf presence and appeal and have rolled this out across a large proportion of our ranges.

# Strategic report (continued)

## Colleagues

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

To continue recognising the contribution of all our food makers and shopkeepers, our pay deal of £10.20 per hour for our hourly paid front line colleagues came into effect at the start of October 2022, continuing to deliver our ambition of a fair day's pay for a fair day's work. Since 2016, we have increased base pay by over 49% as we have moved from £6.83 to £10.20.

**We care**

This year we are also proud to have launched a number of new benefits to support our colleagues' physical and mental wellbeing including a new digital GP service.

We know how busy our colleagues are and with many not able to make an appointment or visit the GP face to face, we provided all colleagues with access to a digital GP. This means colleagues can more easily get a doctor's appointment for themselves or a family member from the comfort of their own home, on their lunch break, or at a time that is convenient for them. Digital appointments can often be made within 24 hours of the initial enquiry, meaning that colleagues could get an appointment far quicker than they would with their local GP.

**Listening and responding**

In July, we ran our annual colleague survey where more than 50,000 colleagues 'had their say' and gave us their feedback. It is hugely encouraging to see that so many of our colleagues feel trusted to make the right decisions for our customers, that they feel trained and confident in all aspects of their job and are able to provide what they believe is outstanding customer service.

Through our regular listening channels, colleagues also told us that they wanted a more hard-wearing, comfortable, and easier to wash uniform, with more options available for the changes in weather. In March we launched a new uniform for all store colleagues, which was thoughtfully designed and trialled by our own Nutmeg clothing team, and an investment of over £7 million was made to create a uniform that our colleagues would be proud to wear and that would stand the test of time. All old uniforms were recycled and all new name badges are now made from environmentally friendly bamboo.

**Freedom in the framework**

In February, we rolled out a new regional management structure and in October we launched a new people management structure in our stores. These changes created bigger and broader management roles which enable us to improve the level of consistency across all of our stores, and they empower our management teams to own culture and colleague engagement.

**Career opportunities**

We put a great deal of emphasis on nurturing young talent from a diverse range of backgrounds which is why we give graduates, degree apprentices, finance apprentices and industrial placements an opportunity to grow and be part of Morrisons future. That is why we hired 126 colleagues in these areas this year. Of the 126 new hires, 23% are from ethnic minorities, 49% are female, 49% are male and 2% are non-binary.

In addition to this, our early careers programme, 'Pathways', gives internal talent the opportunity to flourish and move around the business.

This year, upskilling has been incredibly important due to the new HFSS ('High in Fat, Salt and Sugar') rules that have come into effect in all our stores. It was challenging to design and deliver this across the whole of our retail and central teams and we are pleased that the rollout was so successful.

In addition, we launched an eight-week internal training programme, 'Single Stem Floristry', to enable colleagues to have the opportunity to train to become skilled florists.

**Everyone is welcome at Morrisons**

Building an inclusive culture where everyone feels welcome and celebrated is important at Morrisons. That is why we celebrated Inclusion Week in September 2022 and why we make sure that colleagues are always offered a variety of diversity and inclusion groups to be part of in order to ensure they feel respected as individuals.

This year we are proud to have launched the Heritage Exchange, an initiative that pairs our senior leaders with BAME colleagues. We have found that through this, both colleagues and Directors have gained valuable insight and new ways of thinking around themes of ethnicity and inclusion. Our suppliers also attended an event for BAME food and drink business leaders in order to meet with our buyers and learn about how to get their products onto our shelves.

The business also recently signed the Halo Code as a commitment to recognising the importance of black hairstyles and taking a stand against hair discrimination.

# Strategic report (continued)

## Colleagues (continued)

**Everyone is welcome at Morrisons (continued)**

To celebrate Pride in June, we held our first LGBTQ+ Pride panel event and used our first transgender model in a Nutmeg clothing campaign. We also sponsored both Pride and the Yorkshire Asian Young Achievers Awards in our local community of Bradford in order to help us engage closely with these communities.

Another positive step this year was when we joined the Business Disability Forum, a place where guidance can be offered in order to become more inclusive to the disabled community. This has been paired with a recently launched carer’s guide that offers support to colleagues with caring responsibilities.

**Introducing our charity partner**

Our partnership with Young Lives vs Cancer formally ended in February 2022. During the five-year partnership, we managed to raise in excess of £18 million. In the final few months, colleagues came together to help raise as much money as possible to fund the purchase, renovation and running costs of Jack’s House for the next five years. This home-from-home in Manchester provides accommodation and support to families having treatment for cancer.

Following a colleague vote, our new charity partnership with Together for Short Lives began in February. This partnership will run until October 2024 and will raise vital funds to support children's hospices across the country.

Our aim is to raise £10 million by the end of our partnership and in September 2022, we were thrilled to have already surpassed the £2 million milestone. We are incredibly proud to help Together for Short Lives in their mission to ensure that terminally ill children and their families are able to treasure their final moments together.

# Strategic report (continued)

## 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**

Listening to and communicating with our suppliers is a key focus and we updated our suppliers on our ways of working and our commitment to regular communication touchpoints throughout the year.

We held our annual supplier conference in Hilmore House in September 2022 with over 200 suppliers attending in person and a further 1,000 joining us virtually. During the conference, we shared information on our Customer, Commercial, Convenience, Supply Chain Programme, Sustain and Retail strategies to deliver mutually profitable growth. We highlighted the opportunity for third party suppliers to work with our manufacturing sites for objectives such as ingredient sourcing and to deliver productivity benefits. Alongside this, we provided our suppliers with an update following the CD&R takeover and the opportunity for growth in our convenience and wholesale businesses.

Our one-year plan to update supplier guidelines was shared with our suppliers and we continue to make developments in our end-to-end supply chain processes, with technology updates using data to improve product data flows, accuracy, reporting and insight.

We have seen continuing of pressure on our supply chain, with unprecedented inflation and availability challenges, and we have worked with our suppliers to achieve consistent supply allowing us to service all of our stores and customers. We continue our commitment to British food makers, as British farming's biggest direct supermarket customer, and, despite economic challenges, we have continued with our pledge that all of our fresh meat, milk and eggs are 100% British.

At Morrisons we are committed to supporting our local communities and suppliers wherever possible. Our Local food makers programme makes it easy for small suppliers to work with us and develop their brands by offering mentoring, simple six-month contracts and trial agreements, and shorter payment terms for those with less than £100,000 of business a year, as well as allowing for deliveries direct to their local stores. We know it is increasingly challenging for small businesses, and our customers continue to tell us that they want to be able to support them. Our sales of locally sourced food and drinks from smaller suppliers returned to 4% growth during the fourth quarter of our financial year. We have a number of suppliers that deliver their products directly to local Morrisons stores. This year we have increased the ranges of products from existing suppliers, introduced new suppliers and provided more space in our stores, which has contributed to sales growing by 60% in the year, with over one million more locally supplied items going into customers' baskets.

Our Growing British Brands programme continues to support brands that are meeting customer demands with distinctive and innovative products to launch and grow with Morrisons. PureOaty milk alternatives from Glebe Farm, Griddle vegan and plant-based waffles and an alternative sugar sweetener from Bonraw all gained their first supermarket listings with Morrisons during the year. In the year ahead, the Growing British Brands programme will also support the growth of our best performing Local food makers into brands that are sold nationally and across multiple channels. We have listened to some of the consistent challenges highlighted by suppliers and have responded by partnering with Shopper Media Group to establish the Morrisons Media Group. The new function will use creative expertise, data and technology to help branded and own-brand suppliers advertise to customers through Morrisons-owned and external media platforms via one central function.

**Sustain programme**

Last year, we brought all the elements of our ESG programme together launching our Sustain programme, recognising what is important to our Customers, Colleagues, Suppliers, Farmers and Shareholders. The programme has a strong governance structure with workstreams owned by different members of the Leadership team.

Our Sustain programme has two key elements:

- delivering sustainable growth with a lower environmental and positive supply chain impact; and
- for us to play our full part in supporting the lives of our colleagues and the communities that we serve.

**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. We have continued to support our farmers through our 'For Farmers' range partnership with Arla, Lactalis and Ornua which has now donated over £22 million to farmers since the initiative started in 2017. We have maintained our 5% discount offer for our 2,700 farmers and local food makers.

# Strategic report (continued)

## Suppliers (continued)

**Backing British farmers (continued)**

In recognition of the climate impact challenge, we set an ambition to be net zero for emissions in our direct UK agriculture supply chain by 2030. This is a very challenging timescale, but an important part of our Sustain agenda and how we can demonstrate practical support to lead and work with the farmers who supply us. To support this aim, we have set up the School of Sustainable Food and Farming at Harper Adams University to help research and train current and future farmers in net zero and sustainable farming practices. We have also worked closely with 50 project farms in our beef, lamb, pork, eggs and produce supply chains to set a baseline carbon footprint and develop roadmaps to improve emissions and sequestration on farm. We also launched the UK's first 'Planet Friendly' carbon neutral eggs in August 2022.

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

**Working with suppliers to fulfil our responsibility to protect the environment**

***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 the 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.

In 2022, we became the first retailer to remove plastic bags from all of our bananas. The move will eliminate 45 million single-use plastic bags a year and see them replaced with recyclable paper bands. Since 2017, we have removed one billion single-use plastic items per annum including:

- over 31 million single-use cutlery pieces across salad bars and food to go;
- 80 million plastic straws from our cafes, boxes of straws and drink cartons; and
- 331 million plastic tea bags, which have been replaced by a plant- based material for all of our own-brand tea.

***Promoting the British fishing industry***

We continue to offer the broadest range of fresh British fish of any major retailer, providing customers with a wide range of responsibly, locally caught seafood that helps reduce pressure on key international stocks.

We continue to work with the wider industry in supporting Fishery Improvement Programmes through Project UK, improving environmental standards for key fisheries like South West (crab, lobster and scallops), North Sea (crab, lemon sole and plaice), Channel monkfish, and British nephrops.

***Sustainable sourcing***

As part of our work to achieve sustainable growth with a lower environmental impact, during the year we have continued our work in sustainable sourcing, notably for forest-risk commodities (soya, palm oil, corned beef and cotton) and in understanding and managing the risk for products sourced from water stressed areas.

We are signatories to WRAP's 2030 Courtauld agreement for water, where the joint vision for the UK food and drink industry is to ensure that 50% of the UK's fresh food is sourced from areas with sustainable water management. We are also working with WRAP and WWF to support international project work in water stressed areas, and during the year have invested in new collaborative project work in Southern Spain.

In 2022, we conducted a sustainability assessment with over 450 of our own-brand suppliers, establishing a baseline of activity against our Sustain programme. We will continue to work on these assessments with our supply base to draw out areas of risk and opportunity supporting our broader sustainability ambitions.

# Strategic report (continued)

## Suppliers (continued)

**The Groceries Supply Code of Practice (‘GSCOP’ or ‘the Groceries Code’)**

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 we have established ways of working which enable us to build strong collaborative relationships. For more details, see *morrisons-corporate.com/suppliers/supplier-information/*. We listen hard to our suppliers at all times and this has continued to be vital during the challenges of recent years. Working closely and collaboratively with our suppliers we have sought to minimise the impact of inflationary pressures for both our suppliers and our customers.

During the year, we have continued to make significant investments into our commercial and supply chain systems and processes, including our ordering and receiving, 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 CMA, to build best practice. We meet with the GCA regularly and provide updates on our activity and details on specific areas of interest to the Adjudicator.

Effective compliance risk management is critical to delivering on our commitments to all of 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 were provided to the Executive and to the Risk Committee, including developments about the operation of the Groceries Code. We formally report details of activity and specific concerns raised with our Code Compliance Officer (‘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 to take account of any new learnings, build in current real-life examples and to reflect additional guidance from the GCA.

In the 2022 GSCOP supplier survey conducted by YouGov on behalf of the GCA, 86% of suppliers rated Morrisons as complying with the Groceries Code ‘mostly’ or ‘consistently well’.

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 2022 we were contacted by suppliers to review concerns, including in the following areas:

- Challenges regarding the response to cost price increase requests;
- Requesting review of supplier de-listing decisions; and
- Questions relating to resolution of goods receipt and invoice queries.

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. At the end of the financial year, there were three direct Groceries Code-related complaints which were yet to be resolved. Contact details and further up-to-date information can be found at *morrisons-corporate.com/suppliers/meet-our-buyers*

# Strategic report (continued)

## Protecting the environment and supporting communities

### Our environment

We know our long-term success depends on the sustainable use of the planet's resources.

### Climate change

The food system is a significant contributor to climate change and we recognise the urgent need to develop innovative approaches to reduce greenhouse gas ('GHG') emissions and transform food production and consumption. As a leading retailer, we know we must play our part, which is why we have been taking action in our own operations and our wider value chain to reduce our carbon footprint.

We are committed to targets and in our own operations (referred to as Scope 1 & 2) we plan to reach net zero GHG emissions by 2035 and to reduce our value chain emissions for own-brand products by 30% by 2030 (referred to as Scope 3). We are also a signatory to the British Retail Consortium's Climate Change Roadmap. During the financial period, Morrisons has worked with the Carbon Trust to measure its emissions and set science-based carbon reduction targets. We have also worked with the Science Based Targets initiative ('SBTi') on the approval of these targets. On Scope 1 and 2 emissions, Morrisons is making the move to help limit global warming to 1.5$^{o}$C, in line with the highest ambition of the international Paris Agreement - to limit temperature rises to 1.5$^{o}$C above pre-industrial levels. Morrisons Scope 3 emissions will follow a well below 2$^{o}$C pathway.

We are further integrating climate change into our strategic planning, and we continue to voluntarily report under the Task Force on Climate-related Financial Disclosures ('TCFD') framework (see pages 21 to 23).

**Acquisition of McColl's**

During the financial period, we acquired McColl's (1,160 stores). McColl's energy and emissions figures will be integrated into the Group GHG figures after the first full year of ownership, and will be included in next year's Annual Report. Within this year's report, where sufficient McColl's data exists, this has been separately reported below.

**Own operations (Scopes 1 & 2) – excluding McColl's**

To enable growth, whilst considering our impact on the environment, we have continued to invest in energy efficient technology and generate our own power. A summary of our energy initiatives are outlined below, which have helped us to reduce our carbon emissions by 9% versus the previous year:

- we have upgraded further sites to LED with improved lighting control and dimming capability;
- a quarter of the estate now has new HVAC controls - this upgrade helps to reduce gas and electricity consumption through improved remote heating and ventilation controls;
- we have retrofitted sites with shelf edge technology, which traps cold air within the fridge to reduce energy consumption;
- we have ensured our existing solar estate is well maintained and we continue to invest in retrofit installations on our sites and stores - now having 85 sites with solar panels;
- our replacement of refrigeration systems has continued, moving away from HFC-based refrigerants towards CO2 alternatives wherever possible;
- we have improved performance across our engagement campaigns in all sites and stores to encourage the right energy-saving behaviours, such as keeping blinds on fridges closed at night;
- we have two heat pumps live within our supermarket operation, one of which is within our lower environmental impact store at Little Clacton. At this store, we have also implemented solar panels, next generation refrigeration, voltage optimisation and rainwater harvesting, and are expecting a 43% reduction in operational carbon emissions as a result; and
- our logistics division has continued to undertake a number of activities designed to reduce the 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.

**Group greenhouse gas emissions methodology – excluding McColl's**

We have reported for the period from 1 November 2021 to 31 October 2022. Our reporting covers a 365-day period, which is one day longer than the financial period. We have used the Government's Environmental Reporting Guidelines (2019) to prepare the report, and the emissions factors from the UK Government GHG Conversion Factors for Company Reporting.

In line with Streamlined Energy and Carbon Reporting ('SECR') requirements we have also reported on the underlying energy use used to calculate Group GHG 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 Dutch Bos Brothers site, which together represent less than 0.1% of the total Group footprint and are therefore deemed immaterial.

## Protecting the environment and supporting communities (continued)

### Group GHG emissions for period ending 31 October 2022

| Emission source | 1 November 2018 – 31 October 2019 | 1 November 2019 – 31 October 2020 | 1 November 2020 – 31 October 2021 | **1 November 2021 – 31 October 2022[7]** |
|---|---|---|---|---|
| Stationary combustion[1] | 140,039 | 137,665 | 130,406 | 124,381 |
| Mobile combustion – Owned Fleet[2] | 114,954 | 135,262 | 148,404 | 136,284 |
| Fugitive Emissions[3,8] | 87,417 | 74,909 | 79,129 | 76,141 |
| **Total – Scope 1** | **342,410** | **347,836** | **357,939** | **336,806** |
| Electricity (Location Based emissions)[4] | 323,671 | 281,096 | 245,382 | 212,049 |
| Electricity (Market Based emissions) | 404,395 | 447,591 | 434,963 | 455,505 |
| **Total – Scope 1 and 2 (Location Based)** [5] | **666,081** | **628,932** | **603,321** | **548,855** |
| **Total – Scope 1 and 2 (Market Based)** | **746,805** | **795,427** | **792,902** | **792,311** |
| **Grey Fleet Travel (Scope 3)** [6] | **928** | **827** | **782** | **2,331** |
| Intensity Ratio: Tonnes of $CO_2$e per $m^2$ (gross internal area)[6] | 0.18 | 0.17 | 0.16 | 0.15 |
| Intensity Ratio: Tonnes of $CO_2$e per £m turnover | 36.98 | 34.74 | 32.55 | 28.5 |
| **Underlying Energy Use (MWh)** | | | | |
| Electricity | 1,244,003 | 1,187,215 | 1,138,639 | 1,079,749 |
| Stationary combustion | 759,134 | 745,799 | 708,741 | 680,109 |
| Mobile combustion (haulage & company vehicles) | 460,160 | 554,675 | 617,990 | 563,901 |

1 Stationary combustion includes emissions from the combustion of natural gas, fuel oil, diesel, LPG and gas oil.
2 Company car emissions exclude Scope 3 employee commuting.
3 Includes refrigerant fugitive emissions for all sites. Other manufacturing process emissions are included for one site (Winsford) only. Other manufacturing process emissions are being investigated further and will be reported in the future if determined to be material.
4 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.
5 Only partial data available for baseline year. As such the grey fleet consumption and associated emissions have been estimated on a pro-rata basis and unknown fuel types are assumed to be electric vehicles. Additionally, fuel for rental vehicles has been excluded as immaterial consumption.
6 The intensity metric includes stores, distribution, offices and manufacturing sites.
7 Reporting periods from 1 November to 31 October is considered appropriate to align with data sources used.
8 Reported numbers above exclude McColl's
9 Gibraltar supermarket's emissions are included in the table above.
The figures in the table above have not yet been independently assured – a full assurance statement will be published on the sustainability section of the website in due course.

### *Group GHG emissions*

Morrisons (excluding McColl's) Scope 1 & Scope 2 GHG 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, basis of conclusion and the Group's basis of calculation will be published online on the sustainability section of our website in 2023.

We recognise the risk that climate change poses to our business and society. We seek to manage our contribution to this by reducing energy use and limiting carbon emissions throughout our operations. The acquisition of McColl's during the year and the CMA's hold separate order in place until 27 October 2022 has presented some reporting challenges. However since the acquisition date (from 9 May 2022 to 30 October 2022) McColl's emitted 1,956.4 tonnes CO2e across Scope 1, and 1,318 tonnes CO2e across Scope 2, with a proportion of electricity consumed from 100% renewable energy. A fully audited SECR compliant report and narrative will follow later in 2023.

### Water

We report on our water usage weekly across all operations, using our automated meter read ('AMR') data. We also use this data to identify high consumptions to alert our manufacturing sites to early identification of leaks. We have also reviewed all manufacturing sites for water-saving opportunities. In the 2021 calendar year we used 5,524,772 litres of water, and we also improved our Water CDP rating to a B- for this time period.

### Value chain emissions (Scope 3)

In the financial period, we have undertaken a significant exercise to engage 400 of our own-brand suppliers in our new environmental improvement programme. In partnership with Manufacture 2030, this measures the carbon footprint of our suppliers' manufacturing operations.

In addition to, and supporting our overall Scope 3 reduction target, as British farming's biggest customer we have an ambition to work towards net zero agriculture by 2030. This specifically covers products from the 2,700 UK farmers and growers sourced directly for our own-brand products and relates to the whole lifecycle of farm produce - from germination to leaving the farm gate for a Morrisons store.

# Strategic report (continued)

## Protecting the environment and supporting communities (continued)

### Value chain emissions (Scope 3) (continued)

Farmers are being encouraged to reduce emissions through a range of methods, including breed and variety choice, increasing the use of renewable energy, and removing or reducing high carbon feedstuffs like soya. Residual carbon emissions will be offset through a range of measures including planting trees and seeding hedgerows within the farm footprint. Our first net zero product, 'Planet Friendly' eggs were launched in August 2022, a UK own-brand first and an important milestone in our farming environmental journey.

### Footprint and target boundaries

Our Scope 3 footprint disclosed in this report relates to our 2021 reporting year (1 January 2021 - 31 December 2021). During this year our total reported footprint was 15,272,724 tonnes CO2e, representing a reduction of 13% compared to our 2019 baseline year (2019 - 17,571,495). Whilst we continue making efforts to reduce the impact of the products we sell in our stores, a significant portion of this reduction can be attributed to lower fuel sales during the year.

Our Scope 3 footprint relates to purchased goods and services, upstream transportation and distribution and use of sold products (direct). These three categories account for around two thirds of the measured emissions from Morrisons value chain and form the boundary for our Scope 3 science-based target, approved by the SBTi, to reduce emissions by 30% by 2030.

Within purchased goods and services our target boundary covers own-brand products. Use of sold products is included in the boundary for direct emissions (primarily relating to fuel sales), however indirect emissions are excluded as we have significantly less control over how our products are used by customers after sale. Upstream transportation and distribution relates to own-brand emissions only. Other categories have been excluded on the basis of not being material to our footprint.

Our Scope 3 footprint was prepared using as much direct primary data as possible. In 2021 this included on-farm measurement covering farms that directly supply us, data from third party manufacturing facilities (via Manufacture 2030) and packaging emission data. This was combined with life-cycle assessments, industry emission factors provided by The Carbon Trust, and environmentally extended input and output data.

**Table 1 - Scope 3 Footprint (2021 calendar year)**

| Category | Total Emissions (t CO2e) within SBTi target boundary |
|---|---:|
| 1a & 1b Purchased goods and services (product and non-product) | 7,821,859 |
| 4: Upstream transportation and distribution | 545,857 |
| 11a: Use of sold products (direct) | 6,905,008 |
| **Totals (excluding indirect emissions)** | **15,272,724** |

# Strategic report (continued)

## Protecting the environment and supporting communities (continued)

## Task Force on Climate-related Financial Disclosures (‘TCFD’)

**Governance**

The Board has overall accountability for setting the strategy in relation to the environment and our communities, in respect of corporate responsibility governance, environmental requirements, and consideration of the Group’s response to environmental and sustainability challenges.

The Sustain Sub-Committee meets on a quarterly basis and assesses the net zero plans, and plastics, food waste and energy reduction strategies. In addition, the Board formally reviewed the Environment and Sustainability principal risk and discussed and agreed upon the Environment and Sustainability strategy and plans. These risks are discussed as part of our regular functional risk register reviews.

Day-to-day management of climate-related risks and opportunities and the implementation of work to meet our climate-related targets is led through the Sustain Sub-Committee, the Sustain programme and various workstreams. Updates from the Sustain workstreams are provided directly to the Board. Energy consumption and climate change impacts are also taken into consideration when looking at new investments.

**Strategy**

Environment and Sustainability has been identified as a principal risk for the business. Climate change can potentially impact our business in several ways, from increasing carbon pricing and taxation costs, to longer-term temperature and weather changes impacting the sourcing of key commodities in the supply chain. In the UK, changing weather patterns increasingly have the potential to cause disruption across our operations. At the same time, we need to be responsive to customer and stakeholder expectations relating to climate-related action to avoid being exposed to reputational risks.

Our current approach to assessing climate-related risks is managed through our existing corporate risk management processes (which assess and manage risks based on impact and likelihood), sustainability governance, and reporting processes. Further details of this can be found on page 25 and 26.

To provide a longer-term perspective we have assessed carbon impacts across the whole business value chain to identify the key areas of climate exposure. This work has allowed us to identify climate-related hotspots in relation to volumes purchased and categories with a high carbon intensity. We have targeted our current efforts on the areas where we have the most influence and that are among the highest-impacting categories in our net zero agriculture strategy (beef, pork, lamb, eggs and produce).

We also carry out strategic reviews of sustainability risks and opportunities as part of our Sustain programme, including stakeholder feedback and assessment of operational and reputational impact to the business. This work, alongside other risk identification and net zero planning has helped to identify areas of climate change risks and opportunities.

**Physical and transition risks and opportunities over the short, medium and long-term**

We have conducted a review of publicly available 2°C and 4°C temperature rise scenarios, and outline below examples of potential climate-related risks and opportunities.

**Transition**

***Legal and Policy: regulation, carbon pricing policies and taxation increase costs across our value chain.***

Our business could be impacted by current and emerging regulations and policies, including the transition to low-carbon land management practices, leading to increased costs across procurement, manufacturing and stores. To mitigate this, we have continued to make our own operations more efficient and reduce our impact, for example reducing plastic packaging to reduce the impact of packaging taxation in our operations, and we have continued to work with suppliers during 2022 to audit their GHG emissions.

***Technology: addressing climate-related risks where we have the most influence in our own-brand products***

It is critical that food production, distribution and consumption is transformed to be able to achieve a low-carbon economy. We have a specific opportunity due to our direct relationship with British farming to be able to directly influence our own-brand products to support this low-carbon transition. In collaboration with our supply chain, we have plans in place to support changes in environmental practice to mitigate and adapt to climate-related impacts, which can help the industry to decarbonise.

***Market/Reputation: climate change damages the reputation of the retail sector***

Stakeholder pressure for businesses to act responsibly continues to grow. Adverse publicity regarding business practices can damage brand perception, so listening and responding to our customers and wider stakeholders on climate-related issues is vital in upholding our reputation. Our Insights team monitors new and emerging trends and changes to customer buying habits. Each year we survey customers to better understand sentiment associated with climate change and sustainability, which informs our response.

# Strategic report (continued)

## Protecting the environment and supporting communities (continued)

## Task Force on Climate-related Financial Disclosures ('TCFD') (continued)

**Physical**

***Acute: extreme weather causes disruption to our operations***

Potential impacts from extreme weather events, including floods and extreme wind, could result in property damage, lost stock, disruption to key transportation routes and increased repair costs. We have already seen some risks in our UK operations impacted by heavy rain and riverbanks overflowing. As part of our property risk-management activities, we identify key flooding risk sites and mitigate the risk where possible.

***Chronic: water scarcity causes disruption and impacts costs in the supply chain***

Our business is reliant on a supply chain that will be impacted by longer-term changes in weather and precipitation patterns, potentially causing disruption to our business operations. We have continued our work in sustainable sourcing during the year in terms of understanding and managing the risk for products sourced from water stressed areas, and have invested in new collaborative project work with WRAP and WWF in Southern Spain.

**Scenario analysis**

By aligning our current goals with a transition to a low-carbon economy we are taking active steps to improve resilience to the impacts of climate-related risks. We aim to further evaluate the financial implications of our climate-related risks and opportunities by considering future climate scenarios over the coming years.

**Climate change risk management**

The process for identifying climate change risks for our business is the same as other risks and uses our established risk management framework. The framework incorporates both a top-down approach to identify the Group's principal risks and a bottom-up approach to identify operational risks.

Our environmental and sustainability risks are mapped across our functional risk registers, which detail the mitigating actions, as well as the relevant responsible individuals monitoring the risk. These risks are discussed as part of our regular functional risk register reviews. The risk registers are formally reviewed annually by the Board.

Specific climate-related risks are included in several functional risk registers and are referenced under existing Group principal risks, as appropriate. Ownership and management of these risks is assigned according to where the risk arises and the responsibility for implementing risk improvement plans.

**Metrics and targets**

Our carbon reduction strategy includes a goal for net zero emissions in our own operations (Scope 1 & 2) by 2035, and to reduce our Scope 3 emissions in our own-brand supply chain by 30% by 2030. These reduction targets have been approved by the SBTi.

We provide an annual update on our progress on climate-related goals, including energy consumption and Scope 1 & 2 GHG emissions in line with our SECR requirements (see pages 18 to 20).

Our biggest GHG impact comes from our Scope 3 emissions, mainly from upstream emissions from agriculture and produce suppliers and downstream from the indirect emissions from customer use of fuel sales from our forecourts. We are continually working to improve the data quality and accuracy of our Scope 3 footprint by collecting actual data from the supply chain. We provide additional comprehensive annual carbon disclosure through our CDP climate and water disclosures.

We additionally measure and report progress annually against our food waste and plastic reduction targets and sustainable sourcing certification coverage for deforestation, sustainable fishing and cotton procurement standards.

**Food waste**

In line with the United Nations Sustainable Development Goal 12.3, we continue to work towards halving our food waste in stores by by 2030 compared to a 2016 baseline.

Alongside minimising the levels of surplus we create, we are committed to finding innovative ways to redistribute surplus food to customers and communities. We have reduced our food waste by 13% since 2016.

Our stores also continue to provide surplus food to local causes such as food banks. Across our manufacturing and distribution sites we continue to work with organisations such as FareShare, Company Shop and The Bread and Butter Thing to redistribute surplus food to where it is needed most in communities.

# Strategic report (continued)

## Protecting the environment and supporting communities (continued)

## Task Force on Climate-related Financial Disclosures (‘TCFD’) (continued)

**Food waste (continued)**

In January 2022, we scrapped ‘Use By’ dates on 90% of our own-brand milk to help reduce food waste in the home. Milk is the third most wasted food and drink product in the UK, after potatoes and bread, with around 490 million pints wasted every year, and it also has the largest carbon footprint of these food and drink products because its production is so resource intensive. Our milk now shows a ‘Best Before’ date to indicate to customers when they should drink it by to get the best taste.

**Reducing plastic packaging**

We have a target to reduce our own-brand plastic packaging by 50% by 2025. So far we have reduced our plastic packaging by 14% since 2017. We have committed that all of our own-brand plastic packaging will be reusable, recyclable or compostable by the same date and so far we have achieved that 89.5% of our plastic packaging is recyclable either at kerbside or in our stores.

We are the first supermarket to commit to removing all plastic bags for life from our stores (which will remove 3,200 tonnes of plastic per annum). We offer 76 varieties of loose fruit and vegetables in 332 stores. Loose fruit and vegetables is important to our customers as it helps to reduce plastic and food waste in our customers’ homes by allowing them to buy exactly what they need. We have also focused on reducing plastic on some of our biggest selling lines by using lighter (by weight) trays and bags. For example, we have saved over 400 tonnes of plastic on our minced meat trays and over 110 tonnes of plastic on our bread bags.

We have continued to remove hard-to-recycle plastics and most recently we have moved our ice creams into a recyclable plastic tub and moved our coffee cup lids from a non-recyclable plastic to a recyclable paper lid. These two initiatives saved another 154 tonnes of plastic from being not recyclable.

**Hard-to-recycle plastics**

During the financial period, we became the first supermarket to invest in recycling operations through a joint venture with Yes Recycling (Fife) Ltd. The site reprocesses hard-to-recycle soft plastics, such as chocolate wrappers, crisp packets and food film. The site is the first of its type in the world, and has been designed to take 15,000 of tonnes of flexible plastic packaging a year at its current capacity.

**Paper bags**

Our sustainable paper-based bags are stocked in all of our stores, which will remove approximately 3,200 tonnes of plastic a year. They are manufactured at an eco-powered site in Wales and a life cycle analysis conducted by the University of Sheffield found they have a lower carbon footprint than the plastic equivalent that they replace.

**Plastic-free alternatives**

We are the first UK supermarket to launch an own-brand range of shampoo and conditioner bars into our permanent haircare range. Lasting up to 30 washes, our Nutmeg Shampoo and Conditioner Bars are 100% plastic free, vegan and packaged in fully recyclable cardboard cartons.

**Sourcing global resources sustainably**

We recognise the pressure that certain commodities, including palm oil and soya, are having on our planet and are committed to minimising our footprint, including zero deforestation in our supply chains by 2025.

**Fish**

During the previous financial period we bought Falfish, a family-owned seafood processor based in Cornwall. Sourcing directly from a range of British fishermen continues to give us more control over where our fish comes from and supports our long-term sustainable sourcing plans founded on British food production.

2022 marked the eighth year we have taken part in the Ocean Disclosure Project, a global platform for voluntary disclosure of seafood sourcing. We also continue our support for Odyssey Innovation’s Net Regeneration Scheme, which provides end-of-life solutions for plastics associated with fishing nets and tackle.

**Textiles**

We continue to make progress towards our sustainability targets across our Nutmeg clothing range. We continue to aim to source 100% of our cotton to the Better Cotton standard by 2025. This is a standard designed to make global cotton production better for the people who produce it, better for the environment it grows in, and better for the sector’s future.

During the financial period we launched a new cleaning range, ‘Morrisons eco’, to provide customers with more environmentally friendly alternatives to many household products.

# Strategic report (continued)

## Protecting the environment and supporting communities (continued)

## Our community

We are committed to being a force for good in our communities and responding to local priorities.

**Responding to local needs**

At the heart of Morrisons community work is our team of Community Champions who play a vital role responding to local needs and supporting good causes. We allocate hours for them to work directly with local organisations and key stakeholders to ensure we are playing our full part in the communities we serve.

As part of our strategy to become locally integrated, our Community Champions continued their extensive listening programme to better understand local priorities and needs. The information was used to ensure their Community Plans remained locally relevant.

**Tackling food poverty**

We know lots of people in our communities experience food poverty and this is being exacerbated by the cost of living crisis. As a food maker and shopkeeper we see this as an area on which we should focus our support.

The school holidays can be a particular pinch point for families in hardship and we want to help community partners relieve some of the pressure. Over the summer, we donated thousands of food products and essential items to local organisations and clubs delivering support for low income families over the school holidays. Community Champions partnered with local schools and charities, as well as local authority activities organised as part of the UK Government's Holiday Activities and Food ('HAF') Programme.

Our Pick Up Pack scheme continues to resonate with customers, allowing them to add a pre-packed donation bag to their shopping. Our Community Champions work closely with local food banks and community groups to understand the items that they need the most. They then make dedicated packs of these items, and place them at the front of the store for customers to pick up on their way in. The scheme generated over £4 million worth of donations in the financial period.

**Morrisons Foundation**

In the financial period ended 30 October 2022, the Morrisons Foundation donated nearly £3 million in grants (over £3 million including match funding) to registered charities across England, Scotland and Wales. Since its launch, it has donated over £35 million in grants (over £38 million including match funding) and supported over 3,100 charities which are making a positive difference in local communities.

During the financial period, the Morrisons Foundation placed particular focus on grant funding to organisations and projects that are helping to tackle food insecurity such as food banks and community kitchens.

**Supporting charities**

Our colleagues, customers and suppliers raised over £1 million in the financial period for our previous national charity partner Young Lives vs Cancer. Our partnership ended in February 2022 and we raised a total of over £18 million since it began in February 2017.

Our new charity partner for the next three years is Together for Short Lives. Our partnership will raise vital funds for children's hospices across the country. Over £2 million has been raised in the financial period since the partnership launched in February 2022.

As a strategic partner of the Poppy Appeal we were pleased to welcome volunteers back into our stores in November 2021. Alongside implementing systems to collect donations at our checkouts and online, many of our store colleagues also volunteered to fundraise and together we raised nearly £2 million. We also raised over £670,000 for Marie Curie's Great Daffodil Appeal in March 2022 and were the headline partner for the NHS Big Tea in July 2022, raising over £130,000 for NHS Charities Together.

As an emergency response partner for the Disasters Emergency Committee ('DEC') we raised almost £1 million for the DEC Ukraine Appeal, which launched in March 2022 and has helped deliver essential aid to hundreds of thousands of people in Ukraine and neighbouring countries, including refugees and displaced families. In September 2022, we also raised much-needed funds for the DEC's Pakistan Flood Appeal. Our Community Champions also continuously support local causes in their communities with fundraising, product donations and practical support given throughout the financial period.

# Strategic report (continued)

## Managing our risks

Successful delivery of our 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 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 to create and take advantage of new opportunities.

**The Risk Management process**

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

Risk registers for each business function 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 potential reputational, financial and operational effects. 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 each year.

The Risk Sub-Committee reviews coverage across the Group's principal risks, the key controls already in place and any risk mitigation plans. Their review considers the completeness of risks captured in the detailed functional risk registers, strategic risks, external factors and any emerging risks. The Board reviews and approves the principal risks.

The Group's principal risks are monitored every month by the Risk Committee using key risk indicator reporting. In addition, the Risk Committee supports the Group in managing its key risks through a rolling agenda of deep dive reviews of key or emerging risk areas and approval of key policies.

The Risk and Internal Audit function facilitates the preparation of both the functional and Group risk registers. It supported the Board in the period in reviewing the effectiveness of the Group's risk management and systems of internal control. Where potential weaknesses are identified, the Risk and Internal Audit team work with the business to agree robust mitigating actions.

The Board maintains 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.

**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 priorities, solvency or liquidity.

**Changes to Principal Risks**

During the period, one new Group risk has been added relating to the integration of the McColl's business following its acquisition. The Board has also removed the principal risk for Covid-19 and increased the net risk ratings for the existing risks for Financial and Treasury, Competitiveness and Customer.

**1. Integration of McColl's**

Following the acquisition of McColl's and the conclusion of the CMA investigation, the process of integrating McColl's into Morrisons has now begun. Plans are in place to manage this and realise the natural efficiencies whilst managing the cost and complexity of doing so. The Board recognises that new risks could arise during this process and have approved the creation of a new Group principal risk of Integration of McColl's.

**2. Competitiveness**

With cost price increases and wider inflationary pressures increasingly having to be passed onto customers, the net risk for competitiveness has increased in the year. Our vertical integration has meant that in instances we have felt the impact of this earlier than other retailers, but conversely will enable us to see benefits more quickly when inflation falls.

## Managing our risks (continued)

**3. Customer**

The net risk for Customer has also increased, with rising energy costs and the cost of living crisis at the heart of customer decision making when trying to make their money go further. Changing customer sentiment and increased focus on value for money is increasingly seeing customers being more prepared to shop around, switch to own-brand alternatives or reconsider what they need to put in their basket altogether.

**4. Financial and Treasury**

The more challenging economic environment, ongoing conflict in Ukraine, weakening of the pound and significant upwards movements in inflation and interest rates mean the net risk for Financial and Treasury has also increased in the year.

**5. COVID-19**

With business-as-usual controls and tried and tested plans in place to manage the impacts of Covid-19 as necessary, we believe it is now the right time to remove this principal risk. While aspects of the risk remain relevant, these are now included within the existing Group principal risks for business interruption, health and safety and people.

**Emerging Risks**

Our Risk Management process incorporates the formal identification and management of emerging risks and these are reported to the Risk Committee and the Board 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, and that we have a clear reporting route to the Board when necessary:

- 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 evolving risks including those associated with the war in Ukraine, climate change, the trading environment, consumer trends, labour market changes, innovations in technology and new regulation.

**The Risk Management Framework**

| | | |
|---|---|---|
| Top down | **Board of Directors** | Maintains sound risk management and control systems, assesses principal risks |
| | **Risk Committee** | Assesses principal, operational and emerging risks and undertakes regular monitoring of risk |
| Bottom up | **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 |

The following keys have been used in the Principal Risks table on pages 27 to 30.

| **Key** | |
|---|---|
| ↑ | Increase in net risk |
| ←→ | No change in net risk |
| ↓ | Decrease in net risk |

| **Link to six priorities** | | | | | |
|---|---|---|---|---|---|
| **1** | Serve customers better so more choose Morrisons | **4** | Provide easy shopping experience | **#** | Links to all six priorities |
| **2** | Be more competitive | **5** | Grow volume, reduce cost, improve free cash flow | | |
| **3** | Simplify and remove wasted effort | **6** | Be the supermarket Britain needs | | |

# Strategic report (continued)

## Managing our risks (continued)

## Principal Risks

| Risk | Description | Mitigation |
|---|---|---|
| **Business Interruption**<br>←→<br>**#** | There is a risk that a major incident could cause significant disruption to business operations. | • We have recovery plans in place covering our stores, depots, online operation, sites and offices;<br>• Business continuity resilience and disaster recovery exercises are undertaken to test processes and management's ability to respond effectively;<br>• A Crisis Management Group is in place to oversee these plans and to manage and respond to any major incidents;<br>• We conduct supplier risk assessments and have contingency plans in place, where possible, to manage the risk of loss of supply;<br>• There has been continued investment in cloud technologies to provide further resilience to our Technology; and<br>• We work alongside our strategic third party partners ensuring both parties' continuity plans are robust and aligned. |
| **Competitiveness**<br>↑<br>**1,2,3,5** | The Grocery Sector continues to be highly competitive with increased price pressure caused by inflation.<br>If we do not engage with our suppliers or effectively manage our prices, trade or promotional plans 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 using customer insight so we invest in what matters most to our customers;<br>• Long-term agreements are established with suppliers, ensuring a competitive customer offer and to help maintain security of supply;<br>• We continue to actively engage our key suppliers, work closely with British growers and farmers; and<br>• We continually review our range, category plans and quality and respond to customer feedback. |
| **Customer**<br>↑<br>**#** | There is a risk that we do not meet the needs and expectations of our customers in respect of price, range, quality and service across all our sales channels. | • An ongoing programme to monitor customer satisfaction helps us to gain a deep understanding of what is most important to their shopping trip. This view informs the key activities we undertake, be it online or in store, such as changes to range and the introduction of more locally sourced products and is shared with Store Managers;<br>• We closely monitor and carefully manage the price, quality and availability of the products most important to our customers;<br>• We have invested in our loyalty scheme through improvements to the My Morrisons app and offers;<br>• We closely monitor research on customer perceptions and respond quickly wherever possible, such as to environmental issues and changes to eating habits;<br>• We have made our products accessible to more customers through our acquisition of McColl's, expansion of Online and growth with our Wholesale partners;<br>• We actively respond to customer complaints and aim to continually improve the customer experience; and<br>• Our network of Community Champions actively engage local communities and support local charities. |

## Principal Risks (continued)

| Risk | Description | Mitigation |
|---|---|---|
| **Environment and Sustainability**<br>←→<br>**1,6** | There is a risk that we fail to reduce the environmental impact of the business, or to meet the expectations of our customers, colleagues and wider stakeholders. | • Developments and progress in our sustainability agenda are reported to the Sustain Executive Sub-Committee and to the Board;<br>• The Sustain Executive Sub-Committee meets regularly during the year and performs an oversight, monitoring and advisory role for key areas which deliver sustainable growth with a lower environmental impact;<br>• Each Sustain workstream commitment has a senior responsible business owner providing updates to the Sustain Group, chaired by the Group Corporate Services Director. This group reports to the Sustain Sub-Committee;<br>• We have a clear strategy to reduce our emissions footprint and expect to achieve net zero emissions by 2035 (Scope 1 & 2);<br>• 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<br>• We have pledged 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**<br>↑<br>**1,2,3,5** | The key financial risks we may be exposed to include the availability and cost of funding, cash flow and liquidity management, fluctuations in interest rates, commodity, energy costs and foreign currency rates.<br>Some suppliers benefit from access to supply chain finance facilities. The withdrawal of these facilities would lead to some terms being reviewed.<br>We also have pension fund commitments that require active management and monitoring. | • Treasury operations are managed and monitored in line with the approved Treasury Policy with reporting to the Board. This includes an assumption that certain supply chain finance facilities are not available for the benefit of suppliers;<br>• The Group's Treasury function is responsible for the forward planning and management of funding, interest rates, foreign currency, exchange rates, energy costs and certain commodity price risks including hedging risks;<br>• Governance forums and processes are in place to review and manage the Group's cash position and maximise working capital;<br>• Credit risk monitored across our Wholesale customers to limit exposure while maintaining trade;<br>• A long-term funding framework and pension strategy exists with ongoing communication and engagement with the Pension Trustees; and<br>• The McColl's pension schemes will be managed using this framework. |

# Strategic report (continued)

## Managing our risks (continued)

## Principal Risks (continued)

| Risk | Description | Mitigation |
|---|---|---|
| **Food Safety, Product Integrity and Ethical Sourcing (continued)**<br>**←→**<br>**1,4,6** | There is a risk that the products we sell are unsafe, or not of the integrity or ethical standards that our customers expect.<br>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. Horizon scanning is also in place to anticipate emerging issues;<br>• Regular assessments of our suppliers and our own manufacturing and store production facilities are undertaken to ensure adherence to standards;<br>• Our vertical integration model gives us control over the integrity of a significant proportion of our fresh food;<br>• The process is supported by external accreditation and internal training programmes;<br>• Systems and processes are in place to ensure ongoing compliance with allergen labelling under Natasha's Law;<br>• Our Ethical Trading Policy and Code establishes key requirements for all suppliers. We actively monitor compliance through an extensive third party audit programme and provide support for suppliers if issues are identified;<br>• We work closely with our supply chain to understand food provenance, sustainable and ethical practices including animal welfare; and<br>• Our measures to tackle Modern Slavery are reported annually in our Modern Slavery Act Statement. |
| **Health and Safety**<br>**←→**<br>**1,4,6** | There is a risk of injury or harm to customers or colleagues if we do not have the right controls, policies and procedures in place to keep people safe and healthy across all of our stores and sites. | • We have clear policies and procedures detailing the controls required to manage health and safety risks across the business;<br>• An ongoing training programme is in place for front line colleagues and management;<br>• A programme of health and safety audits is in place across the Group;<br>• A dedicated health and safety team is in place to ensure our risks are managed effectively; and<br>• Management regularly monitors health and safety performance and compliance with electronic accident reporting across all stores and sites to help identify and respond to any trends. |
| **Information Security**<br>**←→**<br>**1,6** | 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. | • Information Security policies, procedures and controls are in place, including encryption, network security, systems access and data protection;<br>• This is supported by ongoing monitoring, reporting and rectification of vulnerabilities;<br>• The Information Security Steering Group oversee a rolling programme of work to review and enhance our information security controls, ensuring these remain commensurate with our level of risk and the evolving cyber landscape; and<br>• The General Data Protection Regulation ('GDPR') Working Group has responsibility for overseeing data management practices, policies, regulatory awareness and training associated with customer and colleague data. This includes change management activities and a review of third parties managing data on our behalf. |

# Strategic report (continued)

## Managing our risks (continued)

## Principal Risks (continued)

| Risk | Description | Mitigation |
| --- | --- | --- |
| **McColl's Integration (New)**<br>**#** | Without an appropriate plan, there is a risk that integration of the McColl's business could result in management distraction, additional cost, complexity and duplication which then impacts the profitability of the whole Group. | • A governance group has been established with Senior Leadership representation and meets regularly to provide oversight, monitoring and advice to deliver the integration as well as providing updates to the Board; and<br>• Dedicated workstreams have been set up to manage specific areas of the integration while ensuring minimal disruption to the wider Group. |
| **People**<br>**←→**<br>**#** | 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;<br>• A Group-wide reward framework is in place and roles are evaluated against an external framework, driving stronger consistency of rewards;<br>• Our training and development programmes are designed to give colleagues the skills they need to do their job and support their career aspirations;<br>• Line managers conduct regular talent reviews and processes are in place to identify and actively manage talent;<br>• 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;<br>• We continue to monitor the availability of labour across the Group and we have enacted specific people plans across our manufacturing and logistics sites;<br>• Colleague engagement surveys, listening sessions and networking forums are used to understand and respond to our colleagues; and<br>• We take pride in creating an inclusive work environment where everyone feels welcome and we celebrate our differences. |
| **Regulation**<br>**←→**<br>**1,4,6** | The Group operates in an environment governed by numerous regulations including GSCOP, GDPR, competition, employment and regulations over the Group's products.<br>The Board takes its responsibilities very seriously and recognises that a breach of regulations can lead to reputational damage and financial penalties. | • We have training, policies and legal guidance in place to support compliance with all applicable regulations;<br>• The Group monitors for potential regulatory and legislative changes and the impact on contractual arrangements;<br>• We actively engage with government and regulatory bodies on policy changes which could impact our colleagues and our customers;<br>• We have a GSCOP compliance framework in place to monitor compliance with key regulations so that action can be taken as necessary; and<br>• We have an independent whistleblowing line for colleagues and suppliers to provide feedback to the Group so that action can be taken as necessary. |

# Strategic report (continued)

## Managing our risks (continued)

**Climate Change Risk Management**

The process for identifying climate change risks for our business is the same as other risks and uses our established risk management framework. The framework incorporates both a top-down approach to identify the Group's principal risks and a bottom-up approach to identify operational risks.

Our Environmental and Sustainability risks are mapped across all our functional risk registers, which detail the mitigation actions, as well as the relevant responsible individuals monitoring the risk. Specific climate-related risks are included in several functional risk registers and are referenced under several existing principal Group risks, as appropriate. Ownership and management of these risks is assigned according to where the risk arises and the responsibility for implementing risk improvement plans.

Environmental and Sustainability risks are discussed as part of our regular functional risk register reviews and are considered when reviewing our Group principal risks.

# Strategic report (continued)

## Section 172

The following section serves as our Section 172 statement. 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 the Group's 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.

Morrisons has identified five main stakeholder groups: customers, colleagues, suppliers, communities and the environment, and debt holders. The Directors also regularly consider the needs of other stakeholders such as Government, regulatory bodies, charities and NGOs when making decisions.

Our business model and operations are focused on delivering long-term benefits for all of our stakeholders while maintaining a high standard of business conduct. The Directors recognise the need for genuine, well-informed and dynamic engagement with our stakeholders and believe that the Group has the right representatives formally and informally engaging with a wide and diverse selection of stakeholders. The Group spends a lot of time listening to and understanding the views of our stakeholders which form an integral part of any decision making. Particular areas of consideration in the year have been the acquisition of McColl's and the impact of the Group on the environment and community.

**Customers**

***Why we engage***

Customers are right at the heart of our business model. By striving to continually improve our offer through competitive pricing, quality and the overall shopping trip, which makes us accessible to more people, this supports the ongoing success of the business.

***Stakeholder Priorities***

Our customers are looking for good quality at affordable prices, available when they want it. They enjoy the wide range of brands on offer, which cater for all budgets, tastes and dietary requirements. It is important to them that our range is sustainably sourced and that our company supports local suppliers and communities. Customers enjoy the distinctive offer of Market Street, the overall experience of our stores and the convenience of our online channels.

***How we engage***

- Our Insight team receives over 16,000 pieces of feedback every day through a variety of channels, including quantitative surveys and qualitative focus groups, as well as communication through our contact centre.
- Our Store Management teams are committed to listening to our customers on a daily basis and have access to store specific customer feedback either received into our Support Office or through a customer survey opportunity that is provided to Morrisons customers after their shopping trip.
- The Directors visit stores across the country on a regular basis and use the opportunity to speak both with customers and colleagues at a personal level.

***Outcomes***

The Directors considered customers when making the following decisions:

- Launching a new My Morrisons app in July, which provides customers with a simpler interface and easier access to new personalised offers on products which matter most to them.
- Continuing to adapt ranges to provide healthier and more environmentally conscious options for customers. In this financial period we have removed 10.79 billion calories, 255 tonnes of sugar and 117 tonnes of salt through recipe changes and improvements across our own-brand ranges. Additionally, we have introduced new options to help customers reduce their environmental impact, including selling milk in Tetra Pak cartons and launching a range of carbon neutral eggs.
- Investing in price reductions including the lowering of prices of 130 lines in the Savers range.
- Launching same-day home delivery and Click & Collect services, making it quicker for customers to get their shopping. Deliveroo and Amazon also continue to increase in popularity for smaller, last-minute shopping requirements.
- Decreasing the minimum spend amount on our online channel from £40 to £25 in May, giving those customers with smaller budgets an easier and more convenient way to shop.
- Adopting new customer satisfaction metrics, which focus on the aspects of the shopping trip that are most important to our customers. The business improvement plans are aligned with these metrics.

# Strategic report (continued)

## Section 172 (continued)

**Colleagues**

***Why we engage***

Our colleagues are united by their food maker and shopkeeper credentials. Colleagues are key to our business and it is essential that we have an engaged workforce to deliver for our customers.

***Stakeholder Priorities***

Our colleagues are looking to be trusted to do a fair day's work for a fair day's pay. They want to be supported with their health, safety and wellbeing. It is important that our colleagues have the right tools and training available to do their job. They want Morrisons to be an inclusive place to work, where success is celebrated.

***How we engage***

- Each year, we invite all colleagues to share their opinions and suggestions through the annual Your Say survey.
- There are also two National Your Say Forum meetings held each year. This gives our Directors the opportunity to hear views and answer questions from our colleagues first hand.
- Colleagues receive weekly business updates from our senior management team through 'Team Talk' live streams, with the opportunity to ask questions.
- All colleagues are invited to join the Morrisons Colleague Facebook Group, where they can provide direct feedback or updates on any subject.

***Outcomes***

The Directors considered colleagues when making the following decisions:

- Launching a newly designed uniform for our store colleagues, following feedback from colleagues in the nominated trial stores and sites.
- Introducing an updated 'Pathways' scheme for prospective new managers to develop and further their career.
- Launching a new wellbeing app for colleagues to download, which offers support and advice on mental, physical and financial concerns.
- Inviting colleagues to select, by vote, our new charity partnership with Together for Short Lives, which started in February 2022.
- Offering temporary increases to the colleague discount rate around paydays, to support our colleagues through the cost of living crisis.
- Increasing the minimum pay to £10.20 an hour for all store and manufacturing colleagues from October 2022.

**Suppliers**

***Why we engage***

Suppliers are fundamental to the success of the Company as they provide us with the variety and quality of goods and services required to fulfil customers' needs.

***Stakeholder Priorities***

Suppliers want a relationship with mutual trust and respect. They want to be able to grow with us in a mutually beneficial partnership. We are a route to market for many new suppliers and products, and suppliers like the brand presence that we can offer, especially through a wide variety of different channels.

***How we engage***

- All Commercial team members are encouraged to work collaboratively with their supply base.
- The Commercial team updates all suppliers on a quarterly basis through business team updates and at an annual supplier conference. These communications provide suppliers with an opportunity to understand our business in more depth and give them the opportunity to ask questions and provide feedback.
- Suppliers are actively encouraged to take part in independent annual surveys, such as the Advantage Group Survey, to enable the Company to gain valuable insight into how they feel about Morrisons, and how we benchmark against other retailers.
- The Company's supplier portal offers two way communication and is used by both the Morrisons Commercial teams and suppliers.

# Strategic report (continued)

## Section 172 (continued)

**Suppliers (continued)**

***Outcomes***

The Directors considered suppliers when making the following decisions:

- Continuing to develop and strengthen commercial policies and processes based on feedback from the Groceries Code Adjudicator.
- Launching the Morrisons Media Group, which is a dedicated resource for suppliers to agree and implement fully integrated marketing and media plans with improved execution in stores.
- Developing and launching a new supplier data hub, which consolidates two systems and gives access to all the information, including additional reporting, that suppliers need about Morrisons in a central hub.

**Communities and the Environment**

***Why we engage***

It is a key part of our strategy to be locally integrated in the communities that we serve. Communities are our customers and our neighbours, therefore the Company needs to have respect and generate a positive impact on them. It is important that Morrisons is a responsible retailer to minimise our impact on the wider environment.

***Stakeholder Priorities***

Communities expect Morrisons to be a socially responsible business and to care about the impact on the surrounding area and environment in which we operate.

***How we engage***

- Each of our stores and sites strive to become truly integrated into the communities we serve and helps support good causes locally. Last year we dedicated almost 750,000 hours for our Community Champions to lead this work.
- Our annual Sustainability survey asks over 5,000 customers every year to rate the key issues that they think a responsible retailer should consider. Protecting the environment through practical steps including reducing plastic packaging, reducing food waste and protecting natural habitats, woodlands and forests remain high on our customer priority lists.
- We are active members of key industry working groups, including our support as a signatory to the Courtauld Commitment for 2030. This is a voluntary agreement that enables collaborative action across the entire UK food chain to deliver farm-to-fork reductions in food waste, GHG emissions and water stress that will help the UK food and drink sector achieve global environmental goals.
- We are also founding partners in establishing the UK's first 'School of Sustainable Food and Farming' at Harper Adams University, which aims to educate, inspire and empower current and future farmers to achieve net zero within a sustainable farming and food system.

***Outcomes***

The Directors considered communities and/or the environment when making the following decisions:

- Relaunching the Seeds of Hope campaign, this year giving away almost three million packets of cornflower seeds in recognition of the late Queen's Jubilee celebrations. Seeds were also donated to local schools, care homes and other community groups.
- Continuing to drive and review the Company's Sustain programme to ensure continuing progress towards achieving ESG targets, and approving additional activities to reduce water use in our own-brand supply chains in areas of water scarcity and enhance biodiversity.
- Approving an increase in the Company's existing investment in its joint venture in a new recycling plant in Fife, driven by our dedication to create a circular economy.
- Supporting the successful bid, as a Bradford based retailer, for Bradford to become UK City of Culture in 2025. This will provide investment for events that will leave a lasting legacy in the community.

**Debt Holders**

***Why we engage***

It is important to engage regularly with debt holders, including bond holders, term loan counterparties, and other financial institutions, to ensure that they remain comfortable with their exposure to the Company and to build and maintain long-term relationships. Other similar stakeholders to debt holders include ratings agencies and trade credit insurers, and while they do not have a direct investment in the Company, their understanding and commitment to the Company and its strategy is important to our business.

# Strategic report (continued)

## Section 172 (continued)

**Debt Holders (continued)**

***Stakeholder Priorities***

Debt holders and other similar financial institutions want to ensure their investments are secure and that our strategy is delivering long-term growth. Timely dialogue, with honest and open conversations, supports building long-term relationships with these parties.

***How we engage***

- The Directors present the results and host a Q&A session every quarter for debt holders, with additional meetings throughout the year.
- Debt holders and similar stakeholders have access to a secure part of the corporate website which contains financial presentations and accounts.

***Outcomes***

The Directors consider debt holders and similar stakeholders when assessing the financial position of the Company, its use of capital and its strategic direction.

**Approval of the Strategic report**
Pages 4 to 35 of the report form the Strategic report.
The Strategic report was approved by the Board and signed on its behalf by:

**Jonathan Burke, Company Secretary**
25 January 2023

# Governance report

Wm Morrison Supermarkets Limited was acquired by Market Bidco Limited on 27 October 2021. Following the acquisition, this Corporate Governance report applies to the Group from the ultimate parent company Market Topco Limited to Wm Morrison Supermarkets Limited and its subsidiaries. All references to 'Group' within this section are in relation to Market Topco Limited and its subsidiaries and all references to 'Company' relate to Wm Morrison Supermarkets Limited.

**Corporate Governance Update**

The Group’s current corporate governance framework is summarised within this Governance report. We expect to continue to develop and adapt our corporate governance framework in accordance with the changing demands of our business and stakeholders.

**Adoption of the ‘Wates Principles’ by Wm Morrison Supermarkets Limited**

The Companies (Miscellaneous Reporting) Regulations 2018 require all companies of a significant size to disclose their corporate governance arrangements. From the date of CD&R’s acquisition of the Company and its subsidiaries, whilst operating under the restrictions of the CMA's IEO, the Company continued to apply the principles and procedurally followed the provisions of the UK’s Corporate Governance Code to the extent that was practical within the interim governance structure available. From 14 February 2022 to the date of the signing of this Annual Report and Financial Statements, the Company has applied the Wates Corporate Governance Principles for Large Private Companies (‘Wates Principles’). The principles were published by the Financial Reporting Council (FRC) in December 2018 and comprise six key principles: Purpose & Leadership; Board Composition; Director Responsibilities; Opportunity & Risk; Remuneration; and Stakeholder Relationships & Engagement. The following section summarises how the Company has applied the principles since adoption.

The Directors consider that the corporate governance policies and procedures are appropriate for the Group.

**Principle 1 - Purpose and Leadership**

As the shareholder in the Company, CD&R plays an active role in its strategic development. CD&R has regular interaction, both with the Directors and other senior managers within the Company and its subsidiaries. CD&R and the Directors meet formally on a monthly basis to discuss the operations and performance of the business. CD&R provides an important contribution through the expertise, knowledge and experience of its team.

Although the Company has had a change in ownership following the takeover by CD&R, the Directors continue to balance the interests of our various stakeholder groups in a way that is consistent with previous years.

Our purpose continues to be: "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." For further information on purpose, see our Strategic report on pages 4 to 6.

The Directors assess and monitor the Company culture in line with the Company’s purpose, ways of working and the needs of its various stakeholder groups. More information on this can be found on pages 4 to 6 and 12 to 35.

The Directors have a good understanding of the views of Company colleagues and culture, facilitated by the Your Say survey results, formal and informal discussions with the senior managers of the Company and its subsidiaries, and day-to-day interactions with our colleagues in store. From these various sources, the Directors are able to confirm that the culture of our business is aligned to the purpose, values and strategy that the Directors have set.

The Company’s approach to investing in and rewarding our colleagues is set out on page 13 and 14.

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

The Directors assess the basis on which the Company generates and preserves value over the long-term and the opportunities for the Company through a formal strategy and long-term planning process. More information on this can be found on pages 4 to 6 and 12 to 35.

To facilitate the takeover by CD&R of the Company and its subsidiaries, seven entities were created above the Company in the Group structure. This includes the ultimate parent company Market Topco Limited. All of these seven entities are incorporated within England and Wales.

# Governance report (continued)

**Principle 2 - Board Composition**

The Company is an indirect subsidiary of Market Topco Limited, which was the ultimate parent company of the Group throughout the period.

***Market Topco Limited***
The statutory Directors of Market Topco Limited are:

- Sir Terry Leahy
- Manvinder Banga
- Joanna Goff
- Marco Herbst
- Gregory Lai
- David Novak
- David Potts

The role of the Chair of Market Topco Limited is fulfilled by Sir Terry Leahy. As Chair, Sir Terry ensures that appropriate information is provided and that sufficient time is available for each of the discussion points during the Market Topco Limited Board meetings.

***Wm Morrison Supermarkets Limited***
As at 30 October 2022, and at the date of signing this Annual Report and Financial Statements, there were two Directors of Wm Morrison Supermarkets Limited;

**David Potts**

***Appointment***
David joined the Group as Chief Executive Officer ('CEO') 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 CEO 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

**Joanna Goff**

***Appointment***
Joanna joined the Group in 2011 and has held a number of positions including Group Finance Director, and most recently Operations Development Director, with responsibilities that included Productivity, Procurement, Group Strategy, Loss Prevention and Fuel. Joanna joined the Board on 4 April 2022 as Chief Financial Officer ('CFO').

***Experience***
Prior to joining Morrisons, Joanna was at PricewaterhouseCoopers LLP ('PwC') for 11 years and is a member of the Institute of Chartered Accountants in England and Wales.

***External Roles***
None

Certain key business matters relevant to the Company are formally reserved for approval by CD&R. These include, for example, the approval of the overall commercial and operating strategy; and annual financial plans and budgets.

The Directors regard the current structure of the Board as appropriate for the Company. The structure of the Board will continue to be reviewed in the context of the Company's ownership by CD&R going forward.

**Board Diversity, Skills and Experience**

The Board's diversity is monitored and driven by the CEO and the Group People Director. The Directors understand the importance of having diversity with regard to skills, length of service, experience, ethnicity, gender and knowledge among the Directors and senior management team.

The Directors of the Group, together with the wider management team, are considered to have an appropriate combination of background, skills and experience to make considered and effective decisions. The performance, experience, balance of skills, independence and knowledge of the Directors and wider management team is monitored by the CEO and CD&R.

# Governance report (continued)

**Principle 2 - Board Composition (continued)**

**Previous Director Appointments**

Michael Gleeson resigned as Director and CFO on 4 April 2022.
Trevor Strain resigned as Director and Chief Operating Officer on 27 September 2022.

**Principle 3 - Director Responsibilities**

***Wm Morrison Supermarkets Limited***
As referred to above, CD&R plays an active role in the Group's strategic development. Following the lifting of the CMA's IEO, Board meetings, in the form of Operating Review Meetings, have been held with CD&R on a monthly basis. These meetings are attended by the Directors, the Company Secretary, and senior members of the CD&R team. The meetings are chaired by Sir Terry Leahy. The key responsibilities of the Operating Review Meeting include, for example, determining the strategy and financial plans for the Group, setting the operational and capital budgets; reviewing ongoing financial performance against the budget; assessing the Company's risk profile and risk appetite; and considering the governance arrangements of the Group.

In advance of each Operating Review Meeting, papers are circulated to the attendees, allowing them sufficient time for meeting preparation. The papers include, for example, updates on financial and operating performance (including a review against key performance indicators), customer insight information; updates on strategic projects; and updates on governance matters.

Activities of the Operating Review Meeting, since inception, have included monitoring, considering, and reviewing the following matters:

- Approval of audited Annual Report and Financial Statements for the Company, including assessing whether the report is fair, balanced and understandable, and that a going concern basis of accounting is appropriate;
- Financial performance of the Company for each accounting period;
- Current trading and market environment;
- Development of the Company's loyalty proposition;
- Operation of the Company's Logistics function and related productivity plans;
- Energy management opportunities within the business;
- Company principal and emerging risks and agreement of risk appetite;
- Talent and succession planning; and
- Current strategy with regard to the Company's pension schemes.

*Audit Committee*
Following the acquisition by CD&R on 27 October 2021, along with the simultaneous departure of the previous Non-Executive Directors, and the subsequent imposition of the CMA's IEO, the functions of the Audit Committee have been carried out by the Board.

On 12 January 2023, after the financial year end, the Audit Committee was formally reconstituted.

Initial members of the Committee are as follows:

- Marco Herbst
- Gregory Lai

It is intended that, going forward, the Audit Committee will include a majority of independent members (within the terms defined in the UK Corporate Governance Code). At least one of the independent members will have recent and relevant experience with financial accounting or auditing matters.

The Audit Committee's role is to assist the Board in fulfilling its oversight responsibilities by reviewing and monitoring:

- The integrity of audited financial information provided to investors;
- The Group's system of internal controls and risk management;
- The internal and external audit process and auditors;
- The Group's attitude to and appetite for risk and its future risk strategy; and
- How risk is reported internally and externally.

# Governance report (continued)

**Principle 3 - Director Responsibilities (continued)**

*Remuneration Committee*
Following the acquisition of the Company by CD&R on 27 October 2021, along with the simultaneous departure of the previous Non-Executive Directors, and the subsequent imposition of the CMA's IEO, the functions of the Remuneration Committee have been carried out by the Board.

It is intended that the Remuneration Committee will be formally reconstituted in the near future.

It is intended that the initial members of the Remuneration Committee will be as follows:

- Marco Herbst
- Gregory Lai
- David Potts

The role of the Remuneration Committee is expected to include:

- Determining and agreeing with the Board the framework and policy for the remuneration of Directors and other members of the executive management;
- Reviewing the ongoing appropriateness and relevance of the remuneration framework and policy;
- Approving the design of, and determining the targets for, any performance-related pay schemes operated by the Group and approving the total annual payments made under such schemes;
- Reviewing the design of all share incentive plans and determining each year whether awards will be made to participants;
- Determining the total individual remuneration package of each Director and other members of the executive management; and
- Overseeing the management of The Market Topco Employee Benefit Trust.

The function of the Executive Committee transferred to the Operations Group in September 2022. The Operations Group meets weekly and comprises the CEO, CFO and senior directors from across the business.

At below Board level, formal committees were in place during the year for the following areas of the business:

- Capital Approvals
- Convenience (commenced November 2022)
- Finance
- GSCOP
- Manufacturing
- Online and Wholesale
- Operations
- Risk
- Sustainability
- Talent
- Treasury

Each of the committees, with the exception of GSCOP and Sustainability, is attended by at least one of the Directors (the GSCOP Committee formally reports into the Risk Committee). In addition to the Directors, committee membership also comprises the relevant subject matter experts and senior managers within the business. Terms of reference have been agreed upon and set out for each individual committee, including the authorities delegated to it.

Responsibilities and activities of the various committees named above include:

- Developing plans to implement the Group's strategy;
- Driving trading performance;
- Reviewing financial performance throughout the period;
- Periodically reviewing performance against strategic objectives;
- Approving requests for capital expenditure;
- Reducing the cost base of the organisation through productivity and procurement improvement
- Discussing progress updates of key projects and growth opportunities;
- Reviewing the talent, capabilities and capacity within the Group;
- Monitoring the Company's risk management and internal control systems; and
- Reviewing compliance matters including but not limited to; health & safety, carbon reduction measures, corporate responsibility, cyber & technology security, ethical trading and GSCOP.

# Governance report (continued)

**Principle 3 - Director Responsibilities (continued)**

***Market Topco Limited***

The activities of Market Topco Limited include monitoring, considering, and reviewing the following:

- Approval of audited Annual Report and Financial Statements and regulatory announcements, including assessing whether the report is fair, balanced and understandable, and that a going concern basis of accounting is appropriate;
- Operating and capital expenditure budgets;
- Current trading performance;
- Market updates;
- Overview and tracking of current commercial initiatives;
- McColl's acquisition and integration;
- Financing arrangements; and
- Tax strategy.

The Directors of the Group have access to the services and advice of the Company Secretary, who is responsible, in conjunction with the Chair, for ensuring that Board procedures are followed and applicable rules and regulations are complied with. The Directors of the Group also have access to independent professional advice, at the expense of the Company, if required.

Any conflicts or potential conflicts of interest are recorded and carefully managed, within the ordinary activities of the Board and committees, in the way that they consider would be most likely to promote the success of the Company.

The structure and activities as set out above enable the Directors of both the Group and the Company to sufficiently discharge their statutory directors' duties and responsibilities as appropriate.

**Principle 4 - Opportunity and Risk**

Opportunities for the Company to create and preserve value are considered in the ordinary course of business, within each of the committee meetings. The Directors consider recommendations for future opportunities during the relevant committees and decide whether they align to the overall strategy and prospects of the Group.

Managing risk and uncertainty is an integral part of strategic thinking for the Directors of the Group.

There are 11 principal risks that have been identified within the Company and its subsidiaries:

- Business interruption
- Competitiveness
- Customer
- Environment and sustainability
- Information security
- Financial and treasury
- Food safety and product Integrity
- Health & safety
- People
- Regulation
- Integration of McColl's

More detailed information on the principal risks, approach to risk and the risk management process is found on pages 25 to 31.

The Risk Committee is responsible for risk management and internal control systems within the Group. The Committee meets every month and its remit includes, for example, the following matters:

- Principal risks of the Company and its subsidiaries;
- Risk appetite;
- Risk management systems;
- Whistleblowing and fraud;
- Employee listening;
- Corporate compliance policies (such as GSCOP, Loss Prevention, Modern Slavery and Data & Information Security);
- Health and safety, food safety and technical compliance; and
- GDPR compliance.

**Principle 5 - Remuneration**

There are three main remuneration mechanisms across the Company: base pay, annual bonus, and the new Morrisons Incentive Plan. Base pay is set taking into account the Company's pay frameworks, bands and the need to remain competitive in an aggressive labour market, and this is the same at all levels within the Group. The Annual Bonus Plan is available for all front line managers up to Directors. The performance conditions and targets are the same across all levels, creating alignment across the business to deliver the shareholder's long-term priorities. Finally, the Morrisons Incentive Plan is offered to all colleagues at store manager level and above. This creates alignment between all our leaders to the strategic direction and priorities of the Company.

Directors are not remunerated for directorships of subsidiaries.

**Principle 6 - Stakeholder Relationships and Engagement**

The principal stakeholders of the Group have been identified as the following:

- Customers
- Colleagues
- Suppliers
- Communities and the Environment
- Debt holders

More information on how stakeholders are considered by the business, including the types of dialogue the Company has with these stakeholders, can be found in the Section 172 statement on pages 32 to 35.

Dialogue with stakeholders helps the Group to understand, and cater for their needs, and supports towards achieving the purpose of the Company. The following activities have been covered during the year:

- ensuring that the strategy is aligned to long-term success for all stakeholders;
- considering feedback received from customers, colleagues, suppliers, our shareholder and other stakeholders; and
- overseeing 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 new charity partner Together for Short Lives, and for the charitable Morrisons Foundation.

# Directors' report

**Statutory disclosures**

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



**Change of name**

On 17 November 2021, following the re-registration as a private company, the Company's name was changed from Wm Morrison Supermarkets PLC to Wm Morrison Supermarkets Limited.

**Political donations**

No political donations were made in the financial period, in line with the Group's policy (31 October 2021: 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 and the committed borrowing and debt facilities of the wider Group. These forecasts include consideration of future trading performance, working capital requirements, changes to financing arrangements, retail market conditions and the wider economy.

The Group has negotiated and has available to it committed and uncommitted facilities that will meet the Group's needs in the short and medium term. In addition, Market Topco Limited (the ultimate parent of Market Bidco Limited) has provided a letter stating its intentions to support the Group for at least the period of the going concern assessment.

Having assessed the principal and emerging risks as set out on pages 25 to 31, 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 60.

**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 and Financial Statements.

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 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.

# Directors' report (continued)

### Directors' indemnities and Directors' and Officers' liability insurance

Qualifying third-party indemnity provisions (as defined by section 234 of the Companies Act 2006) were in force during the course of the financial period ended 30 October 2022 for the benefit of the Directors of the Company and Directors of the Company's subsidiaries in relation to certain losses and liabilities that they may incur or may have incurred in connection with their duties and powers of office.

The Group also 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.

### 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 financial period, are shown in note 6.7 of the financial statements.

On 27 October 2021, the entire issued and to be issued share capital of the Company was acquired by CD&R.

During the period, 690,739 (39 weeks ended 31 October 2021: 32,228,906) ordinary shares were issued to employees exercising share options. In addition, no (39 weeks ended 31 October 2021: 3,841,275) LTIP share awards were settled out of the trust shares. The vesting of shares was accelerated as a result of the takeover of the Group.

### Equal opportunities for all

We have always said that the performance of this great British business would be led by colleagues, and as such we have five people ambitions, which include 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 full and fair consideration is given to all applicants and 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 access to training and the opportunity to develop and 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 are 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.

### Human rights policy

Our approach is informed by the United Nations Guiding Principles on Business and Human Rights ('UNGPs') and underpinned by the principles of the Universal Declaration of Human Rights and core International Labour Organisation standards. We ensure all of our internal policies are consistent with this.

### 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: morrisons-corporate.com/about-us/whistleblowing-policy. The Risk Committee reviews the whistleblowing policy on an annual basis and receives reports which include an analysis of whistleblowing trends.

### Anti-bribery and anti-corruption policy

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

# Directors' report (continued)

**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. 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 continuous improvement plans for each division, where applicable which are site and store-specific.

**Non-financial information statement**

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

- information on social matters is shown in the Strategic report on page 24;
- information on environmental matters is shown in the Strategic report on pages 18 to 20;
- information on our colleagues is shown in the Strategic report on page 13 and 14;
- our respect for human rights is set out in the Governance report on page 43;
- our approach to anti-corruption and anti-bribery matters is set out in the Governance report on page 43;
- our business model is described on pages 4 to 6;
- our principal and emerging risks, and how we manage them, are described on pages 25 to 31; and
- other non-financial key performance indicators are shown on page 11.

By order of the Board

**Jonathan Burke, Company Secretary**
25 January 2023

# Statement of Directors' responsibilities

in respect of the Report and Financial Statements

The Directors are responsible for preparing the Wm Morrison Supermarkets Limited Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial period. Under that law the Directors have prepared the Group financial statements in accordance with UK-adopted international accounting standards and the 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 for that period. In preparing the financial statements, the Directors are required to:

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

The Directors are responsible for 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 also 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

Each of the Directors, whose names and functions are listed in the Governance Report confirm that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with UK-adopted international accounting standards, 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 and financial position of the Company; and
- the Financial Statements include 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.

By order of the Board

**Jonathan Burke, Company Secretary**
25 January 2023

# Independent auditors' report to the members of Wm Morrison Supermarkets Limited

## Report on the audit of the financial statements

### Opinion

In our opinion:

- Wm Morrison Supermarkets Limited'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 30 October 2022 and of the Group's loss and the Group's cash flows for the 52 week period then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards as applied in accordance with the provisions 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, including 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 statement of financial position as at 30 October 2022; the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of cash flows and the consolidated and Company statements of changes in equity for the period then ended; and the general information and notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Directors.

### 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.

Other than those disclosed in note 1.5 of the financial statements, we have provided no non-audit services to the Company or its controlled undertakings in the period under audit.

### Our audit approach

#### Overview

Audit scope

- We identified two reporting units, Wm Morrison Supermarkets Limited and Safeway Stores Limited, which in our view, required a full scope audit based on their size and risk.
- During the period, the Group purchased the trade and majority of the assets of McColl's Retail Group plc and certain operating subsidiaries. Certain McColl's account balances were determined as being 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.

Key audit matters

- Impairment of property, plant and equipment and right-of-use assets (Group and Company)
- Commercial income (Group and Company)
- Exceptional items (Group)
- Valuation of retirement benefits (Group and Company)

# Independent auditors' report to the members of Wm Morrison Supermarkets Limited (continued)

Materiality

- Overall Group materiality: £23,500,000 (prior period: £15,000,000) based on 2.5% of EBITDA before exceptionals, supply chain disruption and excluding McColl's.
- Overall Company materiality: £21,000,000 (prior period: £13,500,000) based on the Company allocation of Group materiality.
- Performance materiality: £17,500,000 (prior period: £11,250,000) (Group) and £15,500,000 (prior period: £10,125,000) (Company).

### 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.

### 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 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)*<br><br>Refer to page 62 (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).<br><br>The Group has a large freehold store estate recognised within property, plant and equipment (Group: £5,684m, Company: £1,496m) and right of use assets representing leasehold land and buildings (Group: £847m, Company: £962m) at 30 October 2022.<br><br>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.<br><br>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.<br><br>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.<br><br>*Value-in-use*<br><br>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. | *Value-in-use*<br><br>In relation to the value-in-use assessment we have:<br><br>• Obtained the Group's and the Company's financial plan covering the next financial period and medium-term outlook (upon which the forecasts underpinning the value-in-use calculations are based);<br>• 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;<br>• 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;<br>• Assessed the discount rate applied, with the support of our internal valuations specialists; and<br>• Considered and assessed the sensitivity of the model to changes in these key assumptions.<br><br>We found, based on our audit work, that the key assumptions and calculations used by management were supportable and appropriate. |

# Independent auditors’ report to the members of Wm Morrison Supermarkets Limited (continued)

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| *Impairment of property, plant and equipment and right-of-use assets (Group and Company) (continued)*<br><br>*Fair value less costs of disposal*<br><br>Fair value less costs of disposal is based upon store level valuations prepared by independent valuers. 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. The key judgements made relate to the estimated rental values and yields for these stores.<br><br>The Group has recognised a net impairment charge of £88m on tangible assets (£330m impairment charge offset by £242m impairment write back). The £330m impairment charge includes £276m in relation to property, plant and equipment, £51m in relation to right-of-use assets and £3m in relation to investment property. The £242m impairment write back includes £208m in relation to property, plant and equipment and £34m in relation to right-of-use assets.<br><br>The Company has recognised a net impairment charge of £48m (£147m impairment charge offset by £99m impairment write back). The £147m impairment charge includes £85m in relation to property, plant and equipment, £62m in relation to right-of-use assets. The £99m impairment write back includes £85m in relation to property, plant and equipment and £14m in relation to right-of-use assets. | *Fair value less costs of disposal*<br><br>We evaluated and challenged the estimates of store rental values and yields used in the valuations prepared by independent valuers which were used by the Directors in their assessment of fair value less costs of disposal. 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.<br><br>We determined that the valuations performed by management were reasonable.<br><br>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 to the members of Wm Morrison Supermarkets Limited (continued)

| Key audit matter | How our audit addressed the key audit matter |
| --- | --- |
| *Commercial income (Group and Company)*<br><br>Refer to page 62 (sources of estimation uncertainty), note 1.1 (accounting policies) and note 1.5 (operating profit).<br><br>*Commercial income*<br><br>The Group and Company have two categories of commercial income: marketing and advertising funding, and volume-based rebates on purchases.<br><br>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 63 and 64. 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.<br><br>*Manual promotional funding*<br><br>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:<br>• understood, evaluated and tested management’s key controls, including the monitoring of invoices raised and the accuracy of confirmations received from suppliers;<br>• tested a sample of balance sheet items to supporting documentation including supplier agreements and independent external confirmations from suppliers. This included testing accrued items on the balance sheet to subsequent post year end invoicing as well as independent confirmations;<br>• 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;<br>• cut-off work involved testing a sample of commercial income and the manually calculated elements of promotional funding recognised both before and after the period end and evaluating by reference to documentation from suppliers that the timing of recognition was appropriate;<br>• tested a sample of 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;<br>• 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<br>• considered the adequacy of related disclosure within the Group’s financial statements.<br><br>No significant issues were identified as a result of this work. |

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| *Exceptional items (Group)*<br>Refer to page 61 and 62 (critical accounting judgements) and note 1.4 (profit before exceptionals).<br>Two of the Group's Alternative Performance Measures are 'Profit before tax and exceptionals' and 'Earnings before Interest, Tax, Depreciation and Amortisation ('EBITDA') before exceptionals'. Management uses these measures to improve the transparency and clarity of the Group's financial performance.<br>The Group's profit before tax and exceptional items of £186m is stated before £10m of net retirement benefit credit and a net charge from exceptional items of £229m. EBITDA before exceptionals is £859m. The £229m net charge from exceptional items is comprised of the following:<br>● £18m of restructuring and store closure costs;<br>● £105m net impairment and provision for onerous contracts;<br>● £10m profit arising on disposal and closure;<br>● £9m of net finance costs associated with the early repayment of borrowings;<br>● £92m of transaction costs; and<br>● £15m of other exceptional costs.<br>The determination of which items are to be excluded from EBITDA before exceptionals and 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 these Alternative Performance Measures was appropriate. We performed the following procedures:<br>• Reviewed management's definition and classification of exceptional items, including the sub-categorisation of these items;<br>• Obtained supporting evidence to corroborate the accuracy and completeness of exceptional items;<br>• Where estimation uncertainty exists, we challenged the key assumptions in light of information available and historical assessments made for similar circumstances;<br>• 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<br>• 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.<br>No significant issues were identified as a result of this work. |
| *Valuation of Retirement benefits (Group and Company)*<br>Refer to page 62 (critical accounting judgements and sources of estimation uncertainty), notes 8 and 11.21 (pensions).<br>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: £3,762m and Company: £1,309m) and liabilities (Group: £3,071m and Company £1,011m) within the schemes are significant and material. The net surplus position of the schemes at 30 October 2022 was £691m for the Group and £298m for the Company.<br>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:<br>• Obtained the IAS 19 valuation reports produced by the Group's independent actuaries;<br>• 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;<br>• Obtained the detailed reports relating to the valuation of the schemes' assets and agreed the valuations to third party confirmations;<br>• Assessed the membership data used in valuing the schemes' liabilities and tested any significant changes since the last valuation; and<br>• Agreed a sample of contributions made by the Group to bank statements.<br>Based on our work performed, the actuarial assumptions used in calculating the pension surplus were within an acceptable range.<br>We considered management's assessment of the Group's right to recognise the net surplus in the CARE and RSP 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 to the members of Wm Morrison Supermarkets Limited (continued)

### 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. Separate to this, the finance function relating to the reporting unit responsible for the newly acquired McColl's business is based in Brentwood.

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 Limited and Safeway Stores Limited, which were determined as financially significant because they individually contribute more than 15% of the Group's EBITDA before exceptionals. In addition, we determined that certain account balances (Revenue, Cash and cash equivalents and Inventory) in one further reporting unit were 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 94% of Group EBITDA. 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.

As part of our audit we made enquiries of management to understand the process they have adopted to assess the extent of the potential impact of climate change risk on the Group's financial statements. Management consider that the impact of climate change does not give rise to a material financial statement impact. We used our knowledge of the Group to evaluate management's assessment. We particularly considered how climate change risks would impact the assumptions made in the forecasts prepared by management used in their impairment analyses and going concern. We discussed with management the ways in which climate change disclosures should continue to evolve as the Group continues to develop its response to the impact of climate change. We also considered the consistency of the disclosures in relation to climate change made in the other information within the Annual Report with the financial statements and our knowledge from our audit.

### 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 | £23,500,000 (prior period: £15,000,000) | £21,000,000 (prior period: £13,500,000) |
| How we determined it | 2.5% of EBITDA before exceptionals, supply chain disruption and excluding McColl's | The Company allocation of Group materiality |
| Rationale for benchmark applied | We applied the benchmark of EBITDA before exceptionals, supply chain disruption and excluding McColl's as the most relevant metric against which the performance of the Group is most commonly measured. | In our view, users focus on the consolidated results of the Group rather than the individual results of the Company, therefore we determined our materiality in the overall context of the Group. |

# Independent auditors' report to the members of Wm Morrison Supermarkets Limited (continued)

### Materiality (continued)

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was £16,000,000 to £21,000,000. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

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% (Prior period: 75%) of overall materiality, amounting to £17,500,000 (Prior period: £11,250,000) for the Group financial statements and £15,500,000 (Prior period: £10,125,000) 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 Directors that we would report to them misstatements identified during our audit above £1,175,000 (Group audit - prior period: £750,000) and £1,050,000 (Company audit - prior period: £675,000) 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, profit sensitivities, and a reduction in the level of available supply chain finance facilities, as well as an assessment of the available mitigating actions;
- We have evaluated the Group's access to debt facilities throughout the period, including the intercompany funding provided by the Group's parent company, Market Bidco Limited;
- 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; and
- We have obtained and evaluated Market Topco Limited's letter of support to satisfy ourselves of its intention and ability to continue to support the Group for at least 12 months from the date of signing this audit opinion.

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.

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

# Independent auditors' report to the members of Wm Morrison Supermarkets Limited (continued)

## 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, which includes reporting based on the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. 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 30 October 2022 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.

## 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, 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.

# Independent auditors’ report to the members of Wm Morrison Supermarkets Limited (continued)

## Responsibilities for the financial statements and the audit (continued)

### Auditors’ responsibilities for the audit of the financial statements (continued)

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to employment law and health and safety legislation, 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 financial statements such as UK tax legislation including Income, Sales and Payroll tax and 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.

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 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 Directors, we were appointed by the members 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 nine years, covering the periods ended 1 February 2015 to 30 October 2022.

# Independent auditors' report to the members of Wm Morrison Supermarkets Limited (continued)

## Other matter

In due course, as required by the Financial Conduct Authority Disclosure Guidance and Transparency Rule 4.1.14R, these financial statements will form part of the ESEF-prepared annual financial report filed on the National Storage Mechanism of the Financial Conduct Authority in accordance with the ESEF Regulatory Technical Standard ('ESEF RTS'). This auditors' report provides no assurance over whether the annual financial report will be prepared using the single electronic format specified in the ESEF RTS.

**John Ellis (Senior Statutory Auditor)**
**for and on behalf of PricewaterhouseCoopers LLP**
Chartered Accountants and Statutory Auditors
Leeds
25 January 2023

# Consolidated income statement

52 weeks ended 30 October 2022

| | | 52 weeks ended 30 October 2022 | | | 39 weeks ended 31 October 2021 | | |
|---|---|---|---|---|---|---|---|
| | Note | **Before exceptionals[1] £m** | **Exceptionals (note 1.4) £m** | **Total £m** | Before exceptionals[1] £m | Exceptionals (note 1.4) £m | Total £m |
| **Revenue** | 1.2 | **18,479** | **-** | **18,479** | 13,483 | - | 13,483 |
| Cost of sales | | **(18,070)** | **(13)** | **(18,083)** | (13,146) | (16) | (13,162) |
| *Costs of sales before supply chain disruption* | | **(18,026)** | **(13)** | **(18,039)** | (13,116) | (16) | (13,132) |
| *Supply chain disruption[2]* | | **(44)** | **-** | **(44)** | (30) | - | (30) |
| **Gross profit** | | **409** | **(13)** | **396** | 337 | (16) | 321 |
| Other operating income | | **123** | **-** | **123** | 77 | - | 77 |
| Profit/(loss) on disposal and closure | | **-** | **10** | **10** | - | (28) | (28) |
| Administrative expenses | | **(281)** | **(225)** | **(506)** | (203) | (218) | (421) |
| **Operating profit/(loss)** | 1.5 | **251** | **(228)** | **23** | 211 | (262) | (51) |
| ***Operating profit/(loss) before supply chain disruption[1]*** | | **295** | **(228)** | **67** | 241 | (262) | (21) |
| *Supply chain disruption[2]* | | **(44)** | **-** | **(44)** | (30) | - | (30) |
| Finance costs | 6.2 | **(67)** | **(21)** | **(88)** | (83) | - | (83) |
| Finance income | 6.2 | **3** | **30** | **33** | 5 | 8 | 13 |
| Share of loss of joint venture (net of taxation) | 4.2 | **(1)** | **-** | **(1)** | - | - | - |
| **Profit/(loss) before taxation** | | **186** | **(219)** | **(33)** | 133 | (254) | (121) |
| Taxation | 2.2 | **(33)** | **41** | **8** | (39) | (87) | (126) |
| **Profit/(loss) for the period** | | **153** | **(178)** | **(25)** | 94 | (341) | (247) |

# Consolidated statement of comprehensive income

52 weeks ended 30 October 2022

| **Other comprehensive income/(expense)** | Note | **52 weeks ended 30 October 2022 £m** | 39 weeks ended 31 October 2021 £m |
|---|---|---|---|
| **Items that will not be reclassified to profit or loss** | | | |
| Remeasurement of defined benefit schemes | 8.2 | **(309)** | 236 |
| Tax on defined benefit schemes | 2.3 | **77** | (90) |
| | | **(232)** | 146 |
| **Items that may be reclassified subsequently to profit or loss** | | | |
| Cash flow hedging movement | | **335** | 167 |
| Exchange differences on translation of foreign operations | | **(1)** | 1 |
| Tax on items that may be reclassified subsequently to profit or loss | 2.3 | **(84)** | (42) |
| | | **250** | 126 |
| **Other comprehensive income for the period, net of tax** | | **18** | 272 |
| **Profit/(loss) for the period** | | **(25)** | (247) |
| **Total comprehensive (expense)/income for the period** | | **(7)** | 25 |

1 Alternative performance measures are defined in the glossary (see pages 131-133)

2 Supply chain disruption costs in the 52 weeks 30 October 2022 amounted to £44m (39 weeks ended 31 October 2021: £30m) and are included in arriving at gross profit. These costs relate to the mitigating actions and impact on the Group's operations arising from the unprecedented nationwide disruption in the supply chain and lack of availability in the labour market, including warehouse, transport and manufacturing costs. These costs began to be incurred during August 2021 and returned to a stable level during March 2022. These costs have been disclosed separately to provide additional information to users of the financial statements.

All of the results shown above relate to continuing operations.

# Consolidated statement of financial position

As at 30 October 2022

| | Note | **30 October 2022 £m** | 31 October 2021 £m |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Goodwill and intangible assets | 3.2 | **416** | 320 |
| Property, plant and equipment | 3.3 | **7,337** | 7,327 |
| Right-of-use assets | 3.4 | **889** | 940 |
| Investment property | 3.6 | **58** | 61 |
| Retirement benefit surplus | 8.2 | **691** | 995 |
| Investments in joint ventures | 4.2 | **27** | 31 |
| Trade and other receivables | 3.7 | **86** | 81 |
| Derivative financial assets | 7.3 | **128** | 43 |
| | | **9,632** | 9,798 |
| **Current assets** | | | |
| Inventories | 5.2 | **990** | 902 |
| Trade and other receivables | 5.3 | **379** | 427 |
| Current tax asset | | **8** | 53 |
| Derivative financial assets | 7.3 | **359** | 33 |
| Cash and cash equivalents | 6.6 | **287** | 296 |
| | | **2,023** | 1,711 |
| Assets classified as held-for-sale | 3.5 | **-** | 1 |
| | | **2,023** | 1,712 |
| **Total assets** | | **11,655** | 11,510 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 5.4 | **(3,452)** | (3,187) |
| Borrowings | 6.3 | **-** | (838) |
| Loan from parent undertaking | 6.4 | **(1,843)** | - |
| Lease liabilities | 6.5 | **(73)** | (76) |
| Derivative financial liabilities | 7.3 | **(3)** | (19) |
| | | **(5,371)** | (4,120) |
| **Non-current liabilities** | | | |
| Borrowings | 6.3 | **(84)** | (1,107) |
| Lease liabilities | 6.5 | **(1,239)** | (1,284) |
| Derivative financial liabilities | 7.3 | **-** | (2) |
| Retirement benefit deficit | 8.2 | **-** | (28) |
| Deferred tax liabilities | 2.3 | **(740)** | (730) |
| Provisions | 5.5 | **(43)** | (55) |
| | | **(2,106)** | (3,206) |
| **Total liabilities** | | **(7,477)** | (7,326) |
| **Net assets** | | **4,178** | 4,184 |
| **Shareholders' equity** | | | |
| Share capital | 6.7 | **245** | 245 |
| Share premium | 6.7 | **253** | 252 |
| Capital redemption reserve | 6.8 | **39** | 39 |
| Merger reserve | 6.8 | **2,578** | 2,578 |
| Hedging reserve | 6.8 | **373** | 122 |
| Retained earnings | 6.8 | **690** | 948 |
| **Total equity attributable to the owners of the Company** | | **4,178** | 4,184 |

The notes on pages 63 to 107 form part of these financial statements. The financial statements on pages 56 to 107 were approved by the Board of Directors on 25 January 2023 and were signed on its behalf by:

**Joanna Goff, Chief Financial Officer**
Company registration number: 00358949

# Consolidated statement of cash flows

52 weeks ended 30 October 2022

| | Note | 52 weeks ended 30 October 2022 £m | 39 weeks ended 31 October 2021 £m |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from operations | 5.6 | **735** | 621 |
| Interest paid | | **(78)** | (76) |
| Taxation received/(paid) | | **52** | (17) |
| **Net cash inflow from operating activities** | | **709** | 528 |
| **Cash flows from investing activities** | | | |
| Interest received | | **1** | - |
| Dividends received from joint ventures | 4.2 | **8** | - |
| Proceeds from disposal of property, plant and equipment, investment property and assets held-for-sale | | **17** | 10 |
| Purchase of property, plant and equipment and investment property | | **(430)** | (307) |
| Purchase of intangible assets | | **(79)** | (53) |
| Acquisition of business (net of cash received) | 4.3 | **(187)** | (8) |
| Investments in joint ventures | | **(2)** | - |
| **Net cash outflow from investing activities** | | **(672)** | (358) |
| **Cash flows from financing activities** | | | |
| Purchase of trust shares | 6.7 | **-** | (3) |
| Settlement of share awards | 6.7 | **-** | (8) |
| Proceeds from trust shares | 6.7 | **41** | - |
| Proceeds from exercise of employee share options | 6.7 | **1** | 55 |
| Proceeds from settlement of derivative contracts | | **18** | 118 |
| Costs incurred on repayment of borrowings | | **(12)** | - |
| Repayment of borrowings | | **(1,859)** | (94) |
| Loan from parent undertaking | 6.4 | **1,843** | - |
| Repayment of lease obligations | | **(78)** | (59) |
| Dividends paid | 1.7 | **-** | (123) |
| **Net cash outflow from financing activities** | | **(46)** | (114) |
| | | | |
| **Net (decrease)/increase in cash and cash equivalents** | | **(9)** | 56 |
| Cash and cash equivalents at start of period | | **296** | 240 |
| **Cash and cash equivalents at end of period** | 6.6 | **287** | 296 |

# Consolidated statement of changes in equity

52 weeks ended 30 October 2022

| | 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 1 November 2021 | | **245** | **252** | **39** | **2,578** | **122** | **948** | **4,184** |
| Loss for the period | | **-** | **-** | **-** | **-** | **-** | **(25)** | **(25)** |
| Other comprehensive income/(expense): | | | | | | | | |
| Cash flow hedging movement | | **-** | **-** | **-** | **-** | **335** | **-** | **335** |
| Exchange differences on translation of foreign operations | | **-** | **-** | **-** | **-** | **-** | **(1)** | **(1)** |
| Remeasurement of defined benefit schemes | 8.2 | **-** | **-** | **-** | **-** | **-** | **(309)** | **(309)** |
| Tax in relation to components of other comprehensive income | 2.3 | **-** | **-** | **-** | **-** | **(84)** | **77** | **(7)** |
| Total comprehensive income/(expense) for the period | | **-** | **-** | **-** | **-** | **251** | **(258)** | **(7)** |
| Employee share option schemes: | | | | | | | | |
| Share options exercised | 6.7 | **-** | **1** | **-** | **-** | **-** | **-** | **1** |
| Total transactions with owners | | **-** | **1** | **-** | **-** | **-** | **-** | **1** |
| **At 30 October 2022** | | **245** | **253** | **39** | **2,578** | **373** | **690** | **4,178** |

| | 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 1 February 2021 | | 241 | 201 | 39 | 2,578 | (3) | 1,160 | 4,216 |
| Loss for the period | | - | - | - | - | - | (247) | (247) |
| Other comprehensive income/(expense): | | | | | | | | |
| Cash flow hedging movement | | - | - | - | - | 167 | - | 167 |
| Exchange differences on translation of foreign operations | | - | - | - | - | - | 1 | 1 |
| Remeasurement of defined benefit schemes | 8.2 | - | - | - | - | - | 236 | 236 |
| Tax in relation to components of other comprehensive income | 2.3 | - | - | - | - | (42) | (90) | (132) |
| Total comprehensive income/(expense) for the period | | - | - | - | - | 125 | (100) | 25 |
| Employee share option schemes: | | | | | | | | |
| Purchase of trust shares | 6.7 | - | - | - | - | - | (3) | (3) |
| Share-based payments charge | | - | - | - | - | - | 29 | 29 |
| Settlement of share awards | 6.7 | - | - | - | - | - | (56) | (56) |
| Share options exercised | 6.7 | 4 | 51 | - | - | - | - | 55 |
| Sale of trust shares | | - | - | - | - | - | 41 | 41 |
| Dividends | 1.7 | - | - | - | - | - | (123) | (123) |
| Total transactions with owners | | 4 | 51 | - | - | - | (112) | (57) |
| **At 31 October 2021** | | 245 | 252 | 39 | 2,578 | 122 | 948 | 4,184 |

# General information

**Company information**
Wm Morrison Supermarkets Limited is a company incorporated in the United Kingdom and registered in England and Wales under the Companies Act 2006 (Registration number 00358949). Following the de-listing of its shares from the London Stock Exchange on 28 October 2021, the Company was re-registered as a private company limited by shares on 17 November 2021. The Company is domiciled in the United Kingdom and its registered address is Hilmore House, Gain Lane, Bradford, BD3 7DL. See principal activity in the Strategic Report on page 4.

**Basis of preparation**
The consolidated financial statements have been prepared for the 52 weeks ended 30 October 2022 and the 39 weeks ended 31 October 2021 in accordance with UK-adopted International Accounting Standards and International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board ('IASB') and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

The consolidated financial statements are presented in pounds sterling, rounded to the nearest million. They are drawn up on the historical cost basis of accounting, except as disclosed in the accounting policies set out within these consolidated financial statements.

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

**Accounting reference date**
These consolidated financial statements of the Group represent the 52 week period to 30 October 2022. The Group changed its accounting reference date from 31 January to 31 October in the previous financial period. Consequently, the comparative period covers the 39 weeks to 31 October 2021. The accounting period of the Group ends on a Sunday not more than seven days before or after the accounting reference date of 31 October.

**Going concern**
The consolidated 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 risks facing the Group and determined that there are no material uncertainties to disclose. In making their assessment of the Group's ability to continue as a going concern, the Directors have considered the projected performance of the Group and its financial resources under new ownership, including the impact of the acquisition of McColl's.

The Directors' assessment of the Group's ability to continue as a going concern includes consideration of cash flow forecasts and the committed borrowing facilities in place of the Group and its parent entities. These forecasts include consideration of future trading performance including McColl's, working capital requirements, and the wider Group's current financing arrangements, along with wider economic conditions, and include the modelling of a number of downside scenarios. The scenarios considered take account of a number of severe, but plausible, downsides that the Group might experience by flexing the forecasts for a number of financial assumptions, such as reductions in like-for-like ('LFL') sales, fuel price and volumes, profit sensitivities, and a reduction in the level of available supply chain finance facilities.

The Group continues to maintain a robust financial position providing it with sufficient access to liquidity, through a combination of cash, intercompany loans, committed facilities and supply chain finance 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 94.

As at 30 October 2022, the Group (including its parent entities) had total committed revolving credit facilities of £1,000m available and a supply chain finance facility of £997m. In respect of financial covenants in relation to the wider Group's financing structure at 30 October 2022, the base and downside scenarios modelled, which include mitigating actions available, demonstrate sufficient financial covenant headroom being available. In addition, Market Topco Limited (the ultimate parent of Market Bidco Limited) has provided a letter stating its intentions to support the Group for at least the period of the going concern assessment.

As a result, the Directors are satisfied that the going concern basis remains appropriate for the preparation of the consolidated financial statements, with the wider Group remaining well-funded, profitable and cash generative for a period of at least 12 months from the date of approval of these consolidated financial statements.

**New standards, interpretations and amendments adopted in the financial period ended 30 October 2022**
There are no new standards, interpretations and amendments to standards which are mandatory for the Group for the first time for the 52 weeks ended 30 October 2022 which have a material impact on the Group's consolidated financial statements.

**New standards, interpretations and amendments to published standards that are not yet effective**
There are a number of standards and interpretations which have not yet been endorsed and not yet effective, during or after this current 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.

# General information (continued)

**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, other than where they relate to balances associated with parent entities of Wm Morrison Supermarkets Limited.

**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 consolidated 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 a 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 is 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 131 to 133.

**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.

As at 30 October 2022, the Group has considered the impact of its acquisition of McColl's on its critical estimates and judgements and does not consider that there is a significant impact on any of those areas. For further details on the acquisition, see note 4.3.

**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 credit'. For further details, see the Glossary on page 131. The Directors consider that this adjusted profit measure provides useful information for stakeholders on ongoing trends and performance.

The profit before exceptionals measure is not a recognised measure 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 consideration of 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.

# General information (continued)

***Profit before exceptionals (continued)***
Despite being a recurring item, the Group has chosen to also exclude net retirement benefit credit from profit before exceptionals as it is not part of the operating activities of the Group, and its exclusion is consistent with how the Directors assess the performance of the business.

***Leases***
In determining the value of lease liabilities and associated right-of-use assets, the Group must make an assessment of the lease term. This assessment requires judgement with regard to the likelihood that any extension or break options included in a lease will be exercised. The duration of the lease term can have a significant impact on the amounts recognised in the financial statements for the lease. 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 distribution centres 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 annually as required by the Group's accounting policies for lease liabilities. Further detail is provided in notes 6.1 and 6.5.

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. This is a key source of estimation uncertainty. Further details are provided in note 6.1.

***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, the 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 8.4.1.

Where a defined benefit scheme is in a surplus position, consideration is made as to whether the Group has the right to recognise that 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. Following updated legal advice received, the Directors have concluded that the Group does have the right to recognise a surplus. Further details are provided in note 8.5.

**Sources of estimation uncertainty**
The areas of estimation uncertainty that the Group believes could have the most significant risk of causing a material adjustment to the carrying value of assets and liabilities within the next financial period, in addition to the estimation uncertainty in the retirement benefit schemes set out above, 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 at each period end for impairment or where changes in circumstances indicate a risk of 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 requires expected future cash flows discounted using an appropriate discount rate. Judgement is required in applying estimates to assess the level of provision needed, specifically in relation to discount rates and future growth rates. Further detail is provided in notes 3.1, 3.2, 3.3, 3.4 and 3.6.

Other sources of estimation uncertainty include:

***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. A 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 level of judgement is higher when supplier agreements do not end co-terminously with the financial reporting period. 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 previous loss rates and other relevant information. The Group's accounting policy for inventories is provided in note 5.1.

# Notes to the Group financial statements

## 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 vast majority of the Group's transactions being completed shortly after the transaction is entered into with the customer.

**Sale of goods in-store and online, and sale of fuel**
For revenue from the sale of goods in-store, fuel and online, the transaction price is the value of the goods net of returns, colleague discounts, coupons, vouchers and the free element of multi-save transactions. It comprises sales proceeds from customers and excludes VAT. Sale of fuel is recognised net of VAT. 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.

**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. 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 period, 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 financial period 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 financial period in accordance with the specific supplier terms. |

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.

# Notes to the Group financial statements (continued)

## 1 Performance in the period (continued)

### 1.1 Accounting policies (continued)

**Commercial income (continued)**

- 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 1.5, 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, 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 closure**
Profit/(loss) from disposal and closure includes gains and losses on the disposal of assets and other costs incurred by the Group following a decision to dispose, close or no longer purchase properties or businesses. 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

| | **52 weeks ended 30 October 2022 £m** | 39 weeks ended 31 October 2021 £m |
|---|---|---|
| Sale of goods in-store and online[1] | **13,752** | 10,298 |
| Other sales[1] | **737** | 801 |
| Total sales excluding fuel | **14,489** | 11,099 |
| Fuel | **3,990** | 2,384 |
| **Total revenue** | **18,479** | 13,483 |

[1] Prior to the acquisition of McColl's on 9 May 2022, wholesale revenues to McColl's were presented in 'other sales'. After the acquisition, wholesale revenues to McColl's are eliminated on consolidation and the retail sales made by McColl's are included in 'sale of goods in-store and online'.

All revenue is derived from contracts with customers and is generated in the UK.

### 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 Board of Directors, 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, wholesale supply and convenience business. 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 EBITDA 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 the financial results section of the strategic report on page 8 and in the glossary on page 132. In addition, the management accounts present a Group statement of financial position containing assets and liabilities.

# Notes to the Group financial statements (continued)

## 1 Performance in the period (continued)

### 1.4 Profit before exceptionals

Profit before exceptionals exclude the items listed in the table below, which are deemed significant in size and/or nature including any tax on those items.

| | **52 weeks ended 30 October 2022 £m** | 39 weeks ended 31 October 2021 £m |
|---|---|---|
| Profit/(loss) after tax | **(25)** | (247) |
| Add back: tax (credit)/charge for the period | **(8)** | 126 |
| Profit/(loss) before tax | **(33)** | (121) |
| Adjustments for: | | |
| Net impairment and provision for onerous contracts | **105** | 110 |
| (Profit)/loss on disposal and closure | **(10)** | 28 |
| Restructuring and store closure costs | **18** | 19 |
| Net finance costs relating to repayment of borrowings (note 6.2) | **9** | - |
| Net retirement benefit credit (note 8.2) [1] | **(10)** | (4) |
| Transaction costs | **92** | 98 |
| Other exceptional items | **15** | 3 |
| Profit before tax and exceptionals [2] | **186** | 133 |
| Tax charge before exceptionals [2] | **(33)** | (39) |
| **Profit before exceptionals after tax** | **153** | 94 |

1 Net retirement benefit credit in the period is made up of net retirement benefit interest income of £18m net of retirement benefit administrative costs of £8m

2 This is defined in the Glossary, see page 131-133

**Net impairment and provision for onerous contracts**

A net charge of £105m (39 weeks ended 31 October 2021: net charge of £110m) has been recognised in respect of impairment and provision for onerous contracts for the 52 weeks ended 30 October 2022.

The net charge of £105m includes:

- A net £95m impairment charge, comprising a £7m impairment charge on intangible assets and an £88m impairment charge on tangible assets (comprising a £330m impairment charge offset by a £242m impairment write back); and
- A net charge of £10m in respect of onerous contract provisions.

The £88m impairment charge on tangible assets includes £68m in relation to property, plant and equipment (comprising a £276m charge offset by a £208m write back), £17m in respect of right-of-use assets (comprising a £51m charge offset by a £34m write back) and £3m charge for investment property (see notes 3.3, 3.4 and 3.6 respectively).

In the 39 weeks ended 31 October 2021, the net charge of £110m included:

- a net £70m impairment charge, comprising a £10m impairment charge on intangible assets offset by a £1m write back (net £9m intangible asset charge) and a £230m impairment charge on tangible assets offset by a £169m write back of impairment on tangible assets (net £61m tangible asset charge);
- a £3m charge relating to temporary store build costs associated with one site; and
- a charge of £37m in respect of amounts provided for onerous contractual commitments and related assets

**Profit/(loss) arising on disposal and closure**

A net profit arising on disposal and closure of £10m has been recognised (39 weeks ended 31 October 2021: £28m net loss) in relation to property disposals (net profit of £13m) and closure of certain operations (costs incurred of £3m).

A net loss arising on disposal and closure of £28m was recognised in the 39 weeks ended 31 October 2021. The business closure costs included a £33m charge in relation to the closure of some operations and the consolidation of certain store pick sites, and a net £5m credit recognised in respect of profits on disposal of properties.

**Restructuring and store closure costs**

Restructuring and store closure costs total £18m for the 52 weeks ended 30 October 2022 (39 weeks ended 31 October 2021: £19m). These costs include £6m, £7m and £5m for reorganisations within logistics, retail and central functions, respectively.

**Net finance costs**

Net finance costs of £9m for the 52 weeks ended 30 October 2022 (39 weeks ended 31 October 2021: £nil) relate to costs associated with the early repayment of borrowings of £21m, offset by an interest rate swap credit of £12m, linked to the repaid borrowings.

# Notes to the Group financial statements (continued)

## 1 Performance in the period (continued)

### 1.4 Profit before exceptionals (continued)

**Transaction costs**
During the current year, £92m of exceptional costs have been recognised, principally in relation to McColl's (39 weeks ended 31 October 2021: £98m relating to the acquisition of the Group by Market Bidco Limited). The current year charge comprises £7m of professional fees in connection with the McColl's transaction, £3m of post-acquisition property and other one-off costs and an £81m write-off of trade and other receivable balances, mainly as a direct result of the McColl's business entering into administration pre-acquisition, with a further £1m relating to the Market Bidco Limited acquisition.

**Other exceptional items**
Other exceptional items total £15m (39 weeks ended 31 October 2021: £3m), and principally represent costs incurred in relation to legal cases in respect of historic events.

**Taxation**
The total tax credit for the 52 week period ended 30 October 2022 of £8m (39 weeks ended 31 October 2021: £126m) includes an exceptional tax credit of £41m largely relating to tax deductible exceptional costs (39 weeks ended 31 October 2021: £87m charge). Tax before exceptionals is £33m (39 weeks ended 31 October 2021: £39m) which implies a normalised tax rate of 17.5% (31 October 2021: 29.5%).

# Notes to the Group financial statements (continued)

## 1 Performance in the period (continued)

### 1.5 Operating profit/(loss)

| | 52 weeks ended 30 October 2022 £m | 39 weeks ended 31 October 2021 £m |
|---|---|---|
| The following items have been included in arriving at operating profit/(loss): | | |
| Employee costs (note 1.6) | **2,020** | 1,502 |
| Depreciation and impairment: | | |
| Property, plant and equipment (note 3.3) | **452** | 317 |
| Right-of-use assets (note 3.4) | **66** | 50 |
| Investment property (note 3.6) | **2** | 2 |
| Net impairment charge (notes 3.3, 3.4 and 3.6) | **88** | 61 |
| Amortisation and impairment: | | |
| Intangible assets (note 3.2) | **89** | 60 |
| Net impairment charge (note 3.2) | **7** | 9 |
| Other lease expenses: | | |
| Short-term leases longer than one month | **5** | 9 |
| Leases of low-value assets, excluding short-term | **2** | 2 |
| Value of inventories expensed | **14,214** | 10,410 |

**Commercial income**

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

| | 52 weeks ended 30 October 2022 £m | 39 weeks ended 31 October 2021 £m |
|---|---|---|
| Marketing and advertising funding | **169** | 71 |
| Volume-based rebates | **116** | 99 |
| **Total commercial income** | **285** | 170 |

**Auditor remuneration**

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

| | 52 weeks ended 30 October 2022 £m | 39 weeks ended 31 October 2021 £m |
|---|---|---|
| **Audit services** | | |
| Fees payable to the Group's auditor for the audit of the Group and the Company financial statements | **1.0** | 1.2 |
| Fees payable to the Group's auditor for the audit of the Group's subsidiaries pursuant to legislation | **0.8** | 0.4 |
| **Non-audit services** | | |
| Other services | **0.1** | 0.2 |
| | **1.9** | 1.7 |

The Board has a policy on the engagement of the external auditor to supply non-audit services and that policy has not been breached during the period. Non-audit services arose in relation to interim reviews in both periods.

# Notes to the Group financial statements (continued)

## 1 Performance in the period (continued)

### 1.6 Employees and Directors

| | 52 weeks ended 30 October 2022 £m | 39 weeks ended 31 October 2021 £m |
|---|---|---|
| **Employee benefit expense for the Group during the period** | | |
| Wages and salaries | **1,781** | 1,320 |
| Social security costs | **136** | 101 |
| Share-based payments | **2** | 2 |
| Retirement benefit costs | **101** | 79 |
| | **2,020** | 1,502 |

In addition to the amounts disclosed in the table above, there was an £14m exceptional charge relating to restructuring costs. (39 weeks ended 31 October 2021: £61m exceptional charge for restructuring costs and share-based payments).

| | 52 weeks ended 30 October 2022 No | 39 weeks ended 31 October 2021 No |
|---|---|---|
| **Average monthly number of people, including Directors** | | |
| Stores | **95,200** | 93,678 |
| Manufacturing | **8,599** | 8,911 |
| Distribution | **6,570** | 6,631 |
| Centre | **3,292** | 3,141 |
| | **113,661** | 112,361 |

**Directors' remuneration**

| | 52 weeks ended 30 October 2022 £m | 39 weeks ended 31 October 2021 £m |
|---|---|---|
| Aggregate emoluments, excluding pension contributions | **3.2** | 2.5 |
| Contributions in lieu of pension schemes' supplements | **0.4** | 0.4 |
| | **3.6** | 2.9 |

In addition to the amounts disclosed in the table above, there was a £2m charge included in exceptional costs for the year relating to compensation for loss of office (39 weeks ended 31 October 2021: £8m exceptional charge for amounts receivable under long-term incentive schemes).

No Directors are accruing retirement benefits under defined benefit contribution personal pension schemes (39 weeks ended 31 October 2021: none). Contributions in lieu of pension schemes' supplements have been received by four directors over the period (39 weeks ended 31 October 2021: three).

**Highest paid Director**

The highest paid Director emoluments attributable to the same Director in both periods presented below were as follows:

| | 52 weeks ended 30 October 2022 £m | 39 weeks ended 31 October 2021 £m |
|---|---|---|
| Total amount of emoluments and amounts receivable under long-term incentive schemes | **1.5** | 4.1 |
| Company contributions in lieu of pension schemes' supplements | **0.2** | 0.2 |
| | **1.7** | 4.3 |

In addition to the amounts disclosed in the table above, there was no charge included in exceptional costs for the year (39 weeks ended 31 October 2021: £4m exceptional charge for share-based payments).

# Notes to the Group financial statements (continued)

## 1 Performance in the period (continued)

### 1.6 Employees and Directors (continued)

**Senior management remuneration**

The table below shows the remuneration of senior managers. It excludes employees already included in the Directors' remuneration set out above, except for the share based payments charge which is attributable to both the senior managers and two Directors. Senior managers are considered to be key management personnel in accordance with the requirements of IAS 24 'Related party disclosures'.

| | **52 weeks ended 30 October 2022 £m** | 39 weeks ended 31 October 2021 £m |
|---|---|---|
| **Senior managers** | | |
| Wages and salaries | **16** | 12 |
| Social security costs | **2** | 1 |
| Share-based payments | **1** | - |
| Retirement benefit costs | **2** | 1 |
| | **21** | 14 |

In addition to the amounts disclosed in the table above, there was a £1m charge included in exceptional restructuring costs for the year (39 weeks ended 31 October 2021: £13m exceptional charge for restructuring and share-based payments).

### 1.7 Dividends

There have been no dividends paid or declared in this financial period (39 weeks ended 31 October 2021: total of £123m at 5.11p per share).

# Notes to the Group financial statements (continued)

## 2 Taxation

The Group takes a compliance-focused approach to its tax affairs, 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 Board of Directors, 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 vast majority of the Group's business is in the UK so the vast majority of the Group's taxes are paid in the UK. The Group operates a very small number of branches and subsidiary companies outside of the UK in overseas territories.

### 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 affect 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 Accounting for Uncertainties in Income Taxes which provides guidance on the determination of taxable profit and tax bases.

The Group uses in-house tax specialists, professional advisors 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.

### 2.2 Taxation

#### 2.2.1 Analysis of (credit)/charge in the period

| | **52 weeks ended 30 October 2022 £m** | 39 weeks ended 31 October 2021 £m |
|---|---|---|
| **Current tax** | | |
| UK corporation tax | **-** | - |
| Foreign tax | **1** | 1 |
| Adjustments in respect of prior periods | **(9)** | (10) |
| | **(8)** | (9) |
| **Deferred tax** | | |
| Origination and reversal of timing differences | **(6)** | 9 |
| Adjustments in respect of prior periods | **11** | 11 |
| Impact of change in tax rate | **(5)** | 115 |
| | **-** | 135 |
| **Tax (credit)/charge for the period** | **(8)** | 126 |

# Notes to the Group financial statements (continued)

## 2 Taxation (continued)

### 2.2.2 Tax on items charged in other comprehensive income and equity

| | 52 weeks ended 30 October 2022 £m | 39 weeks ended 31 October 2021 £m |
|---|---|---|
| Remeasurements of defined benefit retirement schemes and impact of rate change | **(77)** | 90 |
| Cash flow hedges | **84** | 42 |
| **Total tax on items included in other comprehensive income and equity (note 2.3)** | **7** | 132 |

### 2.2.3 Tax reconciliation

The reconciliation below shows how the tax credit of £8m (39 weeks ended 31 October 2021: charge of £126m) has arisen on the loss before tax of £33m (39 weeks ended 31 October 2021: loss before tax of £121m).

The tax for the period is different to the standard rate of corporation tax in the UK of 19% (31 October 2021: 19%). The differences are explained below:

| | 52 weeks ended 30 October 2022 £m | 39 weeks ended 31 October 2021 £m |
|---|---|---|
| Loss before taxation | **(33)** | (121) |
| Loss before taxation at 19% (31 October 2021: 19%) | **(6)** | (23) |
| Effects of: | | |
| Recurring items: | | |
| Expenses not deductible for tax purposes | **3** | 9 |
| Tax relief on share-based payments | **-** | (17) |
| Disallowed depreciation on UK properties | **21** | 22 |
| Group relief claimed | **(5)** | - |
| Deferred tax on Safeway acquisition assets | **(25)** | - |
| Non-recurring items: | | |
| Profit on property transactions | **1** | 1 |
| Exceptional costs | **6** | 18 |
| Adjustments in respect of prior periods | **2** | 1 |
| Effect of change in tax rate | **(5)** | 115 |
| **Tax (credit)/charge for the period** | **(8)** | 126 |

**Factors affecting current and future tax charges**

The effective tax rate for the period was 24.2% (31 October 2021: 98.9%). The normalised (pre-exceptionals) tax rate for the year was 17.5% (31 October 2021: 29.5%).

The normalised tax rate was 1.5% below (31 October 2021: 10.5% above) the UK statutory tax rate. This rate reduced year on year due to an increase in profit before exceptionals and release of deferred tax on Safeway acquisition assets.

An increase in the standard rate of corporation tax from 19% to 25% from 1 April 2023 was announced at the Budget in 2021 and was substantively enacted during the prior period, so deferred tax balances have been calculated at 19% or 25% depending upon when the temporary difference is expected to reverse. There were no changes to the corporate tax rate announced at the Budget in 2022.

### 2.3 Deferred tax liabilities

| | 30 October 2022 £m | 31 October 2021 £m |
|---|---|---|
| Deferred tax liability | **(832)** | (839) |
| Deferred tax asset | **92** | 109 |
| **Net deferred tax liability** | **(740)** | (730) |

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.

## 2 Taxation (continued)

### 2.3 Deferred tax liabilities (continued)

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 1 November 2021 | (532) | (241) | 43 | **(730)** |
| On acquisition of business | - | (3) | - | **(3)** |
| Credited/(charged) to profit/loss for the period | 14 | (5) | (14) | **(5)** |
| Credited to profit/loss for the period – impact of rate change | - | - | 5 | **5** |
| Credited/(charged) to other comprehensive income and equity | - | 77 | (84) | **(7)** |
| **At 30 October 2022** | (518) | (172) | (50) | **(740)** |
| **Prior period** | | | | |
| At 1 February 2021 | (387) | (136) | 60 | **(463)** |
| (Charged)/credited to profit/loss for the period | (23) | (3) | 6 | **(20)** |
| (Charged)/credited to profit/loss for the period – impact of rate change | (122) | (12) | 19 | **(115)** |
| Charged to other comprehensive income and equity | - | (59) | (42) | **(101)** |
| Charged to other comprehensive income and equity – impact of rate change | - | (31) | - | **(31)** |
| **At 31 October 2021** | (532) | (241) | 43 | **(730)** |

The analysis of deferred tax liabilities are as follows:

| | **30 October 2022 £m** | 31 October 2021 £m |
|---|---|---|
| Deferred tax liability to be settled within 12 months | **(10)** | 16 |
| Deferred tax liability to be settled after more than 12 months | **(730)** | (746) |
| | **(740)** | (730) |

# Notes to the Group financial statements (continued)

## 3 Operating assets

### 3.1 Accounting policies

**Intangible assets**

**Goodwill**
Goodwill arising on a business combination is not amortised, but is reviewed for impairment at each period end 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, licences and reacquired right)**
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 accumulated 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.

Acquired pharmaceutical licences and software licences are recognised at historical cost less accumulated amortisation and accumulated impairment losses. 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.

The reacquired right was established as part of the McColl's business combination and measured at fair value at the acquisition date. This is amortised over the remaining contractual period of the contract in which the right was granted. 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 are 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.

**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 are 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.

Subsequent to initial measurement, the right-of-use asset is also adjusted for certain remeasurements of the associated lease liability and provision for dilapidations.

**Investment property**
Property held to earn rental income is classified as investment property and is held at cost less accumulated depreciation and accumulated impairment losses. This includes leasehold properties which are held as right-of-use assets. The depreciation policy is consistent with that described for property above.

# Notes to the Group financial statements (continued)

## 3 Operating Assets (continued)

### 3.1 Accounting policies (continued)

**Non-current assets classified as held-for-sale**

Non-current assets are classified as held-for-sale under IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations', 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.

**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 at each period end for impairment or more frequently 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. Impairment expense is charged primarily to administration expenses and regarded as an exceptional item.

The Group considers that each of its store locations is a CGU, which together form a grocery group of CGUs supported by corporate assets (excluding McColl's stores). 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. The cash flows for online store pick are considered as part of the store location CGU 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 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 income is 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 at each reporting date. Other receivables that are non-financial assets, such as deferred non-cash sale consideration, are recognised at fair value.

# Notes to the Group financial statements (continued)

## 3 Operating Assets (continued)

### 3.2 Goodwill and intangible assets

| Current period | Note | Goodwill £m | Other intangibles £m | **Total £m** |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 November 2021 | | 10 | 589 | **599** |
| On acquisition of business | 4.3 | 95 | 17 | **112** |
| Additions | | - | 79 | **79** |
| Interest capitalised | | - | 1 | **1** |
| Disposals | | - | (15) | **(15)** |
| Fully written down assets | | - | (70) | **(70)** |
| **At 30 October 2022** | | 105 | 601 | **706** |
| | | | | |
| **Accumulated amortisation and accumulated impairment losses** | | | | |
| At 1 November 2021 | | - | 279 | **279** |
| Amortisation charge for the period | | - | 89 | **89** |
| Impairment | | - | 7 | **7** |
| Disposals | | - | (15) | **(15)** |
| Fully written down assets | | - | (70) | **(70)** |
| **At 30 October 2022** | | - | 290 | **290** |
| **Net book amount at 30 October 2022** | | 105 | 311 | **416** |
| *Assets under construction included above* | | - | *35* | *35* |

Other intangibles include software development costs, licences and reacquired rights. The net book amount of licences at 30 October 2022 was £11m (31 October 2021: £11m).

The Group has performed an assessment of its amortisation policies and asset lives and deemed them to be appropriate. As in previous financial periods, fully amortised assets are retained in the Group's fixed asset register. In order to provide greater understanding of the Group's amortisation charge, assets which have become fully amortised in the financial period have been removed from both cost and accumulated amortisation.

Having applied the same impairment methodology and key assumptions as for property, plant and equipment disclosed in note 3.3, a net impairment charge of £7m (39 weeks ended 31 October 2021: £9m) has been recognised in relation to intangible assets. This has been excluded from profit before exceptionals (see note 1.4).

**Goodwill**
The goodwill brought forward of £10m arose on the acquisition of Flower World Limited (£3m) and Farmers Boy (Deeside) Limited (£7m). During the year, goodwill of £95m arose on the acquisition of McColl's (see note 4.3).

**Impairment testing of goodwill**
Goodwill has been tested for impairment via the value-in-use calculation described in note 3.3, and no impairment is considered necessary at 30 October 2022 (31 October 2021: none).

**Software development costs**
The cost of internal labour capitalised during the period is £16m (31 October 2021: £13m).

## 3 Operating Assets (continued)

### 3.2 Goodwill and intangible assets (continued)

| Prior period | Goodwill £m | Other intangibles £m | Total £m |
|---|---|---|---|
| **Cost** | | | |
| At 1 February 2021 | 10 | 579 | 589 |
| Additions | - | 60 | 60 |
| Interest capitalised | - | 1 | 1 |
| Disposals | - | (15) | (15) |
| Fully written down assets | - | (36) | (36) |
| At 31 October 2021 | 10 | 589 | 599 |
| **Accumulated amortisation and accumulated impairment losses** | | | |
| **At 1 February 2021** | - | 261 | 261 |
| Amortisation charge for the period | - | 60 | 60 |
| Impairment | - | 10 | 10 |
| Impairment write back | - | (1) | (1) |
| Disposals | - | (15) | (15) |
| Fully written down assets | - | (36) | (36) |
| At 31 October 2021 | - | 279 | 279 |
| Net book amount at 31 October 2021 | 10 | 310 | 320 |
| *Assets under construction included above* | - | *14* | *14* |

### 3.3 Property, plant and equipment

| Current period | Note | Freehold land £m | Freehold buildings £m | Leasehold property improvements £m | Plant, equipment, fixtures and vehicles £m | **Total £m** |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At 1 November 2021 | | 3,848 | 4,215 | 634 | 2,461 | **11,158** |
| On acquisition of business | | - | 2 | - | 70 | **72** |
| Additions | 4.3 | 11 | 14 | 1 | 437 | **463** |
| Interest capitalised | | - | - | - | 1 | **1** |
| Disposals | | (10) | (6) | (1) | (4) | **(21)** |
| Fully written down assets | | - | (6) | (42) | (231) | **(279)** |
| **At 30 October 2022** | | 3,849 | 4,219 | 592 | 2,734 | **11,394** |
| **Accumulated depreciation and accumulated impairment losses** | | | | | | |
| At 1 November 2021 | | 331 | 1,968 | 400 | 1,132 | **3,831** |
| Depreciation charge for the period | | - | 110 | 16 | 326 | **452** |
| Impairment | | 138 | 44 | 12 | 82 | **276** |
| Impairment write back | | (100) | (90) | (12) | (6) | **(208)** |
| Disposals | | (6) | (5) | - | (4) | **(15)** |
| Fully written down assets | | - | (6) | (42) | (231) | **(279)** |
| **At 30 October 2022** | | 363 | 2,021 | 374 | 1,299 | **4,057** |
| **Net book amount at 30 October 2022** | | 3,486 | 2,198 | 218 | 1,435 | **7,337** |
| *Assets under construction included above* | | *10* | - | - | *37* | *47* |

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

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 depreciation charge, assets which have been fully depreciated in the period 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.

# Notes to the Group financial statements (continued)

## 3 Operating Assets (continued)

### 3.3 Property, plant and equipment (continued)

**Impairment**

At each reporting date, in line with IAS 36 'Impairment of assets,' the Group reviews the carrying amount of its property, plant and equipment, right-of-use assets, investment property and intangible assets to determine whether there is an indication that those assets have suffered an impairment loss or write back. In addition, it is Group policy to consider specific indicators of impairment for certain assets on an ongoing basis.

The Group considers each store location as a separate CGU. 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 net book value, an impairment charge is recognised based on the following methodology:

'Value-in-use' is calculated by projecting an individual location's 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;
- 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;
- 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 11.5% (31 October 2021: 7.5%). The Group takes into account a number of factors when assessing the discount rate, including the Group's WACC and other wider market factors. A combination of these factors has resulted in the increase of the discount rate used in the financial period ended 30 October 2022; and
- consideration is given to any significant one-off factors impacting the locations and any strategic, climate-related or market factors which may impact future performance.

'Fair value less costs of disposal' is estimated by the Directors based on store level valuations prepared by independent valuers, aided by 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.

The Group also considers its corporate assets for impairment at each reporting date. 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 30 October 2022, 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 charge of £68m (£276m impairment charge offset by a £208m impairment write back) during the period in respect of property, plant and equipment (39 weeks ended 31 October 2021: net £9m impairment charge, being a £147m impairment charge offset by £138m impairment write back). This movement reflects fluctuations from store level trading performance, discount rates and the valuation assessment of the properties.

At 30 October 2022, 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.£30m net increase in impairment and -1% discount rate or +1% growth rate would result in a c.£40m net reduction in impairment.

## 3 Operating Assets (continued)

### 3.3 Property, plant and equipment (continued)

| Prior period | Freehold land £m | Freehold buildings £m | Leasehold property improvements £m | Plant, equipment, fixtures and vehicles £m | Total £m |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 February 2021 | 3,848 | 4,201 | 635 | 2,355 | 11,039 |
| Additions | 4 | 16 | 1 | 283 | 304 |
| Interest capitalised | - | - | - | 1 | 1 |
| Transfers to assets classified as held-for-sale | - | (1) | - | - | (1) |
| Disposals | (4) | (1) | - | (34) | (39) |
| Fully written down assets | - | - | (2) | (144) | (146) |
| At 31 October 2021 | 3,848 | 4,215 | 634 | 2,461 | 11,158 |
| **Accumulated depreciation and accumulated impairment losses** | | | | | |
| At 1 February 2021 | 386 | 1,891 | 372 | 1,032 | 3,681 |
| Depreciation charge for the period | - | 83 | 12 | 222 | 317 |
| Impairment | 28 | 30 | 25 | 64 | 147 |
| Impairment write back | (79) | (35) | (7) | (17) | (138) |
| Disposals | (4) | (1) | - | (25) | (30) |
| Fully written down assets | - | - | (2) | (144) | (146) |
| At 31 October 2021 | 331 | 1,968 | 400 | 1,132 | 3,831 |
| Net book amount at 31 October 2021 | 3,517 | 2,247 | 234 | 1,329 | 7,327 |
| *Assets under construction included above* | *3* | - | - | *14* | *17* |

### 3.4 Right-of-use assets

| Current period | Leasehold land and buildings £m | Leased plant, equipment, fixtures and vehicles £m | **Total £m** |
|---|---|---|---|
| **Cost** | | | |
| At 1 November 2021 | 1,841 | 102 | **1,943** |
| Additions | 29 | 4 | **33** |
| Disposals | - | (1) | **(1)** |
| Fully written down assets | (17) | (8) | **(25)** |
| **At 30 October 2022** | 1,853 | 97 | **1,950** |
| **Accumulated depreciation and accumulated impairment losses** | | | |
| At 1 November 2021 | 956 | 47 | **1,003** |
| Depreciation charge for the period | 50 | 16 | **66** |
| Impairment | 51 | - | **51** |
| Impairment write back | (34) | - | **(34)** |
| Fully written down assets | (17) | (8) | **(25)** |
| **At 30 October 2022** | 1,006 | 55 | **1,061** |
| **Net book amount at 30 October 2022** | 847 | 42 | **889** |

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

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

# Notes to the Group financial statements (continued)

## 3 Operating Assets (continued)

### 3.4 Right-of-use assets (continued)

**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 charge of £17m (£51m impairment charge offset by £34m impairment write back) during the period in respect of right-of-use assets (39 weeks ended 31 October 2021: net £56m impairment charge; £83m impairment charge offset by £27m impairment write back). This movement reflects fluctuations from store level trading performance and local market conditions.

At 30 October 2022, 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.£5m loss and -1% discount rate or +1% growth rate would result in a c.£5m gain.

| **Prior period** | Leasehold land and buildings £m | Leased plant, equipment, fixtures and vehicles £m | Total £m |
|---|---|---|---|
| **Cost** | | | |
| At 1 February 2021 | 1,833 | 92 | 1,925 |
| Additions | 15 | 34 | 49 |
| Disposals | (5) | - | (5) |
| Fully written down assets | (2) | (24) | (26) |
| At 31 October 2021 | 1,841 | 102 | 1,943 |
| | | | |
| **Accumulated depreciation and accumulated impairment losses** | | | |
| At 1 February 2021 | 869 | 59 | 928 |
| Depreciation charge for the period | 38 | 12 | 50 |
| Impairment | 83 | - | 83 |
| Impairment write back | (27) | - | (27) |
| Disposals | (5) | - | (5) |
| Fully written down assets | (2) | (24) | (26) |
| At 31 October 2021 | 956 | 47 | 1,003 |
| Net book amount at 31 October 2021 | 885 | 55 | 940 |

### 3.5 Assets classified as held-for-sale

| | **30 October 2022 £m** | 31 October 2021 £m |
|---|---|---|
| At start of period | **1** | - |
| Transfers from property, plant and equipment at net book value | **-** | 1 |
| Disposals | **(1)** | - |
| **At end of period** | **-** | 1 |

During the 52 weeks ended 30 October 2022 no assets were transferred from property, plant and equipment to assets classified as held-for-sale (31 October 2021: cost of £1m and accumulated depreciation of £nil).

# Notes to the Group financial statements (continued)

## 3 Operating Assets (continued)

### 3.6 Investment property

| **Current period** | Freehold £m | Leasehold £m | **Total £m** |
|---|---|---|---|
| **Cost** | | | |
| At 1 November 2021 | 43 | 124 | **167** |
| Additions | - | 2 | **2** |
| Disposals | (1) | - | **(1)** |
| Fully written down assets | - | (7) | **(7)** |
| **At 30 October 2022** | 42 | 119 | **161** |
| | | | |
| **Accumulated depreciation and accumulated impairment losses** | | | |
| At 1 November 2021 | 21 | 85 | **106** |
| Depreciation charge for the period | 1 | 1 | **2** |
| Impairment charge | 3 | - | **3** |
| Disposals | (1) | - | **(1)** |
| Fully written down assets | - | (7) | **(7)** |
| **At 30 October 2022** | 24 | 79 | **103** |
| **Net book amount at 30 October 2022** | 18 | 40 | **58** |

Included in other operating income for the 52 weeks ended 30 October 2022 is £9m (39 weeks ended 31 October 2021: £8m) of rental income generated from investment properties. At the end of the period the fair value of freehold investment properties was £25m (31 October 2021: £32m), 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 1 February 2021 and at 31 October 2021 | 43 | 124 | 167 |
| | | | |
| **Accumulated depreciation and accumulated impairment losses** | | | |
| At 1 February 2021 | 21 | 87 | 108 |
| Depreciation charge for the period | - | 2 | 2 |
| Impairment write back | - | (4) | (4) |
| At 31 October 2021 | 21 | 85 | 106 |
| Net book amount at 31 October 2021 | 22 | 39 | 61 |

### 3.7 Trade and other receivables – non-current

| | **30 October 2022 £m** | 31 October 2021 £m |
|---|---|---|
| Finance leases – Group is lessor | **7** | 8 |
| Other receivables | **79** | 73 |
| | **86** | 81 |

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.

# Notes to the Group financial statements (continued)

## 3 Operating Assets (continued)

### 3.7 Trade and other receivables – non-current (continued)

**Finance leases**

The table below summarises the maturity profile of undiscounted finance lease payments due to the Group.

| | 30 October 2022 £m | 31 October 2021 £m |
|---|---|---|
| Less than one year | **1** | 1 |
| After one year but not more than five years | **4** | 4 |
| More than five years | **5** | 6 |
| **Total undiscounted lease payments** | **10** | 11 |
| **Unearned finance income** | **(3)** | (3) |
| **Net investment in the lease** | **7** | 8 |

Finance lease income of £1m has been recognised in the 52 weeks ended 30 October 2022 (39 weeks ended 31 October 2021: £1m).

**Operating leases**

The table below summarises the maturity profile of undiscounted minimum operating lease payments due to the Group.

| | 30 October 2022 £m | 31 October 2021 £m |
|---|---|---|
| Less than one year | **7** | 10 |
| One to two years | **5** | 6 |
| Two to three years | **5** | 5 |
| Three to four years | **4** | 5 |
| Four to five years | **3** | 4 |
| More than five years | **16** | 19 |
| **Total undiscounted lease payments receivable** | **40** | 49 |

Operating lease income of £13m has been recognised in the 52 weeks ended 30 October 2022 (39 weeks ended 31 October 2021: £10m).

**Other receivables**

Other receivables of £79m (31 October 2021: £73m) comprise deferred consideration due after more than one year in relation to the disposal of two sites in previous years. The amount includes £37m (31 October 2021: £36m) of deferred cash consideration on a discounted basis and £42m (31 October 2021: £37m) representing the fair value of future leases of newly constructed supermarkets/convenience stores.

At 30 October 2022, none of these receivables were past due and they 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

| | 30 October 2022 £m | 31 October 2021 £m |
|---|---|---|
| Contracts placed for future capital expenditure not provided in the financial statements (property, plant and equipment, right-of-use assets and intangible assets) | **47** | 79 |
| Contracts placed for future leases not provided in the financial statements | **19** | 25 |

# Notes to the Group financial statements (continued)

## 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 under IFRS 3 '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 Investments in joint ventures

| | **30 October 2022 £m** |
|---|---|
| At start of period | **31** |
| Additions | **4** |
| Share of movement in retained earnings | **(8)** |
| **At end of period** | **27** |

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. The share of movement in retained earnings relates to a dividend received in the year.

On 1 July 2022, the Group increased its share in Yes Recycling (Fife) Ltd to 50% of the share capital. The Directors have considered the requirements of IFRS 11 and determined the Group jointly controls Yes Recycling (Fife) Ltd and have disclosed the results for the period. As such, there are no comparatives.

The Group's share of loss for Yes Recycling (Fife) Ltd and MHE JVCo Limited amounted to £0.7m in the 52 weeks ended 30 October 2022 (39 weeks ended 31 October 2021: profit of £0.2m for MHE JVCo Limited). Management has considered that no impairment is required for its investment in Yes Recycling (Fife) Ltd as the entity is in start-up phase.

# Notes to the Group financial statements (continued)

## 4 Interests in other entities (continued)

### 4.2 Investments in joint ventures (continued)

| | Yes Recycling Ltd | MHE JVCo Limited | MHE JVCo Limited |
|---|---|---|---|
| | 30 October 2022 £m | 30 October 2022 £m | 31 October 2021 £m |
| Non-current assets | **5** | **15** | 29 |
| Current assets | **-** | **33** | 36 |
| Non-current liabilities | **(5)** | **-** | - |
| Current liabilities | **(2)** | **(2)** | (3) |
| Net (liabilities)/assets | **(2)** | **46** | 62 |
| Group's share of net (liabilities)/assets | **(1)** | **23** | 31 |
| Loss after tax | **(2)** | **-** | - |
| Group's share of loss after tax | **(1)** | **-** | - |

### 4.3 Business combinations

The Group entered into an agreement to purchase the trade and the majority of the assets of McColl's Retail Group plc and certain operating subsidiaries, via a pre-pack administration sale for consideration of £201m. This completed on 9 May 2022, shortly after the appointment of administrators over the seller entities earlier on the same day. The properties are currently operated by the Group under a licence to occupy under the terms agreed with the companies in administration as leaseholders (pending the transfer of legal title to those stores). It was also agreed that the two McColl's defined benefit pension schemes would be taken on by the Group, and Wm Morrison Supermarkets Limited provided a guarantee.

The acquisition has been accounted for using the acquisition method of accounting under IFRS 3 'Business Combinations', whereby the total purchase price is allocated to the acquired identifiable net assets of McColl's based on assessments of their respective fair values, and the excess of the purchase price over the fair values of these identifiable net assets is allocated to goodwill. A summary of the purchase price and the opening balances of the acquired trade and assets at the acquisition date is presented in the following table:

| **Purchase consideration** | 30 October 2022 £m |
|---|---|
| Cash paid | **191** |
| Deferred consideration | **1** |
| Additional cost of acquiring the business | **9** |
| **Total purchase consideration**[1] | **201** |

[1] Total purchase price excludes direct acquisition costs of £7m incurred during the 52 week period ended 30 October 2022, which are included within exceptional items. See note 1.4.

The additional cost of acquiring the business of £9m represents the estimated amount of recoverable debt foregone by Wm Morrison Supermarkets Limited had the Company made a claim against McColl's as an unsecured creditor. The assets and liabilities recognised as a result of the acquisition based on the purchase price allocation are as follows:

| | 30 October 2022 £m |
|---|---|
| Cash | **4** |
| Inventory | **9** |
| Other debtors | **4** |
| Property, plant and equipment | **72** |
| Software intangible assets | **11** |
| Defined benefit pension assets | **11** |
| Vehicle finance leases | **(1)** |
| Provisions | **(7)** |
| Franchise asset / reacquired rights | **6** |
| Deferred tax liability | **(3)** |
| **Net identifiable assets acquired** | **106** |
| Goodwill | **95** |
| **Net assets acquired** | **201** |

# Notes to the Group financial statements (continued)

## 4 Interests in other entities (continued)

**4.3 Business combinations (continued)**

There are 132 McColl's stores where management has assessed that there is no realistic prospect of achieving a breakeven position in the medium term. All of these stores have subsequently been closed since the year end, with around 1,300 McColl's colleagues placed at risk of redundancy. No value has been placed on the fixtures and fittings held in these stores on acquisition.

The Group also made a commitment to dispose of 28 stores to resolve competition concerns raised by the CMA during their investigation. It is management's intention that these will be disposed of during the year ending 29 October 2023.

During the period since the acquisition, an IEO was imposed by the CMA on Morrisons and McColl's. This was, effectively, a 'hold separate' requirement, which amongst other things prohibited the two companies from integrating or exchanging confidential or commercially sensitive information, until the IEO was revoked or the CMA's investigation was complete. The CMA restrictions were lifted on 27 October 2022.

During this period while under the hold separate enforcement, the McColl's acquired business contributed revenues of £463m, net loss before tax and exceptionals of £39m and net loss before tax and after exceptionals of £41m to the Group. Included within net loss before tax is a £14m rent cost. As the properties are held under licence to occupy, IFRS 16 does not apply. If the acquisition of the McColl's business had been completed on the first day of the financial period (1 November 2021), estimated Group revenues for the year would have been £18,627m, estimated Group profit before tax and exceptionals would have been £163m and estimated Group loss before tax and after exceptionals would have been £60m.

These amounts have been calculated using the subsidiary's results and adjusting them for the additional depreciation and amortisation that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had applied from 1 November 2021.The differences in the accounting policies between the Group and the subsidiary are considered to be immaterial.

In the prior period, the Group acquired 100% of the share capital of Falfish (Holdings) Limited, a leading supplier of fresh seafood, for a total consideration of £9m. Of this consideration, £8m was paid in the period and £1m was deferred by up to two years. The fair value of the net assets acquired was £9m. Goodwill recognised in the transaction was negligible.

# Notes to the Group financial statements (continued)

## 5 Working capital and provisions

### 5.1 Accounting policies

**Inventories**
Inventories represent raw materials and goods for resale and are 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 the 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. It also includes BACS receipts in flight at the reporting date for transactions where control is considered to have passed to the Group. BACS payments in flight at the reporting date are excluded from cash and cash equivalents as control is deemed to have passed from the Group.

**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 did 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 are 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. The Group assesses the appropriateness of its provisions at each reporting date. 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. 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 it reliably (see note 10.2).

## 5 Working capital and provisions (continued)

### 5.2 Inventories

| | 30 October 2022 £m | 31 October 2021 £m |
|---|---|---|
| Raw materials | **57** | 61 |
| Finished goods | **933** | 841 |
| | **990** | 902 |

### 5.3 Trade and other receivables

| | 30 October 2022 £m | 31 October 2021 £m |
|---|---|---|
| Commercial income trade receivables | **4** | 6 |
| Accrued commercial income | **46** | 57 |
| Other trade receivables | **116** | 167 |
| Less: provision for impairment of trade receivables | **(3)** | (4) |
| Trade receivables | **163** | 226 |
| Prepayments and accrued income | **191** | 133 |
| Other receivables | **25** | 68 |
| | **379** | 427 |

The carrying amounts of trade and other receivables approximate to their fair value at 30 October 2022 and 31 October 2021.

| **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 | 0.20% | 4% | 13% | 50% | 100% | |
| Gross carrying amount – trade receivables | 152 | 11 | 1 | 1 | 1 | **166** |
| Provision for impairment of trade receivables | (1) | (1) | - | - | (1) | **(3)** |

| **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 | 0.18% | 0.39% | 5% | 21% | 100% | |
| Gross carrying amount – trade receivables | 177 | 46 | 2 | 1 | 4 | 230 |
| Provision for impairment of trade receivables | - | - | - | - | (4) | (4) |

As at 22 January 2023, £4m of the £4m commercial income trade receivables balance had been settled and of the £46m accrued commercial income £1m has still to be invoiced.

### 5.4 Trade and other payables

| | 30 October 2022 £m | 31 October 2021 £m |
|---|---|---|
| Trade payables | **(3,018)** | (2,677) |
| Less: commercial income due, offset against amounts owed | **26** | 17 |
| | **(2,992)** | (2,660) |
| Other taxes and social security payable | **(45)** | (97) |
| Other payables | **(169)** | (145) |
| Accruals and deferred income | **(246)** | (285) |
| | **(3,452)** | (3,187) |

As at 22 January 2023, £23m of the £26m commercial income due above had been offset against payments made.

Trade payables include £734m (31 October 2021: £692m) where suppliers have chosen to receive early payment under the Group's supply chain finance facilities (see note 7.2).

# Notes to the Group financial statements (continued)

## 5 Working capital and provisions (continued)

### 5.5 Provisions

| | Onerous contracts £m | Other provisions £m | **Total £m** |
|---|---|---|---|
| At 1 November 2021 | (43) | (12) | **(55)** |
| Charged for the period | (15) | - | **(15)** |
| Utilised during the period | 15 | 1 | **16** |
| Released during the period | 5 | 6 | **11** |
| **At 30 October 2022** | (38) | (5) | **(43)** |

Included with the above balance at 30 October 2022 is £7m (31 October 2021: £16m) relating to a balance due within one year. Provisions are revised regularly in response to market conditions.

### 5.6 Cash generated from operations

| | **52 weeks ended 30 October 2022 £m** | 39 weeks ended 31 October 2021 £m |
|---|---|---|
| Operating profit/(loss) | **23** | (51) |
| Adjustments for: | | |
| Depreciation and amortisation | **609** | 429 |
| Impairment | **337** | 240 |
| Impairment write back | **(242)** | (170) |
| Profit arising on disposal and exit of properties | **(13)** | (6) |
| Defined benefit scheme contributions paid less operating expenses | **(6)** | (5) |
| Derivatives settlement unwind | **(105)** | - |
| Share-based payments | **-** | 29 |
| Settlement of share awards | **(48)** | - |
| Increase in inventories | **(88)** | (88) |
| Decrease/(increase) in trade and other receivables | **(4)** | (55) |
| Increase in trade and other payables | **284** | 296 |
| (Decrease)/increase in provisions | **(12)** | 2 |
| Cash generated from operations | **735** | 621 |

Cash generated from operations of £735m (31 October 2021: £621m) is stated after paying £97m in relation to exceptional items (31 October 2021: £88m).

# Notes to the Group financial statements (continued)

## 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 being recognised in profit and loss 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 income statement 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% (31 October 2021: 4%). 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 consider 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 has purchased 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 held an employee trust for the granting of Group shares to executives and members of the employee share plans during the previous financial period, however following the takeover by CD&R on 27 October 2021 and the subsequent delisting of the Company from the London Stock Exchange, the trust was no longer in use at the prior reporting date and has not been used during the current financial period. Shares in the Group held by the employee share trust were presented in the statement of financial position as a deduction from retained earnings.

# Notes to the Group financial statements (continued)

## 6 Capital and borrowings (continued)

### 6.1 Accounting policies (continued)

**Net debt**

Net debt is cash and cash equivalents, long-term cash on deposit, bank and other loans, bonds, intercompany loans, lease liabilities and derivative financial instruments (stated at current fair value).

### 6.2 Finance costs and income

| Finance costs | **52 weeks ended 30 October 2022 £m** | 39 weeks ended 31 October 2021 £m |
|---|---|---|
| Interest payable on short-term loans and bank overdrafts | **(2)** | (8) |
| Interest payable on bonds | **(10)** | (31) |
| Interest on lease liabilities | **(57)** | (43) |
| Interest capitalised | **2** | 2 |
| **Total interest payable** | **(67)** | (80) |
| Other finance costs | **-** | (3) |
| **Finance costs before exceptionals**[1] | **(67)** | (83) |
| Costs associated with the repayment of borrowings | **(21)** | - |
| **Finance costs** | **(88)** | (83) |

| Finance income | | |
|---|---|---|
| Bank interest and other finance income | **1** | 3 |
| Other receivables: unwinding of discount | **2** | 2 |
| **Finance income before exceptionals**[1] | **3** | 5 |
| Credit associated with the repayment of borrowings | **12** | - |
| Net retirement benefit interest (note 8.2) | **18** | 8 |
| **Finance income** | **33** | 13 |

| | | |
|---|---|---|
| **Net finance costs** | **(55)** | (70) |

1 Net finance costs before exceptionals marked 1 amount to £64m (39 weeks ended 31 October 2021: £78m) and is defined in the glossary

### 6.3 External borrowings

**Current**

The Group has no external current borrowings and other financial liabilities measured at amortised cost (31 October 2021: £838m revolving credit facility). During the financial period the revolving credit facility was repaid in full and cancelled by the Group, being replaced by an intercompany loan from Market Bidco Limited (see note 6.4).

The Group has the following non-current borrowings and other financial liabilities measured at amortised cost:

| Non-current | **30 October 2022 £m** | 31 October 2021 £m |
|---|---|---|
| £250m sterling bonds 4.625% December 2023 | **-** | (250) |
| £250m sterling bonds 3.50% July 2026 | **(39)** | (264) |
| £250m sterling bonds 4.75% July 2029 | **(45)** | (246) |
| £350m sterling bonds 2.50% October 2031 | **-** | (347) |
| | **(84)** | (1,107) |

Following the settlement of a tender and consent process on 2 December 2021, £843m of the Group's bonds were repaid (including interest and applicable premium). On 6 May 2022, a further £180m was repaid when the Company redeemed the 2023 Notes at a price equal to the aggregate principal amount of the outstanding value, plus the accrued and unpaid interest and the applicable premium.

Following these redemptions, the aggregate principal amount of the existing notes outstanding is £82m at 30 October 2022.

**Borrowing facilities**

Information in relation to the Group's borrowing facilities are detailed in the liquidity risk section of note 7.2.

# Notes to the Group financial statements (continued)

## 6 Capital and borrowings (continued)

### 6.3 External borrowings (continued)

**Maturity of borrowings**

The table below summarises the maturity profile of the Group's external 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.

| | **30 October 2022 £m** | 31 October 2021 £m |
|---|---|---|
| Less than one year | **(3)** | (881) |
| One to two years | **(3)** | (41) |
| Two to three years | **(3)** | (281) |
| Three to four years | **(40)** | (29) |
| Four to five years | **(2)** | (277) |
| More than five years | **(49)** | (676) |

**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:

| | **30 October 2022** | | 31 October 2021 | |
|---|---|---|---|---|
| | **Amortised cost £m** | **Fair value £m** | Amortised cost £m | Fair value £m |
| Total borrowings: non-current and current | **(84)** | **(64)** | (1,945) | (1,956) |

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 Loan from parent undertaking

| | **30 October 2022 £m** | 31 October 2021 £m |
|---|---|---|
| Loan from parent undertaking | **(1,843)** | - |

On 8 November 2021, intercompany funding was provided by Market Bidco Limited (the immediate parent) to the Group. The loan is unsecured, bears no interest and is repayable on demand.

### 6.5 Lease liabilities

| | **30 October 2022 £m** | 31 October 2021 £m |
|---|---|---|
| Current lease liabilities | **(73)** | (76) |
| Non-current lease liabilities | **(1,239)** | (1,284) |
| | **(1,312)** | (1,360) |

**Maturity of lease liabilities**

The table below summarises the maturity profile of the Group's lease liabilities based on contractual, undiscounted payments.

| | **30 October 2022 £m** | 31 October 2021 £m |
|---|---|---|
| Less than one year | **(129)** | (132) |
| One to two years | **(121)** | (126) |
| Two to three years | **(118)** | (118) |
| Three to four years | **(115)** | (115) |
| Four to five years | **(108)** | (112) |
| More than five years | **(1,420)** | (1,492) |

# Notes to the Group financial statements (continued)

## 6 Capital and borrowings (continued)

### 6.5 Lease liabilities (continued)

**Maturity of lease liabilities (continued)**

Lease liabilities include periods beyond extension and break option dates if the Group is reasonably certain to extend or continue the lease. As at 30 October 2022, the undiscounted future rentals payments relating to periods beyond what is considered reasonably certain total £61m for breaks and £922m for lease extensions (31 October 2021: £60m and £915m respectively). The lease extensions relate to leases where the initial term expires between 12 and 62 years after the year end, with some extensions available of up to 25 years.

The interest expense on lease liabilities is shown in note 6.2. The value of contracts placed for future leases not provided in the financial statements is disclosed in note 3.8.

**Other information**

The Group is the lessee on a diverse portfolio of leases for property and equipment, with the vast majority of lease liabilities relating to property (see note 3.4 and note 3.6). 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 right-of-use is shown in note 1.5. 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.

### 6.6 Analysis of net debt[1]

| | Note | **30 October 2022 £m** | 31 October 2021 £m |
|---|---|---|---|
| Fuel and energy price contracts | 7.3 | **128** | 43 |
| **Non-current financial assets** | | **128** | 43 |
| Foreign exchange forward contracts | 7.3 | **17** | 2 |
| Fuel and energy price contracts | 7.3 | **342** | 31 |
| **Current financial assets** | | **359** | 33 |
| Lease liabilities[1] | 6.5 | **(73)** | (76) |
| Foreign exchange forward contracts | 7.3 | **(3)** | (7) |
| Revolving credit facility[1] | 6.3 | **-** | (838) |
| Fuel and energy price contracts | 7.3 | **-** | (12) |
| **Current financial liabilities** | | **(76)** | (933) |
| Bonds[1] | 6.3 | **(84)** | (1,107) |
| Loans from group undertakings[1] | 6.4 | **(1,843)** | - |
| Lease liabilities[1] | 6.5 | **(1,239)** | (1,284) |
| Fuel and energy price contracts | 7.3 | **-** | (2) |
| **Non-current financial liabilities** | | **(3,166)** | (2,393) |
| Cash and cash equivalents | | **287** | 296 |
| **Net debt[1]** | | **(2,468)** | (2,954) |

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

# Notes to the Group financial statements (continued)

## 6 Capital and borrowings (continued)

### 6.6 Analysis of net debt[1] (continued)

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

| | Note | 52 weeks ended 30 October 2022 £m | 39 weeks ended 31 October 2021 £m |
|---|---|---|---|
| Financing activities: | | | |
| Cash outflow from repayment of borrowings | | **1,859** | 94 |
| Cash inflow on loan from parent undertaking | | **(1,843)** | - |
| Cash outflow from repayment of lease liabilities | | **78** | 59 |
| Non-cash movements on lease liabilities[2] | | **(33)** | (48) |
| Other financing non-cash movements | | **4** | 1 |
| Net decrease from financing activities | | **65** | 106 |
| Other non-cash movements[3] | | **430** | 53 |
| Net (decrease)/increase in cash and cash equivalents | | **(9)** | 56 |
| Opening net debt[1] | | **(2,954)** | (3,169) |
| **Closing net debt[1]** | | **(2,468)** | (2,954) |

1 Net debt is defined in the Glossary on page 133.
2 Non-cash movement on lease liabilities comprises £nil (31 October 2021: £41m) in relation to new leases and £33m (31 October 2021: £7m) from the remeasurement of existing leases.
3 Other non-cash movements is comprised of movements on derivatives.

### 6.7 Called-up share capital

| | Number of shares millions | Share capital £m | Share premium £m | **Total £m** |
|---|---|---|---|---|
| At 31 October 2021 | 2,450 | 245 | 252 | **497** |
| Share options exercised and shares issued under LTIP schemes | 1 | - | 1 | **1** |
| **At 30 October 2022** | **2,451** | **245** | **253** | **498** |

All issued shares are fully paid and have a par value of 10p per share (31 October 2021: 10p per share). The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at the meetings of the Company.

**Trust shares**
Following the de-listing of the Company from the London Stock Exchange on 28 October 2021, the Company no longer holds a deduction in retained earnings in respect of own shares at the reporting date. These shares were not treasury shares as defined by the London Stock Exchange.

As a result of the takeover of the Company, remaining trust shares were transferred to CD&R for proceeds of £41m on 28 October 2021. The cash was received shortly after the year end (during this financial period), and was held on the balance sheet as a receivable in the prior year.

During the period, the Group acquired none of its own shares (31 October 2021: 1,455,420) for a consideration of £nil (31 October 2021: £3m) and issued no new shares at nominal value to hold in trust (31 October 2021: 7,997,629). The Group utilised no trust shares to satisfy awards under the Group's employee share plans (31 October 2021: 18,173,931).

**Proceeds from exercise of share awards**
Following the takeover of the group by CD&R and the subsequent delisting of the Company's shares from the London Stock Exchange, all outstanding Sharesave and LTIP schemes were settled. During the period, the Group issued 690,739 (31 October 2021: 32,228,906) new shares to satisfy options exercised by employees in the prior year in respect of the Group's previous Sharesave schemes. Proceeds received on exercise of these shares amounted to £1m (31 October 2021: £55m). The Group issued no (31 October 2021: 7,997,629) shares under the Group's Long-term Incentive Plan (LTIP) scheme for nominal value, which were held in trust to satisfy awards under the Group's employee share plans.

All long-term incentive plans and other employee share incentive schemes automatically vested on the takeover and therefore a full vest was accounted for in the financial period to 31 October 2021. These awards were settled in cash through Wm Morrison Supermarkets Limited's payroll during November 2021.

**Settlement of share awards**
During the 52 weeks ended 30 October 2022, the Group settled no share options out of trust shares (31 October 2021: 3,880,655 shares).

# Notes to the Group financial statements (continued)

## 6 Capital and borrowings (continued)

### 6.8 Reserves

| | 30 October 2022 £m | 31 October 2021 £m |
|---|---|---|
| Capital redemption reserve | **39** | 39 |
| Merger reserve | **2,578** | 2,578 |
| Hedging reserve | **373** | 122 |
| Retained earnings[1] | **690** | 948 |
| **Total** | **3,680** | 3,687 |

[1] Included in retained earnings is £28m relating to a gain on trust shares.

**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.

### 6.9 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 objective is to safeguard its viability taking into consideration the risks that it faces. During the financial period, the Group did this by maintaining adequate liquidity headroom, along with managing the capital structure and debt outstanding. The Group has secured and unsecured debt, maintaining significant assets that do not hold a fixed charge over them. Managing the Group's credit rating, maintaining liquidity headroom and monitoring cash generation continue to be key elements of the Group's capital management activity.

# Notes to the Group financial statements (continued)

## 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 remeasured 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, providing governance and oversight to treasury activity.

**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 an intercompany loan provided by its parent company.

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 the Treasury Policy. Some suppliers have access to supply chain finance facilities, which allow those suppliers to benefit from the Group's credit profile. The total size of the facility at 30 October 2022 was £997m (31 October 2021: £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 (see note 5.4).

The Board 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**

At 30 October 2022, the Group has £287m (31 October 2021: £296m) of cash and cash equivalents and £82m (31 October 2021: £2,650m) of total committed facilities, comprising bond debt of £82m (31 October 2021: £1,100m bond debt and £1,550m of committed bank facilities). As at 30 October 2022, the Group had £nil (31 October 2021: £710m) of undrawn committed bank facilities available.

# Notes to the Group financial statements (continued)

## 7 Financial risk and hedging (continued)

### 7.2 Financial risk management (continued)

**Cash and committed facilities (continued)**
The Group previously had a committed revolving credit facility of £1,350m, with a contractual maturity date of June 2025. At 31 October 2021, the Group had £510m of undrawn committed headroom available on this facility. On 8 November 2021 this facility was repaid in full and cancelled by the Group, being replaced by an intercompany loan from Market Bidco Limited. The Group also cancelled two £100m 364 day committed revolving credit facilities on the same day. The intercompany loan with the Market Bidco Limited at £1,843m at the year end is unsecured and bears no interest (see note 6.4).

As at 30 October 2022, the Group had no external borrowings on uncommitted facilities (31 October 2021: £54m).

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. The Treasury Committee compares the committed liquidity available to the Group against the forecast requirements including policy headroom. This policy includes a planning assumption that supply chain finance facilities are not available.

**Interest rate risk**
The wider 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, 100% (31 October 2021: 57%) of the Group's borrowings are at a fixed interest rate. Whilst still applying the policy described above, from time-to-time the Group enters into fixed-to-floating interest rate swaps to achieve the appropriate proportion of fixed versus floating rate borrowings.

**Credit risk**
The majority of the Group's revenue is received in cash at the point of sale. Some credit risk does arise from cash and cash equivalents, deposits with banking groups and exposures from other sources of income such as commercial income, third party wholesale customers and tenants of investment properties.

The principal areas of credit risk relate to financial institution and trading counterparties such as wholesale customers. The Group has well established credit verification procedures in place for key exposures. Limits on the total exposure to a counterparty or Group of connected counterparties are established within the Treasury Policy. Compliance with limits is regularly monitored. With respect to wholesale customers, the Group establishes a credit limit for each individual entity, which takes into account a number of factors including the level of credit insurance in place, the customer's payment history, third party credit reports and other relevant factors including the Group's rights within the specific terms of the contract.

**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. The 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 reasonably3 possible change (+/-10%) in the US dollar and euro exchange rates would equate to a £7m post-tax profit or loss exposure in relation to the euro (31 October 2021: £10m) and £5m in relation to the US dollar (31 October 2021: £5m), 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 £28m for the hedged amount (31 October 2021: £31m).

**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 Board 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 £53m (31 October 2021: £31m) for the hedged amount.

# Notes to the Group financial statements (continued)

## 7 Financial risk and hedging (continued)

### 7.3 Derivative financial assets and liabilities

| Derivative financial assets | 30 October 2022 Fair Value £m | 30 October 2022 Notional Value £m | 31 October 2021 Fair Value £m | 31 October 2021 Notional Value £m |
|---|---|---|---|---|
| **Current** | | | | |
| Foreign exchange forward contracts | **17** | **304** | 2 | 122 |
| Fuel and energy price contracts | **342** | **107** | 31 | 99 |
| | **359** | **411** | 33 | 221 |
| **Non-current** | | | | |
| Foreign exchange forward contracts | **-** | **-** | - | 7 |
| Fuel and energy price contracts | **128** | **38** | 43 | 79 |
| | **128** | **38** | 43 | 86 |

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 | 30 October 2022 Fair Value £m | 30 October 2022 Notional Value £m | 31 October 2021 Fair Value £m | 31 October 2021 Notional Value £m |
|---|---|---|---|---|
| **Current** | | | | |
| Foreign exchange forward contracts | **(3)** | **(105)** | (7) | (306) |
| Fuel and energy price contracts | **-** | **(3)** | (12) | (71) |
| | **(3)** | **(108)** | (19) | (377) |
| **Non-current** | | | | |
| Fuel and energy price contracts | **-** | **-** | (2) | (25) |
| | **-** | **-** | (2) | (25) |

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.

| Maturity analysis of derivatives | 30 October 2022 £m | | 31 October 2021 £m | |
|---|---|---|---|---|
| | **< 1 year** | **1-5 years** | < 1 year | 1-5 years |
| **Derivatives settled on a gross basis** | | | | |
| Forward contracts – cash flow hedges: | | | | |
| Outflow | **(397)** | **-** | (411) | (7) |
| Inflow | **411** | **-** | 405 | 7 |
| **Derivatives settled on a net basis** | | | | |
| Fuel and energy price contracts – cash flow hedges: | | | | |
| Inflow | **368** | **102** | 19 | 41 |

The fuel and energy price contracts and foreign currency derivatives are designated as cash flow hedges.

# Notes to the Group financial statements (continued)

## 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 IAS19. 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.

Net interest income/expense is calculated by applying the discount rate used to value the 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 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 (the 'CARE Schemes') provide retirement benefits based on either the employee's compensation package and/or career average revalued earnings (CARE). 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 TM Group Pension Scheme and TM Pension Plan (the 'McColl's Schemes') were acquired by the Group as part of the Group's rescue of McColl's Retail Group plc during the year. Therefore no comparatives are included for these Schemes. These Schemes are not open to new members and are closed to future accrual.

The net funding position of each scheme at 30 October 2022 is as follows:

| | **30 October 2022 £m** | 31 October 2021 £m |
|---|---|---|
| CARE Schemes | **639** | 995 |
| RSP | **50** | (28) |
| McColl's Schemes | **2** | - |
| **Net retirement benefit surplus** | **691** | 967 |

The statements below show further details for the schemes combined:

| **Statement of financial position** | **30 October 2022 CARE £m** | **30 October 2022 RSP £m** | **30 October 2022 McColl's £m** | 31 October 2021 CARE £m | 31 October 2021 RSP £m |
|---|---|---|---|---|---|
| Fair value of scheme assets | **3,344** | **323** | **95** | 5,259 | 417 |
| Present value of obligations | **(2,705)** | **(273)** | **(93)** | (4,264) | (445) |
| **Net retirement benefit surplus/(deficit)** | **639** | **50** | **2** | 995 | (28) |

# Notes to the Group financial statements (continued)

## 8 Retirement benefits (continued)

### 8.2 Defined benefit schemes: summary and description (continued)

| Consolidated income statement: | 52 weeks ended 30 October 2022 CARE £m | 52 weeks ended 30 October 2022 RSP £m | 52 weeks ended 30 October 2022 McColl's £m | 39 weeks ended 31 October 2021 CARE £m | 39 weeks ended 31 October 2021 RSP £m |
|---|---|---|---|---|---|
| Transfer of McColl's pension schemes | - | - | (11) | n/a | n/a |
| Administrative costs paid by the Schemes [1] | 5 | 2 | 1 | 2 | 2 |
| Settlement and curtailment gain | - | - | - | (1) | - |
| Net interest on net retirement benefit (surplus)/deficit [1] | (18) | - | - | (8) | - |
| **Total expense (credited)/charged to income statement** | (13) | 2 | (10) | (7) | 2 |
| **Consolidated statement of other comprehensive income:** | | | | | |
| Remeasurements in other comprehensive income – charge/(credit) | 372 | (72) | 9 | (233) | (3) |

1 Included within exceptional items, see note 1.4.

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 Trustees of each scheme are 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 or Investment Committee meetings in order to provide the Group's view on investment strategy, but the ultimate power lies with the Trustees. For the Group's most significant schemes, 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 Schemes is to maintain a balance of income assets (including credit investments and corporate bonds) and protection assets (comprising liability driven investment (LDI) portfolios and 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:**

| | 30 October 2022 CARE £m | 30 October 2022 RSP £m | 30 October 2022 McColl's £m | 31 October 2021 CARE £m | 31 October 2021 RSP £m |
|---|---|---|---|---|---|
| Equities (quoted) | 3 | - | - | 360 | 115 |
| Corporate bonds (quoted) | 995 | 149 | 32 | 900 | 28 |
| Infrastructure (unquoted) | - | - | 8 | - | - |
| Credit funds (unquoted) | 361 | - | 13 | 385 | - |
| Liability driven investments (unquoted) [1] | 1,268 | 107 | 40 | 2,504 | 271 |
| Annuity policies (unquoted) | 685 | - | - | 1,087 | - |
| Cash (quoted) | 32 | 67 | 2 | 23 | 3 |
| | 3,344 | 323 | 95 | 5,259 | 417 |

[1] Liability Driven Investments includes investments that are debt securities, cash, derivatives and pooled investment vehicles. There are classed as unquoted because the investments include derivatives and pooled investment vehicles which are unquoted.

**Liability driven investments ('LDI')**

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.

# Notes to the Group financial statements (continued)

## 8 Retirement benefits (continued)

### 8.3 Scheme assets (continued)

**Liability driven investments ('LDI') (continued)**

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 in the LDI portfolios. 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.

The Group and the Trustees have historically sought to ensure that the LDI operates with low levels of leverage and sufficient liquid collateral in order to withstand market shocks. Hedging of interest rates and inflation in the Schemes was maintained in full throughout the market volatility which followed the 'mini budget' in September 2022, protecting the Schemes' funding levels and with no requirement for support from the Company.

**Annuity policies**

The Safeway Scheme has four buy-in annuity policies and the Morrison Scheme has one buy-in annuity policy which provide insurance for a proportion of the pensioner population. 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. A further annuity policy buy-in has been entered into subsequent to the year end (see note 10.3).

The value of the annuity policies 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.

**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:

| | **52 weeks ended** | | | 39 weeks ended | |
|---|---|---|---|---|---|
| | **30 October 2022 CARE £m** | **30 October 2022 RSP £m** | **30 October 2022 McColl's £m** | 31 October 2021 CARE £m | 31 October 2021 RSP £m |
| **Fair value of scheme assets at start of period** | **5,259** | **417** | **-** | 5,111 | 407 |
| Transfer of McColl's pension schemes | **-** | **-** | **121** | - | - |
| Interest income | **96** | **8** | **2** | 57 | 5 |
| Return on scheme assets excluding interest | **(1,878)** | **(97)** | **(25)** | 170 | 6 |
| Employer contributions | **3** | **8** | **1** | 1 | 7 |
| Benefits paid | **(131)** | **(11)** | **(3)** | (78) | (6) |
| Administrative expenses | **(5)** | **(2)** | **(1)** | (2) | (2) |
| **Fair value of scheme assets at end of period** | **3,344** | **323** | **95** | 5,259 | 417 |

**Scottish Limited Partnership**

The Group has previously entered into a pension funding limited 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 until 2033 subject to certain conditions.

During the 52 weeks ended 31 January 2021, the Group and the Schemes' Trustees 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, with the Group entering into a new pension funding limited partnership with the RSP. As a partner, the RSP is entitled to receive an annual fixed distribution of £7m 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 distributions made to the RSP are reflected in the Group financial statements as employer retirement benefit contributions.

# Notes to the Group financial statements (continued)

## 8 Retirement benefits (continued)

### 8.3 Scheme assets (continued)

**Scottish Limited Partnership (continued)**

The RSP's interest in the partnership reduces the scheme's deficit on a funding basis, although the agreement does not affect the position directly on an IAS19 accounting basis because the investment held by the RSP does not qualify as a scheme asset for Group IAS 19 purposes.

As part of the takeover by CD&R in 2021, a Memorandum of Understanding committed the Group to providing additional property security to the CARE Schemes and the RSP, taking the total value of property security supporting these Schemes to at least £660m. No additional annual cash flows are payable as a result of the agreement, and the new security is only triggered in the event of an insolvency of the sponsoring employers. This was completed during February 2022.

### 8.4 Present value of obligations

The movement in the defined benefit obligation over the period was as follows:

| | **30 October 2022 CARE £m** | **30 October 2022 RSP £m** | **30 October 2022 McColl's £m** | 31 October 2021 CARE £m | 31 October 2021 RSP £m |
|---|---|---|---|---|---|
| **Defined benefit obligation at start of period** | **(4,264)** | **(445)** | **-** | (4,357) | (443) |
| Transfer of McColl's pension schemes | **-** | **-** | **(110)** | - | - |
| Interest expense | **(78)** | **(8)** | **(2)** | (49) | (5) |
| Actuarial (loss)/gain– demographic assumptions | **(5)** | **-** | **-** | 134 | - |
| Actuarial gain/(loss) – financial assumptions | **1,591** | **162** | **18** | (57) | 1 |
| Actuarial (loss)/gain – experience | **(80)** | **7** | **(2)** | (14) | (4) |
| Settlement and curtailment gain | **-** | **-** | **-** | 1 | - |
| Benefits paid | **131** | **11** | **3** | 78 | 6 |
| **Defined benefit obligation at end of period** | **(2,705)** | **(273)** | **(93)** | (4,264) | (445) |

The durations of the defined benefit obligations at the end of the 2022 reporting period are: RSP 15 years; Morrison CARE 17 years; Safeway CARE 13 years; TM Group Pension Scheme 10 years; TM Pension Plan 11 years. The weighted average duration of all the Schemes is 14 years.

#### 8.4.1 Significant actuarial assumptions

The following are the principal actuarial assumptions at the reporting date (expressed as weighted averages):

| **Financial assumptions** | **30 October 2022** | 31 October 2021 |
|---|---|---|
| *Discount rate applied to scheme liabilities (% p.a.)* | | |
| Safeway CARE Scheme | **4.7%** | 1.9% |
| Morrison CARE Scheme | **4.7%** | 1.9% |
| RSP | **4.7%** | 1.9% |
| McColl's | **4.8%** | n/a |
| *Inflation assumption (RPI) (% p.a.)* | | |
| Safeway CARE Scheme | **3.5%** | 3.6% |
| Morrison CARE Scheme | **3.5%** | 3.5% |
| RSP | **3.4%** | 3.5% |
| McColl's | **3.5%** | n/a |

| **Life expectancies (CARE)** | | | |
|---|---|---|---|
| **Longevity in years from age 65 for current pensioners** | **CARE** | | CARE |
| | **Safeway** | **Morrisons** | |
| Male | **20.6** | **20.3** | 21.0 |
| Female | **22.9** | **23.6** | 22.5 |
| **Longevity in years from age 65 for current members aged 45** | | | |
| Male | **22.4** | **22.0** | 22.6 |
| Female | **24.8** | **25.4** | 24.4 |

## 8 Retirement benefits (continued)

### 8.4 Present value of obligations (continued)

#### 8.4.1 Significant actuarial assumptions (continued)

| **Life expectancies (McColl's)** | | |
|---|---|---|
| **Longevity in years from age 65 for current pensioners** | | |
| Male | **21.3** | n/a |
| Female | **23.6** | n/a |
| **Longevity in years from age 65 for current members aged 45** | | |
| Male | **22.9** | n/a |
| Female | **25.3** | n/a |

The Group estimates discount 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 30 October 2022 for the Group's most material schemes are the S3PMA-Heavy/S3PFA-Heavy tables (males/females) based on year of birth with a scaling factor of 95% applied to the mortality rates in the Morrison Scheme and 91% / 104% applied to the mortality rates in the Safeway Scheme, with CMI 2021 core projections and a long-term rate of improvement of 1.5% pa. Different scheme-specific mortality rates are used for the McColl's schemes.

The mortality tables used for the 39 weeks ended 31 October 2021 were the S2PMA/S2PFA-Heavy 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 2020 core projections and a long-term rate of improvement of 1.5% pa.

**Related actuarial assumptions (expressed as weighted averages)**

| | **30 October 2022** | 31 October 2021 |
|---|---|---|
| *Rate of increase of retirement benefits in payment: RPI inflation capped at either 2.5% p.a. or 5% p.a. (% p.a.)* | | |
| Safeway CARE Scheme | **2.2%/3.3%** | 2.2%/3.4% |
| Morrison CARE Scheme | **2.2%/3.3%** | 2.2%/3.3% |
| RSP | **n/a** | n/a |
| McColl's | **2.2%/3.3%** | n/a |
| *Rate of increase of retirement benefits in deferment: CPI inflation capped at either 2.5% p.a. or 5% p.a. (% p.a.)* | | |
| Safeway CARE Scheme | **-/2.9%** | -/3.0% |
| Morrison CARE Scheme | **-/2.9%** | -/2.9% |
| RSP | **2.5%/-** | 2.5%/- |
| McColl's | **-/2.9%** | n/a |
| *CPI inflation (% p.a.)* | | |
| Safeway CARE Scheme | **2.9%** | 3.0% |
| Morrison CARE Scheme | **2.9%** | 2.9% |
| RSP | **2.8%** | 2.9% |
| McColl's | **2.9%** | n/a |

# Notes to the Group financial statements (continued)

## 8 Retirement benefits (continued)

### 8.4 Present value of obligations (continued)

#### 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.

| | | **30 October 2022 CARE** | **30 October 2022 RSP** | **30 October 2022 McColl's'** | 31 October 2021 CARE | 31 October 2021 RSP | 31 October 2021 McColl's |
|---|---|---|---|---|---|---|---|
| Discount rate applied to Scheme obligations | +/- 0.1% p.a. | **-/+35** | **-/+5** | **-/+2** | -/+80 | -/+8 | n/a |
| Inflation assumption (RPI and associated assumptions) | +/- 0.1% p.a. | **+/-20** | **+/-0** | **+/-0** | +/-60 | +/-0 | n/a |
| Longevity | + one year | **+60** | **n/a** | **+3** | +150 | n/a | n/a |

### 8.5 Funding

The Morrison Scheme is entirely funded by Wm Morrison Supermarkets Limited and the Safeway Scheme is funded by Safeway Limited and its subsidiaries. Wm Morrison Supermarkets Limited and its subsidiaries participated in the RSP until its closure. The McColl's Schemes are funded by the Group. There is no contractual agreement or stated policy for charging the net defined benefit cost between Wm Morrison Supermarkets Limited 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 agreed full actuarial valuations were carried out in April 2022 for the Safeway Scheme, the Morrison Scheme and the RSP, and at 31 March 2019 for the McColl's Schemes. The valuations indicated that, on the agreed funding basis, the Safeway, Morrison and RSP Schemes had surpluses of £528m, £214m and £37m respectively. As a result of these funding positions there are currently no deficit contributions payable. The valuations of the McColl's Schemes indicated that, on the agreed funding basis, there was a surplus of £6m for the TM Group Pension Scheme and a deficit of £8m for the TM Pension Plan.

These results have been used and updated for IAS19 'Employee benefits' purposes for the period to 30 October 2022 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 and McColl's Schemes expose the Group to longevity risk.

At 30 October 2022, schemes in surplus have been disclosed within the assets in the consolidated statement of financial position. For the Group's most material pension schemes, legal advice has been obtained with regard to the recognition of a retirement benefit surplus and also recognition of a minimum funding requirement under IFRIC 14 'IAS19 – The limit on a defined benefit asset, minimum funding requirement and their interaction'. This advice concluded that recognition of a surplus is appropriate on the basis that the Group has an unconditional right to a refund of a surplus.  In respect of the RSP this on the basis that paragraph 11(a) of IFRIC 14 applies enabling a refund of surplus during the life of the RSP. In respect of the Morrison Scheme, it is on the basis that paragraph 11(b) or 11(c) of IFRIC 14 applies, enabling a refund of surplus assuming the gradual settlement of the scheme liabilities over time until all members have left the scheme or the full settlement of the Scheme's liabilities in a single event (i.e. as a scheme wind up). In respect of the Safeway Scheme, a refund is available on the basis that paragraph 11(b) of IFRIC14 applies.

The current best estimate of Group contributions to be paid to the defined benefit schemes for the accounting period commencing 30 October 2022 is £9m (period commencing 31 October 2021: £12m).

### 8.6 Defined contribution schemes

The Group operates two defined contribution retirement benefit schemes, which means that 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 the employees receive are dependent on the contributions paid, investment returns, and the form of benefit chosen at retirement. The Group paid contributions of £99m to the Morrisons scheme and £2m to the McColl's scheme during the period, and expects to contribute £94m in total to the schemes for the following period.

# Notes to the Group financial statements (continued)

## 9 Share-based payments

### 9.1 Accounting policy

Prior to the takeover by CD&R, the Group issued equity-settled share-based payments to certain employees in exchange for services rendered by them. The fair value of the share-based award was calculated at the date of grant and was expensed on a straight-line basis over the vesting period with a corresponding increase in equity. This was based on the Group's estimate of share options that would eventually vest. This took into account movement of non-market conditions, being service conditions and financial performance, if relevant.

The fair value of share options was measured using a Black-Scholes model. The expected life used in the model was adjusted, based on management's best estimate, for effects of non-transferability, exercise restrictions and behavioural considerations. In the 39 weeks ended 31 October 2021 there was a charge of £29m relating to share based payments.

### 9.2 Sharesave schemes

Prior to the takeover by CD&R, all employees (including Directors) were eligible for the Sharesave schemes once the necessary service requirements were met. The scheme allowed participants to save up to a maximum of £350 each month for a period of three years. Options were offered at a discount to the mid-market closing price on the day prior to the offer and were 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 was subject only to service conditions.

The fair value of options granted, and the inputs used to determine it were as follows:

| Grant date | 14 May 2021 | 19 May 2020 | 17 May 2019 | 15 May 2018 |
|---|---|---|---|---|
| Share price at grant date | £1.84 | £1.88 | £2.11 | £2.55 |
| Fair value of options granted | £6.8m | £6.8m | £6.3m | £13.2m |
| Exercise price | £1.45 | £1.52 | £1.78 | £1.87 |
| Dividend yield | 5.90% | 5.59% | 4.60% | 3.96% |
| Annual risk-free interest rate | 0.18% | 0.40% | 0.71% | 0.56% |
| Expected volatility[1] | 21.25% | 19.35% | 20.61% | 24.90% |

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 was a non-vesting condition. This feature was 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 was determined by estimating the probability that the employee will stop saving based on expected future trends in the share price and employee behaviour. At 30 October 2022 and 31 October 2021, the Sharesave plan is no longer applicable following the takeover of the Group by CD&R and the subsequent delisting of the Company's shares from the London Stock Exchange. All outstanding Sharesave schemes were cash settled with colleagues as a result of the takeover in the previous period.

| | **52 weeks ended 30 October 2022** | | 39 weeks ended 31 October 2021 | |
|---|---|---|---|---|
| | **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 | **-** | **690** | 1.68 | 54,526 |
| Granted | **-** | **-** | 1.45 | 25,891 |
| Exercised | **-** | **(690)** | 1.70 | (32,228) |
| Forfeited | **-** | **-** | 1.53 | (47,499) |
| Outstanding at end of period | **-** | **-** | - | 690 |
| Exercisable at end of period | **-** | **-** | - | 690 |

| | **52 weeks ended 30 October 2022** | | | 39 weeks ended 31 October 2021 | | |
|---|---|---|---|---|---|---|
| | **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 | **-** | **-** | **690** | 2.77 | 1.70 | 32,228 |

# Notes to the Group financial statements (continued)

## 9 Share-based payments (continued)

### 9.3 Long Term Incentive Plans (LTIPs)

Prior to the takeover by CD&R, the LTIP awards had no exercise price and accrued 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 were due to vest in 2023 and 2024.

All LTIP schemes granted had 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 vested three years after the original grant date, provided the relevant service and performance criteria were met. The fair value of awards granted and the inputs used to determine it were as follows:

| Grant date | 19 March 2021 | 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 | £1.77 | £1.71 | £1.79 | £1.96 | £2.23 | £2.62 | £2.09 | £2.34 | £2.37 | £2.28 |
| Fair value of share awards | £28.4m | £3.2m | £29.3m | £1.0m | £27.2m | £0.9m | £27.3m | £2.0m | £29.4m | £9.2m |

| | **52 weeks ended 30 October 2022** | 39 weeks ended 31 October 2021 |
|---|---|---|
| | **Share awards thousands** | Share awards thousands |
| **Movement in outstanding share awards** | | |
| Outstanding at start of period | **-** | 37,586 |
| Granted | **-** | 16,085 |
| Exercised | **-** | (16,827) |
| Forfeited | **-** | (36,844) |
| Outstanding at end of period | **-** | - |
| Exercisable at end of period | **-** | - |

Given the schemes are no longer active, the weighted average remaining contractual life of the share awards is nil years (31 October 2021: nil years).

LTIP awards were no longer relevant following the takeover of the Group by CD&R and the subsequent delisting of its shares from the London Stock Exchange during the previous financial period. All invested LTIP schemes were cash settled on a pro-rata basis after the last period end.

### 9.4 Deferred share bonus plan

Prior to the takeover by CD&R, certain members of senior management participated in the deferred share bonus plan under which 50% of any bonus payable was deferred in shares from the date the deferred share award was made. Dividend equivalents accrued over the vesting period, to be paid when the shares vested. Vesting of these share awards was subject only to service conditions.

The fair value of awards granted and the inputs used to determine it were:

| Grant date | **2022/23 scheme** | 2021/22 scheme |
|---|---|---|
| Share price at grant date | **n/a** | £1.75 |
| Exercise price | **n/a** | £nil |
| Fair value of share awards granted | **n/a** | £3.2m |

| | **52 weeks ended 30 October 2022** | 39 weeks ended 31 October 2021 |
|---|---|---|
| | **Share awards thousands** | Share awards thousands |
| **Movement in outstanding share awards** | | |
| Outstanding at start of period | **-** | 2,821 |
| Granted | **-** | 1,800 |
| Exercised | **-** | (4,621) |
| Outstanding at end of period | **-** | - |

Given the schemes are no longer active, the weighted average remaining contractual life of the share awards is nil years (31 October 2021: nil years).

Share awards were no longer relevant following the takeover of the Group by CD&R and the subsequent delisting of its shares from the London Stock Exchange. All deferred share bonus plan awards were cash settled after the period end.

# Notes to the Group financial statements (continued)

## 9 Share-based payments (continued)

**9.5 Management Incentive Plan ('MIP')**

During the year, certain employees of the Group, including Directors and members of key management, were invited to invest in Preference and Ordinary shares of the ultimate parent company, Market Topco Limited. The share purchases were transacted in September 2022, funded through a combination of an ex-gratia bonus payment and a proportionate level of personal funds, plus additional voluntary personal investment.

Under the terms of the MIP, a total £17m of shares were purchased, of which £7m were funded via the ex-gratia bonus payment. The acquired shares comprised £15m of Preference Shares and £2m of Ordinary shares across different classes. £5m of the ex-gratia bonus payments were made to Directors and senior management, who purchased £11m of shares in total.

The B Preference and B Ordinary shares have the same rights as the equivalent A shares held by the principal investor shareholders of Market Topco Limited. The B Preference shares accrue dividends at 10% which compound annually and are redeemable at the discretion of the Company or on completion of an exit.

In all cases the shares are assessed as equity settled and will vest in full on completion of an exit, such as a listing or sale, with management's estimate of the vesting period being five years.

The cost of the Preference shares has been assessed as a reasonable proxy for fair value and, to the extent those shares were funded by the ex-gratia bonus, this amount will be charged to the income statement over the estimated vesting period. This gave rise to an immaterial in-year charge for the current year, given the short period of time elapsing between the effective grant/acquisition date and the year end.

The attributable in-year share-based payment charge on the Ordinary shares is estimated at £2m, of which £1m is estimated as attributable to Directors and Senior Management.

# Notes to the Group financial statements (continued)

## 10 Other

**10.1 Related party transactions**
The Group's related party transactions in the current and previous financial periods include the remuneration of the senior managers, the Directors' emoluments and retirement benefit entitlements, share awards and share options (see note 1.6).

**10.2 Guarantees, contingent liabilities and contingent assets**

**Guarantees**
*Senior Facilities Agreement*
A condition of the Market Bidco Limited Senior Facilities Agreement was that 'material entities' needed to become guarantors to the facilities. 'Material entities' are ones which hold 5% or more of the consolidated Group's gross assets or generate 5% or more of the consolidated Group's EBITDA, or those which hold real property of greater than £75m. As such, on 23 March 2022 Wm Morrison Supermarkets Limited (along with its subsidiaries Safeway Limited, Safeway Stores Limited and Optimisation Investments Limited) acceded as guarantors to each of the new Facilities Agreements. The Company granted a guarantee and indemnity in respect of the obligations of the Obligors under each of the Facilities Agreements and provided security over its assets, pursuant to the Common Transaction Security Agreement.

The terms and conditions of Wm Morrison Supermarkets Limited's listed bonds are such that, if Group entities act as guarantors to finance facilities, they must also act as guarantors to the bonds. Wm Morrison Supermarkets Limited and Safeway Limited already guaranteed these bonds, so Safeway Stores Limited and Optimisation Investments Limited were required to accede as guarantors in addition.

*Dordon*
Following the sub-lease 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 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 (31 October 2021: £30m).

**Equal pay claim**
The Group has received claims from both current and former store colleagues alleging that their work is of equal value to certain colleagues working within logistics and that differences relating to pay are not justifiable. The claims are looking for equivalent pay terms and settlement for any historical differential in such pay terms. The Group does not accept these claims and is fully defending them within the court process. In the event that the Group is unsuccessful in any part of its defence (which is not accepted) it is not possible to quantify the impact of any potential damages at this early stage given the wide range of possible outcomes.

**Interchange fee claim**
The Group, along with other claimants, had an ongoing claim against Mastercard in respect of bank interchange fees. The Supreme Court determined the fixing of interchange fees by Mastercard over many years was an unlawful infringement of competition law. The Supreme Court's definitive decision meant that, as at 30 October 2022, the case continued towards a quantum hearing to determine what level of damages would be payable to the Group. The quantum trial was listed to be heard in January 2023. As at 30 October 2022, the Group was not able to quantify the amount of settlement which it would receive, and accordingly no asset had been recognised in the financial statements as at 30 October 2022. 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 which were recognised in the prior period.

Prior to the quantum trial commencing, the claim has been settled to the satisfaction of all parties, on confidential terms, and the parties are no longer in dispute. This settlement has been treated as a non-adjusting event after the end of the reporting period as the settlement, which resulted in a material cash inflow to the Group, arose subsequent to the financial year end.

**Other**
The Company and various of its subsidiaries are, from time to time, parties to legal proceedings, including certain tax matters, and claims which arise in the ordinary course of business. The directors do not anticipate that the outcome of these proceedings, actions and claims, either individually or in aggregate, will have a material adverse effect upon the Group's financial position.

# Notes to the Group financial statements (continued)

## 10 Other (continued)

### 10.3 Post-balance sheet events

**Sale and Leaseback**

On 9 December 2022, the Group agreed a £219m sale and leaseback transaction on seven logistics properties. As part of the transaction, the Group has undertaken to lease the properties for up to 25 years.

**Wm Morrison 1967 section of the Retirement Saver Pension scheme (‘Morrison 1967 CARE scheme’)**

In December 2022, the Morrison 1967 CARE scheme entered into a new buy-in policy for £762m that will provide insurance for the pensioner population. The policy will pay income to the Scheme that is exactly equal to the benefits paid to the insured population. This will remove 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 Scheme and is equal to the accounting liabilities of the insured pensioner population.

**Closure of McColl’s stores**

A number of McColl’s stores have been loss-making for some time and although some of these stores will be able to return to profitability in the future, there are 132 stores where it has been assessed that there is no realistic prospect of achieving a breakeven position in the medium term. All of these stores have subsequently closed since the year end, with around 1,300 McColl’s colleagues placed at risk of redundancy.

### 10.4 Ultimate parent undertaking controlling party

Following the takeover of Wm Morrison Supermarkets Limited by Market Bidco Limited on 27 October 2021, the ultimate parent undertaking and controlling party of the Wm Morrison Supermarkets Limited Group is Market Topco Limited. The immediate parent undertaking is Market Bidco Limited. Market Topco Limited and Market Bidco Limited were incorporated by Clayton, Dubilier and Rice's Fund XI for the purposes of acquiring Wm Morrison Supermarkets Limited. The investment into Market Topco Limited was made by a vehicle owned by Clayton, Dubilier & Rice Fund XI, L.P. and certain commonly-managed parallel and related investment vehicles thereof.

In addition to Market Bidco Limited and Market Topco Limited, the following five entities are controlled by Market Topco Limited and form part of the corporate structure above Wm Morrison Supermarkets Limited: Market Holdco 1 Limited; Market Holdco 2 Limited; Market Holdco 3 Limited; Market Bidco Finco Plc; Market Parent Finco Plc.

The smallest group at which consolidated financial statements are prepared is Market Bidco Limited, a company incorporated in England and Wales. The largest group at which consolidated financial statements are prepared is Market Topco Limited, a company incorporated in England and Wales. The registered office address of these companies is the same as that of Wm Morrison Supermarkets Limited. The consolidated Financial Statements of these groups are available to the public and may be obtained from the Company Secretary, Wm Morrison Supermarkets Limited, Hilmore House, Gain Lane, Bradford, West Yorkshire, United Kingdom, BD3 7DL.

# Wm Morrison Supermarkets Limited
# Company statement of financial position

As at 30 October 2022

| | Note | 30 October 2022 £m | 31 October 2021 £m |
|---|---|---|---|
| **Fixed assets** | | | |
| Intangible assets | 11.6 | **290** | 304 |
| Property, plant and equipment | 11.7 | **2,385** | 2,414 |
| Right-of-use assets | 11.8 | **1,003** | 1,019 |
| Investment property | 11.9 | **26** | 25 |
| Investment in subsidiaries | 11.10 | **508** | 307 |
| Investments in joint ventures | 11.11 | **27** | 31 |
| | | **4,239** | 4,100 |
| **Current assets** | | | |
| Inventories | | **581** | 568 |
| Debtors – amounts falling due within one year | 11.12 | **8,361** | 9,450 |
| Debtors – amounts falling due after more than one year | 11.13 | **7** | 8 |
| Pension asset due after more than one year | 11.21 | **298** | 367 |
| Derivative financial assets due within one year | 11.17 | **359** | 33 |
| Derivative financial assets due after more than one year | 11.17 | **128** | 43 |
| Current tax asset | | **16** | 94 |
| Cash and cash equivalents | | **224** | 200 |
| | | **9,974** | 10,763 |
| Creditors – amounts falling due within one year | 11.14 | **(7,030)** | (8,751) |
| Lease liabilities due within one year | 11.16 | **(74)** | (94) |
| Derivative financial liabilities due within one year | 11.17 | **(3)** | (19) |
| Loan from parent undertaking | 11.18 | **(1,843)** | - |
| | | **(8,950)** | (8,864) |
| **Net current assets** | | **1,024** | 1,899 |
| **Total assets less current liabilities** | | **5,263** | 5,999 |
| Creditors – amounts falling due after more than one year | 11.15 | **(84)** | (1,107) |
| Lease liabilities due after more than one year | 11.16 | **(1,424)** | (1,307) |
| Derivative financial liabilities due after more than one year | 11.17 | **-** | (2) |
| Deferred tax liabilities | 11.19 | **(313)** | (205) |
| Provisions for liabilities | 11.20 | **(43)** | (51) |
| | | **(1,864)** | (2,672) |
| **Net assets** | | **3,399** | 3,327 |
| **Shareholders' equity** | | | |
| Share capital | 11.22 | **245** | 245 |
| Share premium | 11.22 | **253** | 252 |
| Capital redemption reserve | 11.23 | **39** | 39 |
| Merger reserve | 11.23 | **940** | 940 |
| Hedging reserve | 11.23 | **373** | 122 |
| Retained earnings[1] | 11.23 | **1,549** | 1,729 |
| **Total shareholders' funds** | | **3,399** | 3,327 |

1 Included within retained earnings is loss after tax of £123m (39 weeks ended 31 October 2021: £173m loss). After adjusting for exceptionals, profit before exceptionals after tax is £14m (39 weeks ended 31 October 2021: £40m).

The accounting policies on pages 110 to 112 and the notes on pages 112 to 127 form part of these financial statements.
The financial statements on pages 108 to 127 were approved by the Board of Directors and authorised for issue on 25 January 2023. They were signed on its behalf by:

**Joanna Goff, Chief Financial Officer**
Company registration number: 00358949

# Wm Morrison Supermarkets Limited
# Company statement of changes in equity

52 weeks ended 30 October 2022

| | 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 1 November 2021 | | **245** | **252** | **39** | **940** | **122** | **1,729** | **3,327** |
| Loss for the period | | **-** | **-** | **-** | **-** | **-** | **(123)** | **(123)** |
| Other comprehensive income/(expense): | | | | | | | | |
| Cash flow hedging movement | | **-** | **-** | **-** | **-** | **335** | **-** | **335** |
| Remeasurement of defined benefit schemes | 11.21 | **-** | **-** | **-** | **-** | **-** | **(73)** | **(73)** |
| Tax in relation to components of other comprehensive income | 11.19 | **-** | **-** | **-** | **-** | **(84)** | **16** | **(68)** |
| Total comprehensive income/(expense) for the period | | **-** | **-** | **-** | **-** | **251** | **(180)** | **71** |
| Employee share option schemes: | | | | | | | | |
| Share options exercised | 6.7 | **-** | **1** | **-** | **-** | **-** | **-** | **1** |
| Total transactions with owners | | **-** | **1** | **-** | **-** | **-** | **-** | **1** |
| **At 30 October 2022** | | **245** | **253** | **39** | **940** | **373** | **1,549** | **3,399** |

| | 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 1 February 2021 | | 241 | 201 | 39 | 940 | (3) | 1,980 | 3,398 |
| Loss for the period | | - | - | - | - | - | (173) | (173) |
| Other comprehensive income/(expense): | | - | - | - | - | - | - | - |
| Cash flow hedging movement | | - | - | - | - | 167 | - | 167 |
| Remeasurement of defined benefit schemes | 11.21 | - | - | - | - | - | 76 | 76 |
| Tax in relation to components of other comprehensive income | 11.19 | - | - | - | - | (42) | (32) | (74) |
| Total comprehensive income/(expense) for the period | | - | - | - | - | 125 | (129) | (4) |
| Employee share option schemes: | | | | | | | | |
| Share-based payments charge | 11.5 | - | - | - | - | - | 16 | 16 |
| Settlement of share awards | 6.7 | - | - | - | - | - | (56) | (56) |
| Share options exercised | 6.7 | 4 | 51 | - | - | - | - | 55 |
| Sale of trust shares | 6.8 | - | - | - | - | - | 41 | 41 |
| Dividends | 1.7 | - | - | - | - | - | (123) | (123) |
| Total transactions with owners | | 4 | 51 | - | - | - | (122) | (67) |
| At 31 October 2021 | | 245 | 252 | 39 | 940 | 122 | 1,729 | 3,327 |

The accounting policies on pages 110 to 112 and the notes on pages 112 to 127 form part of these financial statements.

# Wm Morrison Supermarkets Limited
# Company accounting policies

## 11 Company financial statements

**11.1 General information**

The principal activity of Wm Morrison Supermarkets Limited (the ‘Company’) is the operation of retail supermarket stores and associated activities under the Morrisons brand. The Company is incorporated and domiciled in the United Kingdom and following the delisting of its shares from the London Stock Exchange on 28 October 2021 was re-registered as a private limited company on 17 November 2021. 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 30 October 2022 (39 weeks ended 31 October 2021). In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards (‘IFRS’) as adopted by the UK (UK-adopted international accounting standards), but makes amendments where necessary in order to comply with the Companies Act 2006 and to take advantage of FRS 101 disclosure exemptions. The disclosure exemptions adopted by 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 analysis); 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’;

(ii) 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.

# Wm Morrison Supermarkets Limited
# Company accounting policies (continued)

## 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 61 and 62.

**New accounting standards, amendments and interpretations adopted by the Company**
There have been no new standards, interpretations and amendments to standards which are mandatory for the Company for the first time for the 52 weeks ended 30 October 2022, which have a material impact on the Company's financial statements.

**New accounting standards, amendments and interpretations in issue but not yet effective**
There are a number of standards and interpretations issued by the IASB that are effective for financial statements after this reporting period. None of these new standards, amendments and interpretations, are expected to have a material impact on the Company's financial statements.

**Accounting reference date**
These financial statements cover the 52 week period to 30 October 2022. The comparative period covers the 39 weeks to 31 October 2021 as a result of a change in accounting reference date from 31 January to 31 October. The accounting period of the Company ends on a Sunday not more than seven days before or after the accounting reference date of 31 October11.3 Summary of accounting policies

The accounting policies listed below are the same for the Company as for the Group, and are detailed in 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) Investments in joint ventures (4.1)
m) Inventories (5.1);
n) Trade and other receivables (5.1);
o) Cash and cash equivalents (5.1);
p) Trade and other payables (5.1);
q) Provisions (5.1);
r) Borrowings and borrowing costs (6.1);
s) Lease liabilities (6.1);
t) Share capital (6.1);
u) Derivative financial instruments and hedge accounting (7.1);
v) Pensions (8.1); and
w) Share-based payments (9.1).

The following accounting policies are those policies which are specific, and which deal with items considered material in relation to the Company's financial statements.

**Investments**
Investments in subsidiary undertakings 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 in which they arise.

Impairment losses or write backs of previous impairment losses are presented in the profit and loss account in the period in which they arise.

### 11 Company financial statements (continued)

**11.3 Summary of accounting policies (continued)**

**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 unless otherwise stated.

**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 11.25). 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

**11.4 Profit and loss account**
The loss after tax for the Company for the 52 weeks ended 30 October 2022 was £123m (39 weeks ended 31 October 2021: loss after tax of £173m). After adjusting for exceptional items, profit before exceptionals after tax is £14m (39 weeks ended 31 October 2021: £40m).

| | **52 weeks ended 30 October 2022 £m** | 39 weeks ended 31 October 2021 £m |
|---|---|---|
| **Employee benefit expense for the Company during the period** | | |
| Wages and salaries | **902** | 712 |
| Social security costs | **76** | 54 |
| Other pensions costs | **57** | 46 |
| Share-based payments | **2** | 1 |
| | **1,037** | 813 |

In addition to the amounts disclosed in the table above, there was an £11m exceptional charge relating to restructuring costs. (39 weeks ended 31 October 2021: £15m exceptional charge for share-based payments).

The average monthly number of people, including Directors, employed by the Company was 52,965 (31 October 2021: 59,447).

The Company's auditor, PricewaterhouseCoopers LLP charged £0.7m (39 weeks ended 31 October 2021: £0.7m) for audit services in the period and £0.1m (39 weeks ended 31 October 2021: £0.2m) for other services.

**11.5 Share-based payments**
Prior to the acquisition by Market Bidco Limited, the Company issued equity-settled share-based payments to certain employees in exchange for services rendered by them. The fair value of the share-based award was calculated at the date of grant and was expensed on a straight-line basis over the vesting period with a corresponding increase in equity. This was based on the Company's estimate of share options that would eventually vest. This took into account movement of non-market conditions, being service conditions and financial performance, if relevant.

The fair value of share options was measured by use of the Black-Scholes model. The expected life used in the model was adjusted, based on management's best estimate, for effects of non-transferability, exercise restrictions and behavioural considerations.

There was a £2m charge in the period for share-based payments (39 weeks ended 31 October 2021: £1m).

# Wm Morrison Supermarkets Limited
# Notes to the Company financial statements (continued)

## 11 Company financial statements (continued)

**11.5 Share-based payments (continued)**

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 previous 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 previous reporting period; and

c) the range of exercise prices and weighted average remaining contractual life of share options outstanding at the end of the previous reporting period.

Following the takeover of the Group by CD&R and the subsequent delisting of the Company's shares from the London Stock Exchange in the prior year, all outstanding schemes were cash settled with colleagues.

During the year, certain employees of the Company, including Directors and members of key management, were invited to invest in the Morrisons Incentive Plan. Further details are disclosed in note 9.5.

**11.6 Intangible assets**

| | £m |
|---|---|
| **Cost** | |
| At 1 November 2021 | **576** |
| Additions | **74** |
| Interest capitalised | **1** |
| Disposals | **(15)** |
| Fully written down assets | **(69)** |
| **At 30 October 2022** | **567** |
| **Accumulated amortisation and impairment** | |
| At 1 November 2021 | **272** |
| Amortisation charge | **83** |
| Impairment charge | **6** |
| Disposals | **(15)** |
| Fully written down assets | **(69)** |
| **At 30 October 2022** | **277** |
| **Net book amount at 30 October 2022** | **290** |
| *Assets under construction included above* | *34* |

Intangibles include software development costs and licences. The net book amount of licences at 30 October 2022 is £9m (31 October 2021: £10m).

The Company has assessed 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.

The cost of financing asset developments prior to them being ready for use is included in the cost of the project. Interest is capitalised at the effective interest rate of 4% (31 October 2021: 4%).

# Wm Morrison Supermarkets Limited
## Notes to the Company financial statements (continued)

### 11 Company financial statements (continued)

#### 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 1 November 2021 | 879 | 1,578 | 522 | 1,192 | **4,171** |
| Additions | 9 | - | - | 255 | **264** |
| Interest capitalised | - | - | - | 1 | **1** |
| Transfers from right-of-use assets | - | - | - | 11 | **11** |
| Transfers to other group companies | (49) | (82) | - | - | **(131)** |
| Disposals | (3) | (5) | - | (4) | **(12)** |
| Fully written down assets | - | (5) | - | (112) | **(117)** |
| **At 30 October 2022** | 836 | 1,486 | 522 | 1,343 | **4,187** |
| **Accumulated depreciation and impairment** | | | | | |
| At 1 November 2021 | 105 | 783 | 296 | 573 | **1,757** |
| Depreciation charge | - | 37 | 15 | 157 | **209** |
| Impairment charge | 21 | 15 | 13 | 36 | **85** |
| Impairment write back | (41) | (39) | (2) | (3) | **(85)** |
| Transfers from right-of-use assets | - | - | - | 7 | **7** |
| Transfers to other group companies | - | (44) | - | - | **(44)** |
| Disposals | (1) | (5) | - | (4) | **(10)** |
| Fully written down assets | - | (5) | - | (112) | **(117)** |
| **At 30 October 2022** | 84 | 742 | 322 | 654 | **1,802** |
| **Net book amount at 30 October 2022** | 752 | 744 | 200 | 689 | **2,385** |
| *Assets under construction included above* | *10* | - | - | *19* | *29* |

The Company has assessed depreciation policies and asset lives and deemed them to be appropriate. As in previous years, fully depreciated assets are retained in the Company's fixed asset register. In order to provide greater understanding of the Company's depreciation charge, assets which have been fully depreciated in the period 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.

During the year, a number of properties were sold to another Group entity, and were subsequently leased back by the Company.

**Impairment**
At each reporting date, in line with IAS 36 'Impairment of assets,' the Company reviews the carrying amount of its property, plant and equipment, right-of-use assets, investment property and intangible assets to determine whether there is an indication that those assets have suffered an impairment loss or write back. In addition, it is Company policy to consider specific indicators of impairment for certain assets on an ongoing basis.

The Company considers each store location as a separate CGU. 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 net book value, an impairment charge is recognised based on the following methodology:

'Value-in-use' is calculated by projecting an individual location's 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;
- allocate a proportion of the Company'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;
- 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 Company budget;

### 11 Company financial statements (continued)

**11.7 Property, plant and equipment (continued)**

**Impairment (continued)**

- project cash flows beyond year three by applying a long-term growth rate;
- discount the cash flows using a pre-tax rate of 11.5% (31 October 2021: 7.5%). The Company takes into account a number of factors when assessing the discount rate, including the Company's WACC and other wider market factors. A combination of these factors has resulted in the increase of the discount rate used in the financial period ended 30 October 2022; and
- consideration is given to any significant one-off factors impacting the locations and any strategic, climate-related or market factors which may impact future performance.

'Fair value less costs of disposal' is estimated by the Directors based on store level valuations prepared by independent valuers, aided by 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.

The Company also considers its corporate assets for impairment at each reporting date. The Company 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 30 October 2022, there was no indication of impairment of the corporate assets as part of this assessment. In addition to this assessment, the Company undertakes an obsolescence review to identify any specific corporate assets which require impairment on an ongoing basis.

Having applied the methodology and assumptions, the Company has recognised a net impairment charge of £nil (£85m impairment charge offset by £85m impairment write-back) during the period in respect of property, plant and equipment (39 weeks ended 31 October 2021: net £21m impairment charge; (£63m impairment charge offset by £42m impairment write-back). This movement reflects fluctuations from store level trading performance and local market conditions and maturity of online store pick locations.

At 30 October 2022, the assumptions to which the value in use calculation is most sensitive 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.£7m increase in impairment and a -1% discount rate or +1% growth rate would result in a c.£5m decrease in impairment.

**11.8 Right-of-use assets**

| | Leasehold land and buildings £m | Leased plant, equipment, fixtures and vehicles £m | **Total £m** |
|---|---|---|---|
| **Cost** | | | |
| At 1 November 2021 | 2,103 | 119 | **2,222** |
| Additions | 170 | 2 | **172** |
| Transfer to property, plant and equipment | - | (11) | **(11)** |
| Disposals | (69) | - | **(69)** |
| Fully written down assets | (11) | (15) | **(26)** |
| **At 30 October 2022** | 2,193 | 95 | **2,288** |
| **Accumulated depreciation and impairment** | | | |
| At 1 November 2021 | 1,144 | 59 | **1,203** |
| Depreciation charge | 74 | 17 | **91** |
| Impairment charge | 62 | - | **62** |
| Impairment write back | (14) | - | **(14)** |
| Transfer to property, plant and equipment | - | (7) | **(7)** |
| Disposals | (24) | - | **(24)** |
| Fully written down assets | (11) | (15) | **(26)** |
| **At 30 October 2022** | 1,231 | 54 | **1,285** |
| **Net book amount at 30 October 2022** | 962 | 41 | **1,003** |

### 11 Company financial statements (continued)

**11.8 Right-of-use assets (continued)**

The Company has assessed depreciation policies and asset lives and deemed them to be appropriate. 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 period have been removed from both cost and accumulated depreciation.

**Impairment**

Having applied the methodology and assumptions set out in note 11.7, the Company has recognised a net impairment charge of £48m (£62m impairment charge offset by £14m impairment write back) during the year in respect of right-of-use assets (39 weeks ended 31 October 2021: net £43m impairment charge; £60m impairment charge offset by £17m impairment write back). This movement reflects fluctuations from store level trading performance and local market conditions.

At 30 October 2022, 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.£3m increase in impairment and a -1% discount rate or +1% growth rate would result in a c.£3m decrease in impairment.

**11.9 Investment property**

| | Freehold £m | Leasehold £m | **Total £m** |
|---|---|---|---|
| **Cost** | | | |
| At 1 November 2021 | 23 | 74 | **97** |
| Additions | - | 2 | **2** |
| Disposals | (2) | - | **(2)** |
| **At 30 October 2022** | 21 | 76 | **97** |
| **Accumulated depreciation and impairment** | | | |
| At 1 November 2021 | 13 | 59 | **72** |
| Depreciation charge | - | 1 | **1** |
| Disposals | (2) | - | **(2)** |
| **At 30 October 2022** | 11 | 60 | **71** |
| **Net book amount at end of period** | 10 | 16 | **26** |

Included in other operating income is £5m (39 weeks ended 31 October 2021: £4m) of rental income generated from investment properties. At the end of the year the fair value of freehold investment properties was £13m (31 October 2021: £14m), 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 Investment in subsidiaries**

| | **30 October 2022 £m** | 31 October 2021 £m |
|---|---|---|
| **Net book amount** | | |
| At start of period | **307** | 307 |
| Additions | **201** | - |
| **At end of period** | **508** | 307 |

During the year, Wm Morrison Supermarkets Limited invested in one of its subsidiaries to facilitate the acquisition of the trade and majority of assets of McColl's Retail Group plc and certain operating subsidiaries, for a consideration of £201m. Further details are disclosed in note 4.3.

The Company continues to hold an investment of £297m in Wm Morrison Property Partnership 4 LP as its Capital partner as part of the Scottish Limited Partnership arrangement, as detailed on page 122.

In addition to the above, the Company continues to hold a £6m investment in Chippindale Foods Limited, a £4m investment in Lowlands Nursery Limited, and investments in other related undertakings, which in aggregate are less than £1m as at 30 October 2022.

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 128 to 130.

## 11 Company financial statements (continued)

**11.11 Investments in joint ventures**
The Company has two investments in joint ventures.

The Company has an interest in MHE JVCo Limited, which is jointly owned and controlled with a third party, Ocado Operating Limited. During the 52 weeks ended 30 October 2022, the Company received £8m (39 weeks ended 31 October 2021: £nil) of dividend income from its investment. The carrying value of the Company's investment in the joint venture at 30 October 2022 is £23m (31 October 2021: £31m).

On 1 July 2022, the Company increased its share in Yes Recycling (Fife) Ltd to 50% of the share capital, whose principal activity is to provide bespoke, fully managed recycling solutions for complex polymer waste streams. During the 52 weeks ended 30 October 2022, the Company received no dividend income from its investment. The carrying value of the Company's investment in the joint venture at 30 October 2022 is £4m.

The Company has assessed the carrying value of investments for impairment as at the reporting date and concluded that no impairment is necessary (39 weeks ended 31 October 2021: £nil) as the carrying value of the total investments is supported by its underlying net assets.

**11.12 Debtors – amounts falling due within one year**

| | **30 October 2022 £m** | 31 October 2021 £m |
|---|---|---|
| Trade debtors | **133** | 212 |
| Amounts owed by Group undertakings | **8,013** | 9,105 |
| Prepayments and accrued income | **126** | 92 |
| Other receivables | **89** | 41 |
| | **8,361** | 9,450 |

Amounts owed by Group undertakings are unsecured, bear no interest 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 period (39 weeks ended 31 October 2021: £nil).

**11.13 Debtors – amounts falling due after more than one year**

| | **30 October 2022 £m** | 31 October 2021 £m |
|---|---|---|
| Finance leases – Company is lessor | **7** | 8 |

The Company is the lessor on a diverse portfolio of leases for property, such as retail units adjacent to trading 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 that are due to the Company.

| | **30 October 2022 £m** | 31 October 2021 £m |
|---|---|---|
| Less than one year | **1** | 1 |
| After one year but not more than five years | **4** | 4 |
| More than five years | **5** | 6 |
| **Total undiscounted lease payments receivable** | **10** | 11 |
| Unearned finance income | **(3)** | (3) |
| **Net investment in the lease** | **7** | 8 |

Finance lease income of £1m has been recognised in the 52 weeks ended 30 October 2022 (39 weeks ended 31 October 2021: £nil).

# Wm Morrison Supermarkets Limited
# Notes to the Company financial statements (continued)
## 11 Company financial statements (continued)
### 11.13 Debtors – amounts falling due after more than one year (continued)

**Operating leases**

The table below summarises the maturity profile of undiscounted operating lease payments due to the Company.

| | **30 October 2022 £m** | 31 October 2021 £m |
|---|---|---|
| Less than one year | **7** | 6 |
| One to two years | **5** | 4 |
| Two to three years | **5** | 4 |
| Three to four years | **4** | 3 |
| Four to five years | **3** | 3 |
| More than five years | **16** | 15 |
| **Total undiscounted lease payments receivable** | **40** | 35 |

Operating lease income of £13m has been recognised in the 52 weeks ended 30 October 2022 (39 weeks ended 31 October 2021: £6m).

### 11.14 Creditors – amounts falling due within one year

| | **30 October 2022 £m** | 31 October 2021 £m |
|---|---|---|
| Trade creditors | **(3,067)** | (2,501) |
| Other short-term borrowings | **-** | (838) |
| Amounts owed to Group undertakings | **(3,240)** | (4,885) |
| Other taxation and social security | **(16)** | (70) |
| Other creditors | **(399)** | (129) |
| Accruals and deferred income | **(308)** | (328) |
| | **(7,030)** | (8,751) |

Amounts owed to Group undertakings within one year are unsecured, bear no interest and repayable on demand.

### 11.15 Creditors – amounts falling due after more than one year

| | **30 October 2022 £m** | 31 October 2021 £m |
|---|---|---|
| £250m sterling bonds 4.625% December 2023 | **-** | (250) |
| £250m sterling bonds 3.50% July 2026 | **(39)** | (264) |
| £250m sterling bonds 4.75% July 2029 | **(45)** | (246) |
| £350m sterling bonds 2.5% October 2031 | **-** | (347) |
| | **(84)** | (1,107) |

Following the settlement of a tender and consent process on 2 December 2021, £843m of the Group's bonds were repaid. On 6 May 2022, a further £180m was repaid when the Company redeemed the 2023 Notes at a price equal to the aggregate principal amount of the outstanding value, plus the accrued and unpaid interest and the applicable premium.

Following these redemptions, the aggregate principal amount of the existing notes outstanding is £82m at 30 October 2022.

# Wm Morrison Supermarkets Limited
# Notes to the Company financial statements (continued)
## 11 Company financial statements (continued)
### 11.16 Lease liabilities

| | **30 October 2022 £m** | 31 October 2021 £m |
|---|---|---|
| Current lease liabilities | **(74)** | (94) |
| Non-current lease liabilities | **(1,424)** | (1,307) |
| | **(1,498)** | (1,401) |

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 11.7 and 11.8). 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.

| | **52 weeks ended 30 October 2022 £m** | 39 weeks ended 31 October 2021 £m |
|---|---|---|
| Total cash outflow for lessee leases | **(167)** | (132) |
| Interest expense on lease liabilities | **(64)** | (43) |
| Expense for short-term leases longer than one month | **(5)** | (9) |
| Expense for leases of low-value assets, excluding short-term | **(2)** | (2) |

### 11.17 Derivative financial assets and liabilities

| **Derivative financial assets** | **30 October 2022 Fair Value £m** | **30 October 2022 Notional Value £m** | 31 October 2021 Fair Value £m | 31 October 2021 Notional Value £m |
|---|---|---|---|---|
| **Current** | | | | |
| Foreign exchange forward contracts | **17** | **304** | 2 | 122 |
| Fuel and energy price contracts | **342** | **107** | 31 | 99 |
| | **359** | **411** | 33 | 221 |
| **Non-current** | | | | |
| Foreign exchange forward contracts | **-** | **-** | - | 7 |
| Fuel and energy price contracts | **128** | **38** | 43 | 79 |
| | **128** | **38** | 43 | 86 |
| **Derivative financial liabilities** | | | | |
| **Current** | | | | |
| Foreign exchange forward contracts | **(3)** | **(105)** | (7) | (306) |
| Fuel and energy price contracts | **-** | **(3)** | (12) | (71) |
| | **(3)** | **(108)** | (19) | (377) |
| **Non-current** | | | | |
| Fuel and energy price contracts | **-** | **-** | (2) | (25) |
| | **-** | **-** | (2) | (25) |

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.

### 11.18 Loan from parent undertaking

| | **30 October 2022 £m** | 31 October 2021 £m |
|---|---|---|
| Loan from parent undertaking | **(1,843)** | - |

On 8 November 2021, intercompany funding was provided by Market Bidco Limited (the immediate parent) to the Company. The loan is unsecured, bear no interest and is repayable on demand.

# Wm Morrison Supermarkets Limited
# Notes to the Company financial statements (continued)

## 11 Company financial statements (continued)

### 11.19 Deferred tax liabilities

| | **30 October 2022 £m** | 31 October 2021 £m |
|---|---|---|
| Deferred tax liability | **(397)** | (273) |
| Deferred tax asset | **84** | 68 |
| **Net deferred tax liability** | **(313)** | (205) |

IAS 12 'Income taxes' requires the offsetting of balances within the same tax jurisdiction where there is a legally enforceable right to offset. 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 1 November 2021 | (183) | (90) | 68 | **(205)** |
| (Charged)/credited to profit for the period | (12) | (2) | (26) | **(40)** |
| (Charged)/credited to other comprehensive income and equity | - | 16 | (84) | **(68)** |
| **At 30 October 2022** | (195) | (76) | (42) | **(313)** |
| | | | | |
| Prior period | | | | |
| At 1 February 2021 | (135) | (53) | 79 | (109) |
| (Charged)/credited to profit for the period | (48) | (5) | 31 | (22) |
| (Charged)/credited to other comprehensive income and equity | - | (32) | (42) | (74) |
| At 31 October 2021 | (183) | (90) | 68 | (205) |

### 11.20 Provisions for liabilities

| | Onerous contracts £m | Other property provisions £m | **Total £m** |
|---|---|---|---|
| At 1 November 2021 | (43) | (8) | **(51)** |
| Charged to profit for the period | (15) | - | **(15)** |
| Utilised during the period | 15 | 1 | **16** |
| Released during the period | 5 | 2 | **7** |
| **At 30 October 2022** | (38) | (5) | **(43)** |

Included with the above balance at 30 October 2022 is £7m (31 October 2021: £13m) relating to a balance due within one year. The provision is reviewed regularly in response to market conditions.

### 11.21 Pensions

#### 11.21.1 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 (the 'CARE Scheme') provides retirement benefits based on either the employee's compensation package or career average revalued earnings (CARE). The CARE Scheme is not 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.

# Wm Morrison Supermarkets Limited
# Notes to the Company financial statements (continued)

## 11 Company financial statements (continued)

### 11.21 Pensions (continued)

### 11.21.1 Defined benefit schemes: summary and description (continued)

The position of each scheme at the reporting date is as follows:

| | **30 October 2022 £m** | 31 October 2021 £m |
|---|---|---|
| CARE Scheme | **195** | 328 |
| RSP | **103** | 39 |
| **Net pension asset** | **298** | 367 |

| **Statement of financial position:** | **30 October 2022 CARE £m** | **30 October 2022 RSP £m** | 31 October 2021 CARE £m | 31 October 2021 RSP £m |
|---|---|---|---|---|
| Fair value of scheme assets | **933** | **376** | 1,525 | 484 |
| Present value of obligations | **(738)** | **(273)** | (1,197) | (445) |
| **Net pension asset** | **195** | **103** | 328 | 39 |

| **Income statement** | **52 weeks ended 30 October 2022 CARE £m** | **52 weeks ended 30 October 2022 RSP £m** | 39 weeks ended 31 October 2021 CARE £m | 39 weeks ended 31 October 2021 RSP £m |
|---|---|---|---|---|
| Administrative costs | **1** | **3** | 1 | 2 |
| Net interest income on net pension asset | **(6)** | **(1)** | (3) | (1) |
| **Total expense (credited)/charged to income statement** | **(5)** | **2** | (2) | 1 |
| **Statement of other comprehensive income:** | | | | |
| Remeasurements in other comprehensive income – charge/(credit) | **138** | **(65)** | (79) | 3 |

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 Trustees of each Scheme are 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 Company attends Trustee Investment Committee meetings in order to provide the Company'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 Company, subject to regulatory override.

### 11.21.2 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 income assets (comprising credit investments and corporate bonds) and protection assets (comprising a liability driven investment ('LDI') portfolio and one buy-in annuity policy), with a weighting towards protection assets. There are no direct investments in the Company's own shares or property occupied by any member of the Company.

## 11 Company financial statements (continued)

**11.21 Pensions (continued)**

**11.21.2 Scheme assets (continued)**

Fair value of Scheme assets:

| | **30 October 2022 CARE £m** | **30 October 2022 RSP £m** | 31 October 2021 CARE £m | 31 October 2021 RSP £m |
|---|---|---|---|---|
| Equities (quoted) | **-** | **-** | 159 | 115 |
| Corporate bonds (quoted) | **205** | **149** | 256 | 28 |
| Credit funds (unquoted) | **140** | **-** | 151 | - |
| Liability driven investments (unquoted) | **472** | **107** | 799 | 271 |
| Scottish Limited Partnership (unquoted) | **-** | **53** | - | 67 |
| Annuity policies (unquoted) | **106** | **-** | 150 | - |
| Cash (quoted) | **10** | **67** | 10 | 3 |
| | **933** | **376** | 1,525 | 484 |

For definitions of the liability driven investments, annuity policies, and credit funds, see note 8.3.

The movement in the fair value of the Schemes' assets over the period was as follows:

| | **52 weeks ended 30 October 2022 CARE £m** | **52 weeks ended 30 October 2022 RSP £m** | 39 weeks ended 31 October 2021 CARE £m | 39 weeks ended 31 October 2021 RSP £m |
|---|---|---|---|---|
| **Fair value of scheme assets at start of period** | **1,525** | **484** | 1,467 | 485 |
| Interest income | **28** | **9** | 17 | 5 |
| Return on scheme assets excluding interest | **(591)** | **(104)** | 63 | 2 |
| Employer contributions | **-** | **1** | - | - |
| Benefits paid | **(28)** | **(11)** | (21) | (6) |
| Administrative expenses | **(1)** | **(3)** | (1) | (2) |
| **Fair value of scheme assets at end of period** | **933** | **376** | 1,525 | 484 |

**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 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 an annual fixed distribution of £6.9m 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.

The RSP Scheme's interests in the Scottish Limited Partnership 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.

# Wm Morrison Supermarkets Limited
# Notes to the Company financial statements (continued)

## 11 Company financial statements (continued)

### 11.21 Pensions (continued)

### 11.21.3 Present value of obligations

The movement in the defined benefit obligation over the period was as follows:

| | **52 weeks ended 30 October 2022 CARE £m** | **52 weeks ended 30 October 2022 RSP £m** | 39 weeks ended 31 October 2021 CARE £m | 39 weeks ended 31 October 2021 RSP £m |
|---|---|---|---|---|
| **Defined benefit obligation at start of period** | **(1,197)** | **(445)** | (1,218) | (443) |
| Interest expense | **(22)** | **(8)** | (14) | (5) |
| Actuarial (loss)/gain – demographic assumptions | **(6)** | **-** | 34 | - |
| Actuarial gain/(loss) – financial assumptions | **478** | **162** | (12) | 1 |
| Actuarial (loss)/gain – experience | **(19)** | **7** | (8) | (4) |
| Settlement and curtailment gain | **-** | **-** | - | - |
| Benefits paid | **28** | **11** | 21 | 6 |
| **Defined benefit obligation at end of period** | **(738)** | **(273)** | (1,197) | (445) |

The durations of the defined benefit obligations at 30 October 2022 are: RSP 15 years; CARE 17 years. The weighted average duration of the Schemes is 16 years.

### 11.21.4 Significant actuarial assumptions

The following are the principal actuarial assumptions at the reporting date (expressed as weighted averages):

| **Financial assumptions** | **30 October 2022 CARE** | **30 October 2022 RSP** | 31 October 2021 CARE | 31 October 2021 RSP |
|---|---|---|---|---|
| Discount rate applied to scheme liabilities | **4.7%** | **4.7%** | 1.90% | 1.90% |
| Inflation assumption (RPI) | **3.5%** | **3.4%** | 3.50% | 3.50% |

| **Life expectancies** | **30 October 2022 CARE** | **30 October 2022 RSP** | 31 October 2021 CARE | 31 October 2021 RSP |
|---|---|---|---|---|
| **Longevity in years from age 65 for current pensioners** | | | | |
| Male | **20.3** | **n/a** | 21.0 | n/a |
| Female | **23.6** | **n/a** | 22.5 | n/a |
| **Longevity in years from age 65 for current members aged 45** | | | | |
| Male | **22.0** | **n/a** | 22.6 | n/a |
| Female | **25.4** | **n/a** | 24.4 | n/a |

The Company estimates discount 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 30 October 2022 are the S3PMA-Heavy/S3PFA-Heavy tables (males/females) based on year of birth with a scaling factor of 95% applied to the mortality rates, with CMI 2021 core projections and a long-term rate of improvement of 1.5% pa.

The mortality tables used for the 39 weeks ended 31 October 2021 were the S2PMA/S2PFA-Heavy tables (males/females) based on year of birth with a scaling factor of 110% applied to the mortality rates, with CMI 2020 core projections and a long-term rate of improvement of 1.5% pa.

# Wm Morrison Supermarkets Limited
## Notes to the Company financial statements (continued)

### 11 Company financial statements (continued)

**11.21 Pensions (continued)**

**11.21.4 Significant actuarial assumptions (continued)**

**Related actuarial assumptions**

| | **30 October 2022 CARE** | **30 October 2022 RSP** | 31 October 2021 CARE | 31 October 2021 RSP |
|---|---|---|---|---|
| Rate of increase of pensions in payment: RPI inflation capped at either 2.5% p.a. or 5% p.a | **2.2%/3.3%** | **-** | 2.2%/3.3% | - |
| Rate of increase of pensions in deferment: CPI inflation capped at either 2.5% p.a. or 5% p.a. | **-/2.9%** | **2.5%/-** | -/2.9% | 2.5%/- |
| CPI inflation (% p.a.) | **2.9%** | **2.8%** | 2.9% | 2.9% |

**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.

| | | **30 October 2022 CARE £m** | **30 October 2022 RSP £m** | 31 October 2021 CARE £m | 31 October 2021 RSP £m |
|---|---|---|---|---|---|
| Discount rate applied to Scheme obligations | +/-0.1% p.a. | **-/+10** | **-/+5** | -/+25 | -/+8 |
| Inflation assumption (RPI and associated assumptions) | +/-0.1% p.a. | **+/-5** | **+/-0** | +/-20 | - |
| Longevity | +one year | **+15** | **-** | +40 | - |

**11.21.5 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 in April 2022 for the CARE and the RSP Schemes. The valuations indicated that, on the agreed funding basis, the CARE and RSP Schemes had surpluses of £214m and £37m 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.

These results have been used and updated for FRS 101 purposes for the period to 30 October 2022 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 30 October 2022, 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 ‘IAS19 – 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 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, 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).

The current best estimate of Company contributions to be paid to the defined benefit schemes for the accounting period commencing 30 October 2022 is £7m (52 weeks to 30 October 2022: £6m).

### 11 Company financial statements (continued)

**11.21 Pensions (continued)**

**11.21.6 Defined contribution scheme**

The Group opened a defined contribution retirement benefit scheme called the Morrisons Personal Retirement Scheme ('MPRS') for employees 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 contribution paid, investment returns, and the form of benefit chosen at retirement.

During the 52 weeks ended 30 October 2022, the Company paid contributions of £54m to the MPRS (39 weeks to 31 October 2021: £49m) and expects to contribute £55m for the following period.

**11.22 Share capital**

| | Number of shares millions | Called up share capital £m | Share premium account £m | **Total £m** |
|---|---|---|---|---|
| At 31 October 2021 | 2,450 | 245 | 252 | **497** |
| Share options exercised | 1 | - | 1 | **1** |
| **At 30 October 2022** | 2,451 | 245 | 253 | **498** |

All issued shares are fully paid and have a par value of 10p per share (31 October 2021: 10p per share).

For further details on called up share capital and share premium accounts, see note 6.7.

**11.23 Reserves**

| | **30 October 2022 £m** | 31 October 2021 £m |
|---|---|---|
| Capital redemption reserve | **39** | 39 |
| Merger reserve | **940** | 940 |
| Hedging reserve | **373** | 122 |
| Retained earnings[1] | **1,549** | 1,729 |
| **Total** | **2,901** | 2,830 |

[1] Included in retained earnings is £28m relating to a gain on trust shares relating to the previous financial period.

**Capital redemption reserve**

The capital redemption reserve at the start of the period related to 389,631,561 of the Company's own shares which it purchased on the open market for cancellation between 31 March 2008 and 8 March 2013 at a total cost of £1,081m.

**Merger reserve**

The merger reserve represents the reserve arising on the acquisition in 2004 of Safeway Limited. This merger reserve was initially considered unrealised on the basis it was represented by investments held by the Company, which is not qualifying consideration in accordance with Tech 02/17 issued by the Institute of Chartered Accountants in England and Wales (ICAEW).

During the 53 weeks ended 4 February 2018, the majority of the Company's investments were transferred to another Group company, Wm Morrison Supermarkets Holdings Limited, in exchange for an intercompany loan. To the extent that this intercompany balance is settled in qualifying consideration, the same proportion of the merger reserve becomes realised. During the 52 weeks ended 30 October 2022 and 39 weeks ended 31 October 2021 none of the intercompany loan balance was settled through a qualifying consideration. As a result, none of the merger reserve balance was realised in the period (39 weeks ended 31 October 2021: £nil).

**Hedging reserve**

This represents the gains and losses arising on derivatives used for cash flow hedging.

**11.24 Capital commitments**

| | **30 October 2022 £m** | 31 October 2021 £m |
|---|---|---|
| Contracts placed for future capital expenditure not provided in the financial statements (property, plant and equipment, right-of-use assets and intangible assets) | **44** | 34 |
| Contracts placed for future leases not provided in the financial statements | **19** | 25 |

### 11 Company financial statements (continued)

#### 11.25 Guarantees, contingent liabilities and contingent assets

**Guarantees**
*Senior Facilities Agreement*
A condition of the Market Bidco Limited Senior Facilities Agreement was that ‘material entities’ needed to become guarantors to the facilities. ‘Material entities’ are ones which hold 5% or more of the consolidated Group’s gross assets or generate 5% or more of the consolidated Group’s EBITDA, or those which hold real property of greater than £75m. As such, on 23 March 2022 Wm Morrison Supermarkets Limited (along with its subsidiaries Safeway Limited, Safeway Stores Limited and Optimisation Investments Limited) acceded as guarantors to each of the new Facilities Agreements. The Company granted a guarantee and indemnity in respect of the obligations of the Obligors under each of the Facilities Agreements and provided security over its assets, pursuant to the Common Transaction Security Agreement.

The terms and conditions of Wm Morrison Supermarkets Limited’s listed bonds are such that, if Group entities act as guarantors to finance facilities, they must also act as guarantors to the bonds. Wm Morrison Supermarkets Limited and Safeway Limited already guaranteed these bonds, so Safeway Stores Limited and Optimisation Investments Limited were required to accede as guarantors in addition.

The Company has also 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 30 October 2022 was £nil (31 October 2021: £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.

**Dordon, Interchange fee claim, Equal pay claim**
See note 10.2.

**Other**
The Company and various of its subsidiaries are, from time to time, parties to legal proceedings, including certain tax matters, and claims which arise in the ordinary course of business. The directors do not anticipate that the outcome of these proceedings, actions and claims, either individually or in aggregate, will have a material adverse effect upon the Group’s financial position.

#### 11.26 Post-balance sheet events

**Sale and leaseback**
On 9 December 2022, the Company agreed a £188m sale and leaseback transaction on six logistics properties. As part of the transaction, the Company have undertaken to lease the properties for up to 25 years.

**Wm Morrison 1967 section of the Retirement Saver Pension scheme (‘Morrison 1967 CARE scheme’)**
In December 2022, the Morrison 1967 CARE scheme entered into a new buy-in policy for £762m that will provide insurance for the pensioner population. The policy will pay income to the Scheme that is exactly equal to the benefits paid to the insured population. This will remove 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 Scheme and is equal to the accounting liabilities of the insured pensioner population.

**Closure of McColl’s stores**
A number of McColl’s stores have been loss-making for some time and although some of these stores will be able to return to profitability in the future, there are 132 stores where it has been assessed that there is no realistic prospect of achieving a breakeven position in the medium term. All of these stores have subsequently closed since the year end, with around 1,300 McColl’s colleagues placed at risk of redundancy.

### 11 Company financial statements (continued)

**11.27 Ultimate parent undertaking**

The ultimate parent undertaking and controlling party of the Company is Market Topco Limited. The immediate parent company is Market Bidco Limited. Market Bidco Limited and Market Topco Limited were incorporated by Clayton, Dubilier and Rice's Fund XI for the purposes of acquiring the Company. The investment into Market Topco Limited was made by a vehicle owned by Clayton, Dubilier & Rice Fund XI, L.P. and certain commonly-managed parallel and related investment vehicles thereof.

In addition to Market Bidco Limited, the following five entities are controlled by Market Topco Limited and form part of the corporate structure above Wm Morrison Supermarkets Limited;

- Market Holdco 1 Limited;
- Market Holdco 2 Limited;
- Market Holdco 3 Limited;
- Market Bidco Finco Plc; and
- Market Parent Finco Plc.

The smallest group at which consolidated financial statements are prepared is Market Bidco Limited, a company incorporated in England and Wales. The largest group at which consolidated financial statements are prepared is Market Topco Limited, a company incorporated in England and Wales. The registered office address of these companies is the same as that of Wm Morrison Supermarkets Limited. The consolidated Financial Statements of these groups are available to the public and may be obtained from the Company Secretary, Wm Morrison Supermarkets Limited, Hilmore House, Gain Lane, Bradford, West Yorkshire, United Kingdom, BD3 7DL.

# Wm Morrison Supermarkets Limited
## 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 30 October 2022 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 Limited

| Name | Country of incorporation | Principal activity | Interest |
|---|---|---|---|
| Bos Brothers Fruit and Vegetables B.V.[1] | Netherlands | Acquirer of food products | 100% |
| Chippindale Foods Limited | England and Wales | Supplier of eggs | 100% |
| De Mandeville Gate Management Limited | England and Wales | Property maintenance | 51% |
| Dordon SPV Limited[2] | England and Wales | Lease company | 100% |
| Flower World Limited | England and Wales | Dormant | 100% |
| Lowlands Nursery Limited | England and Wales | Wholesale of flowers and plants | 100% |
| MHE JVCo Limited[3] | England and Wales | Joint venture with Ocado | 51% |
| Neerock Farming Limited[4] | Scotland | Dormant | 100% |
| Perimeter Holdings Limited | England and Wales | Property development | 100% |
| Wm Morrison (HK) Limited[5] | Hong Kong | Acquirer of non-food products | 100% |
| Wm Morrison Nominee 1 Limited | England and Wales | Dormant | 100% |
| Wm Morrison Nominee 2 Limited | England and Wales | Dormant | 100% |
| Wm Morrison Nominee 3 Limited | England and Wales | Dormant | 100% |
| Wm Morrison Pension Trustee Limited | England and Wales | Dormant | 100% |
| Wm Morrison Property Investments Limited[6] | Scotland | General partner in a partnership | 100% |
| Wm Morrison Supermarkets Holdings Limited | England and Wales | Holding company | 100% |
| Yes Recycling (Fife) Ltd[7] | Scotland | Recycler | 50% |

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 Buildings 1 & 2, Trident Place, Mosquito Way, Hatfield, Hertfordshire, AL10 9UL

4 Registered address Market Hill, Market Hill Road, Turriff, Aberdeenshire, Scotland, AB53 4PA

5 Registered address 19/F Millenium City 2, No 378 Kwun Tong Road, Kowloon, Hong Kong

6 Registered address Capella Building (Tenth Floor), 60 York Street, Glasgow, G2 8JX

7 Registered address Lomond House Westlaw Road, Whitehill Industrial Estate, Glenrothes, Fife, Scotland, KY6 2QZ

### Related undertakings of other Group companies

| Name | Country of incorporation | Principal activity | Interest |
|---|---|---|---|
| Alliance Property Holdings Limited | England and Wales | Retailer | 100% |
| Amos Hinton & Sons Limited | England and Wales | Dormant | 100% |
| Argyle Securities Limited[1] | Scotland | Dormant | 100% |
| Argyll Foods Limited | England and Wales | Dormant | 100% |
| Argyll Stores (Holdings) Limited | England and Wales | Dormant | 100% |
| Ascot Road Watford Limited | England and Wales | Dormant | 100% |
| Cancede Limited | England and Wales | Property investment | 100% |
| Cordon Bleu Freezer Food Centres Limited | England and Wales | Dormant | 100% |
| Divertigo Limited | England and Wales | Dormant | 100% |
| English Real Estates Limited | England and Wales | Dormant | 100% |
| Erith Pier Company Limited | England and Wales | Property maintenance | 100% |
| Evermere Limited | England and Wales | Dormant | 100% |
| Falfish (Holdings) Limited | England and Wales | Preparation and supply of seafood | 100% |

# Wm Morrison Supermarkets Limited
## Related undertakings (continued)

**Related undertakings of other Group companies (continued)**

| | | | |
|---|---|---|---|
| Falfish Limited | England and Wales | Preparation and supply of seafood | 100% |
| Farmers Boy Limited | England and Wales | Manufacturer and distributor of fresh food products | 100% |
| Farmers Boy (Deeside) Limited | England and Wales | Dormant | 100% |
| Federated Properties Limited | England and Wales | Dormant | 100% |
| Firsdell Ltd | England and Wales | Dormant | 100% |
| Fisherdale Properties Limited | England and Wales | Dormant | 100% |
| Freehold Investments Limited[2] | Jersey | Property investment | 100% |
| Holsa Limited | England and Wales | Dormant | 100% |
| International Seafoods Limited | England and Wales | Preparation and supply of seafood | 100% |
| Ipsolus Limited | England and Wales | Dormant | 100% |
| J3 Property Limited[1] | Scotland | Dormant | 100% |
| Kiddicare Properties Limited | England and Wales | Holding company | 100% |
| Lease Securities Limited[2] | Jersey | Property investment | 100% |
| Maypole Limited[3] | Guernsey | Investment company | 100% |
| MDW (Eastbourne) Limited | England and Wales | Dormant | 100% |
| MoClo Limited | England and Wales | Dormant | 100% |
| Monument Hill Properties Limited | England and Wales | Dormant | 100% |
| Neerock Limited | England and Wales | Fresh meat processor | 100% |
| Newincco 1072 Limited | England and Wales | Dormant | 100% |
| Oldwest Limited[2] | Scotland | Dormant | 100% |
| Optimisation Developments Limited | England and Wales | Property development | 100% |
| Optimisation Investments Limited | England and Wales | Property investment | 100% |
| Presto Stores (LC) Limited | England and Wales | Dormant | 100% |
| Presto Stores Limited | England and Wales | Dormant | 100% |
| Rathbone Kear Limited | England and Wales | Manufacturer and distributor of morning goods and bread | 100% |
| Rathbones Bakeries Limited | England and Wales | Dormant | 100% |
| RP (No. 37) Limited[2] | Jersey | Property investment | 100% |
| Safeway (Overseas) Limited | England and Gibraltar | Grocery retailer (overseas) | 100% |
| Safeway Development Limited | England and Wales | Dormant | 100% |
| Safeway Food Stores Limited | England and Wales | Dormant | 100% |
| Safeway Grocery (Ireland) Limited | Ireland | Dormant | 100% |
| Safeway Limited | England and Wales | Dormant | 100% |
| Safeway Pensions Trustees Company Limited | England and Wales | Dormant | 100% |
| Safeway Pension Trustees Limited | England and Wales | Dormant | 100% |
| Safeway Properties Limited | England and Wales | Property investment | 100% |
| Safeway QUEST Trustees Limited | England and Wales | Dormant | 100% |
| Safeway Stores (Gibraltar) Pension Trustees Limited[4] | Gibraltar | Dormant | 100% |
| Safeway Stores (Ireland) Limited | England and Wales | Dormant | 100% |

# Wm Morrison Supermarkets Limited
## Related undertakings (continued)

**Related undertakings of other Group companies (continued)**

| | | | |
|---|---|---|---|
| Safeway Stores Limited | England and Wales | Grocery retailer | 100% |
| Safeway Trustee (FURB) Limited | England and Wales | Dormant | 100% |
| Safeway Wholesale Limited | England and Wales | Holding company | 100% |
| Simply Fresh Foods Holdings Limited | England and Wales | Dormant | 100% |
| Stalwart Investments Limited[2] | Jersey | Property investment | 100% |
| Stores Group Limited | England and Wales | Dormant | 100% |
| The Home & Colonial Stores Limited | England and Wales | Dormant | 100% |
| The Medical Hall Limited[4] | Gibraltar | Pharmaceutical licence holder (Gibraltar) | 100% |
| The Morrisons Foundation | England and Wales | Charity | 100% |
| Tower Centre Hoddesdon Limited | England and Wales | Dormant | 100% |
| Trilogy (Leamington Spa) Limited | England and Wales | Dormant | 100% |
| Velligrist Limited | England and Wales | Dormant | 100% |
| Wm Morrison (Ireland) Limited[5] | Ireland | Dormant | 100% |
| Wm Morrison At Source Limited | England and Wales | Technical testing and analysis | 100% |
| Wm Morrison Bananas Limited | England and Wales | Dormant | 100% |
| Wm Morrison GP 1 Limited | England and Wales | Dormant | 100% |
| Wm Morrison GP 2 Limited | England and Wales | Dormant | 100% |
| Wm Morrison GP 3 Limited | England and Wales | Dormant | 100% |
| Wm Morrison Growers Limited | England and Wales | Acquirer of fresh produce | 100% |
| Wm Morrison LP 1 Limited | England and Wales | Dormant | 100% |
| Wm Morrison LP 2 Limited | England and Wales | Dormant | 100% |
| Wm Morrison LP 3 Limited | England and Wales | Dormant | 100% |
| Wm Morrison Produce Limited | England and Wales | Produce packer and purchaser | 100% |
| Wm Morrison Property Partnership LP[1] | England and Wales | Scottish Limited Property Partnership | 100% |
| Wm Morrison Property Partnership 1 Limited Partnership | England and Wales | Dormant | 100% |
| Wm Morrison Property Partnership 2 Limited Partnership | England and Wales | Dormant | 100% |
| Wm Morrison Property Partnership 3 Limited Partnership | England and Wales | Property partnership | 100% |
| Wm Morrison Property Partnership 4 LP[1] | England and Wales | Property partnership | 100% |
| Wm Morrison Supermarket Stores Ltd | England and Wales | Dormant | 100% |

1 Registered address Capella Building (Tenth Floor), 60 York Street, Glasgow, G2 8JX

2 Registered address IFC1, Esplanade, St Helier, Jersey, JE1 3BX

3 Registered address 1st & 2nd floors, Elizabeth House, Les Ruettes Brayes, St Peter Port, Guernsey, GY1 1EW

4 Registered address 1st Floor, 5 Secretary's Lane, Gibraltar GX11 1AA

5 Registered address 25-2, North Wall Quay, Dublin 1, Ireland, D01 H104

# 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.

| Measures | Closest equivalent IFRS measure | Definition and purpose | Reconciliation for Group measures |
|---|---|---|---|
| **Profit measures** | | | |
| **Like-for-like ('LFL') sales growth** | Revenue | Percentage change in year-on-year sales (excluding VAT), removing the impact of new store openings and closures in the current or previous financial period.<br>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. | **52 weeks ended 30 October 2022 %**<br>Group LFL (exc. fuel) **(4.2)%**<br>Group LFL (inc. fuel) **2.1%** |
| **Total sales growth** | Revenue | *Including fuel:*<br>Percentage change in year-on-year total reported revenue.<br>*Excluding fuel:*<br>Percentage change in year-on-year total sales excluding fuel.<br>This measure illustrates the total year-on-year sales growth and is a key measure for Director and management remuneration. | A reconciliation of total sales including and excluding fuel is provided in note 1.2 of the financial statements. |
| **Profit before tax and exceptionals** | Profit before tax | Profit before tax and exceptionals is defined as profit before tax, exceptional items and net retirement benefit credit. This excludes exceptional items which are significant in size and/or nature and net retirement benefit credit.<br>This measure is a key measure used by the Directors. It provides key information on ongoing trends and performance of the Group. | A reconciliation of this measure is provided in note 1.4 of the financial statements. |
| **Profit before exceptionals after tax** | Profit after tax | Profit before tax and exceptionals after a normalised tax charge.<br>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. | £153m being profit before tax and exceptionals (£186m) less a normalised tax charge (£33m) (see note 1.4 of the financial statements). |
| **Operating profit before exceptionals** | Operating profit[1] | Reported operating profit before exceptional items, which are significant in size and/or nature.<br>This measure is used by the Directors as it provides key information on ongoing trends and performance of the Group. | £251m being reported operating profit of £23m, adjusted for impairment and provisions for onerous contracts (£105m), restructuring and store closure costs (£18m), profit on disposal and closure (£10m), pension administrative costs (£8m), transaction costs of (£92m) and other exceptional items (£15m). |
| **Operating profit before supply chain disruption** | Operating profit[1] | Reported operating profit before supply chain disruption costs. | £67m profit being reported operating profit of £23m, adjusted for supply chain disruption cost (£44m). |

1 Operating profit is not defined under IFRS. However, it is a generally accepted profit measure.

# Glossary (continued)

## Alternative Performance Measures (continued)

| Measures | Closest equivalent IFRS measure | Definition and purpose | Reconciliation for Group measures |
|---|---|---|---|
| **Profit measures (continued)** | | | |
| **Operating profit before exceptionals and supply chain disruption** | Operating profit[1] | Reported operating profit before exceptional items and supply chain disruption costs. | £295m being operating profit before exceptionals (£251) plus supply chain disruption costs (£44m). |
| **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.<br>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[1] | Operating profit before exceptional items, including share of profit/loss from joint venture, before depreciation and amortisation.<br>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 finance costs. | £859m being operating profit before exceptionals (£251m), plus depreciation (£520m) and amortisation (£89m), less share of loss from joint venture (£1m). |
| **EBITDA before exceptionals and supply chain disruption** | Operating profit[1] | Operating profit before exceptional items including share of profit/loss from joint venture, before depreciation and amortisation, and before the supply chain disruption costs. | £903m being operating profit before exceptionals (£251m), plus depreciation (£520m) and amortisation (£89m) and supply chain disruption costs (£44m), less share of loss from joint venture (£1m). |
| **Statutory EBITDA** | Operating profit[1] | Operating profit after exceptional items including share of profit/loss from joint venture, before depreciation and amortisation. | £631m being operating profit (£23m), less share of loss from joint venture (£1m), plus depreciation (£520m) and amortisation (£89m). |
| **EBITDA before exceptionals, supply chain disruption and excluding McColl's** | Operating profit[1] | Operating profit before exceptional items including share of profit/loss from joint venture, before depreciation and amortisation, before supply chain disruption costs and McColl's EBITDA. | £940m being operating profit before exceptionals (£251m), plus depreciation (£520m) and amortisation (£89m), supply chain disruption costs (£44m), less share of loss from joint venture (£1m) and excluding McColl's EBITDA (£37m). |
| **McColl's EBITDA** | Loss before tax | McColl's loss before tax excluding the impact of exceptional items, depreciation and amortisation. | £37m loss being loss before tax of £39m, excluding £2m of exceptional costs. |

1 Operating profit is not defined under IFRS. However, it is a generally accepted profit measure.

# Glossary (continued)

## Alternative Performance Measures (continued)

| Measures | Closest equivalent IFRS measure | Definition and purpose | Reconciliation for Group measures |
|---|---|---|---|
| **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 credit.<br><br>This measure is used by the Directors as it provides a better reflection of the normalised tax charge for the Group. | A reconciliation of the tax charge is found in note 2.2.3 of the financial statements. |
| **Cash flows and net debt measures** | | | |
| **Net debt** | No direct equivalent | Net debt is current and non-current: borrowings, lease liabilities and derivative financial assets and liabilities; net of cash and cash equivalents. | A reconciliation of this measure is provided in note 6.6 of the financial statements. |
| **Working capital movement** | No direct equivalent | Movement in inventories, trade and other receivables, trade and other payables and provisions. | £180m increase relating to movement in inventories (outflow of £88m), debtors (outflow of £4m), creditors (inflow of £284m) and provisions (outflow of £12m). |

1 Operating profit is not defined under IFRS. However, it is a generally accepted profit measure.

# Company advisors

**Corporate responsibility enquiries**
Telephone: 0345 611 5000

**Solicitors**
Ashurst LLP
London Fruit & Wool Exchange
1 Duval Square
London E1 6PW

Eversheds Sutherland (International) LLP
1 Wood Street
London EC2V 7WS

Squire Patton Boggs (UK) LLP
No.1 Spinningfields
1 Hardman Square
Manchester M3 3EB

DWF LLP
1 Scott Place `
2 Hardman Street
Manchester M3 3AA

**Independent auditors**
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Central Square
29 Wellington Street
Leeds LS1 4DL

## DISCLAIMER

This Annual Report has been prepared by Wm Morrison Supermarkets Limited (“Morrisons”) solely for informational purposes.

Morrisons has prepared this Annual Report on the basis of information in its possession, as well as from sources believed to be reliable. To the extent available, the industry, market and competitive-position data contained in this Annual Report come from official or third-party sources. Third-party industry publications, studies and surveys generally state that the data contained therein have been obtained from sources believed to be reliable, but that there is no guarantee of the accuracy or completeness of such data. Although Morrisons believes that each of these publications, studies and surveys has been prepared by a reputable source, Morrisons has not independently verified the data contained therein. In addition, certain of the industry, market and competitive position data contained in this Annual Report come from Morrisons own internal estimates based on the knowledge and experience of Morrisons management in the markets in which it operates. Although Morrisons believes that such estimates are reasonable and reliable, such estimates, and their underlying methodology and assumptions, have not been verified by any independent source for accuracy or completeness and are subject to change without notice. Accordingly, no undue reliance should be placed on any of the industry, market or competitive position data contained in this Annual Report. In connection with any investment decision, the recipient should conduct its own evaluation and assessment of the information contained in this Annual Report, and the economic, financial, regulatory, legal, taxation, stamp duty and accounting implications of that information. Morrisons is not providing legal, accounting or tax advice, and you are strongly advised to consult your own independent advisers on any legal, tax or accounting issues relating to this Annual Report in connection with any investment decision.

This Annual Report contains financial information regarding the businesses and assets of Morrisons. Unless indicated otherwise, the financial information presented herein is for Morrisons on a consolidated basis.

Certain financial data included in this Annual Report consists of “non-IFRS financial measures.” These non-IFRS financial measures may not be comparable to similarly-titled measures as presented by other companies, nor should they be considered to be alternatives to the historical financial results or other indicators of Morrisons income or cash flow based on IFRS. Morrisons believes that presenting certain non-IFRS financial measures provides meaningful information to investors in understanding operating results and may enhance investors’ ability to analyse financial and business trends. In addition, Morrisons believes that these non-IFRS financial measures allow investors to compare period to period more easily by excluding items that could have a disproportionately negative or positive impact on results in any particular period. Even though the non-IFRS financial measures are used by management to assess Morrisons financial position, financial results and liquidity and these types of measures are commonly used by investors, they have important limitations as analytical tools, and you should not consider them in isolation or as substitutes for analysis of Morrisons financial position or results of operations as reported under IFRS. The definitions, calculations and reconciliations of such non-IFRS measures to the applicable IFRS measures are set forth in the glossary to this Annual Report.

Neither Morrisons nor its advisers are under any duty to update or inform any recipient of any changes to information in this Annual Report, provide any recipient with access to any additional information or to correct any inaccuracies in any such information which may become apparent. As such, the information in this Annual Report should not be assumed to have been updated at any time subsequent to the date hereof.

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