News Release

Release date: 11 March 2021

PRELIMINARY RESULTS FOR THE 52 WEEKS ENDED 31 JANUARY 2021

Building on momentum

2020/21 financial summary

- Group like-for-like (LFL) sales[(1)] ex-fuel/ex-VAT up 8.6% (2019/20: down 0.8%), with Q4 LFL up 9.0% (Q4 2019/20: down 2.1%)
- Total revenue up 0.4% to £17.6bn (2019/20: £17.5bn)
- Profit before tax and exceptionals[(2)] down 50.7% to £201m (2019/20: £408m), including £290m direct COVID-19 costs to help feed the nation through the crisis
- Profit before tax and exceptionals[(2)] would have been up 5.6% to £431m before the payment of £230m of waived government business rates relief
- EPS before exceptionals[(2)] down 54.9% to 5.95p (2019/20: 13.18p)
- Profit before tax down 62.1% to £165m (2019/20: £435m) after net exceptional costs of £36m including online capacity transformation, impairment and restructuring
- Free cash outflow[(3)] £450m (2019/20: £238m inflow) due to lower profit and temporary impacts of lower fuel sales, higher stock and paying small suppliers immediately
- Net debt £3,169m (2019/20: £2,458m), or £1,798m pre-IFRS 16 (2019/20: £1,082m)
- Net pension accounting surplus £718m (2019/20: £944m)
- ROCE down to 3.9% (2019/20: 7.0%) due to lower profit before exceptionals
- Special dividend of 4.00p per share deferred from H2 2019/20 declared in December 2020 and paid in January 2021
- Final ordinary dividend 5.11p, taking the full-year ordinary dividend up 5.6% to 7.15p (2019/20: 6.77p) and full-year total dividend up 27.1% to 11.15p (2019/20: 8.77p)

Strategic and operating highlights

- Proud to play our full part to help feed the nation. Our purpose, priorities and ways of working are evolving and adapting well, and we are emerging broader and stronger
- Recognised by customers as best for brand warmth and net promoter score[(4)]
- Very strong absolute and relative sales, with deflation and high volume growth
- Strong operational gearing and profit growth when adjusted for waived rates relief
- Online sales tripled during the year, with capacity up fivefold. Both online and wholesale are profitable and we expect profits to keep improving
- ‘Morrisons on Amazon’ is now available in c.50 towns and cities, and already accounts for more than 10% of sales in the majority of our stores where we offer the service
- Morrisons is supplying the new Amazon Fresh grocery store which opened last week
- Wholesale supply roll-out to a further 236 McColl’s stores now complete

Guidance

- We expect 2021/22 profit before tax and exceptionals including rates paid to be higher than the £431m profit achieved in 2020/21 excluding the £230m waived rates relief
- During 2021/22, we expect strong free cash flow and a significant reduction in net debt, with net debt/EBITDA expected to be no higher than the 2019/20 level of 2.4x
- 300 McColl’s stores to be converted to Morrisons Daily over the next three years, and new contract with McColl’s signed to extend the partnership to 2027
- Plan for a 100% carbon-neutral direct British farm supply chain by 2030

Outlook

Our business has reacted and responded very well throughout the pandemic, and both our absolute and relative trading performance has been consistently strong. We are confident we can continue our momentum into the new year, and expect both profit growth and a significant reduction in net debt.

In early January we guided 2020/21 profit before tax and exceptionals to be in the range £420m–£440m prior to the waived rates relief payment of £230m. Our profit before tax and exceptionals of £431m, after adjusting for the waived rates relief, is in the middle of that range, and was achieved despite the impact of the third national lockdown. During January 2021 we again experienced higher colleague absence, thereby incurring £10m more direct COVID-19 costs than guided. In addition, our cafés were again required to close and fuel LFL fell to -43% (compared to -23% for the first 22 weeks of H2), both of which also had a negative effect on profit. However, retail LFL and operational gearing continued to be very strong thereby offsetting all of these impacts. Since year end colleague absence is gradually returning to lower levels and fuel sales have started to improve.

For 2021/22, with the anniversary of the first lockdown imminent and still some uncertainty as to how COVID-19 restrictions will evolve in future, there are many variables within our scenario sales and profit planning, especially so early in the new financial year. However, we recognise these are highly unusual times and want to provide whatever guidance we can for stakeholders for profit, debt and leverage.

We expect 2021/22 profit before tax and exceptionals including rates paid to be higher than the £431m profit achieved for 2020/21 excluding the £230m waived rates relief. This target assumes a gradual return to more normal trading conditions, no significant increases in expected direct COVID-19 costs such as elevated colleague absence, and no further restrictions such as another period of prolonged café closures. However, we enter 2021/22 with strong trading and operational gearing momentum, and further productivity and cost efficiency opportunities supported by our very robust underlying cash flow and balance sheet, all of which allows us flexibility around the choices we make for all stakeholders and gives us confidence in our profit guidance.

We expect free cash flow and net debt will now improve significantly. 2020/21 pre-IFRS 16 year-end net debt was £1,798m, broadly in line with our guidance of c.£1.7bn. Fuel LFL of -43% during January was lower than we had assumed, meaning fuel working capital outflow as at year end of £347m compared to £220m reported in early January. In addition, we continued to invest in both higher levels of stock availability and paying our smaller suppliers immediately.

We expect some of the working capital impacts to start to reverse during Q1 2021/22, and others to reverse as trading conditions normalise thereafter. Looking forward and beyond these temporary impacts, we expect strong free cash flow and a significant fall in net debt during 2021/22, with net debt/EBITDA expected to be no higher than the 2019/20 year-end level of 2.4x. As we have done consistently over recent years, we will retain a strong and flexible balance sheet, and will be guided each year by the principles of our capital allocation framework in assessing the uses of that free cash flow. As previously announced, we will take a decision regarding a potential special dividend once a year at the time of our preliminary results in March.

Andrew Higginson, Chair, said:

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

David Potts, Chief Executive, said:

“Morrisons key workers have played a vital role for all our stakeholders during the pandemic, especially the most vulnerable in British society, and their achievements over the last year have been remarkable. I am delighted that we are recognising their enormous contribution by becoming the first supermarket to pay a minimum of £10 an hour to all store colleagues. We are also today showing our continuing gratitude and appreciation for the incredible work of other key workers in the nation, by extending our 10% discount for NHS staff for the whole of 2021.

“I'm pleased with the greater recognition, warmth and affection for the Morrisons brand from all corners of the nation, following a year like no other. We must now look forward with hope towards better times for all, and we’re confident we can take our strong momentum into the new year, targeting profit growth and significantly lower net debt during 2021/22.”

Figure 1 – 2020/21 COVID-19 direct costs

£m change year on year	
Extra payroll	99
Extra cost of colleague bonus*	68
Colleague and customer protection	46
Food banks and other donations	12
Other costs (inc. extra seasonal waste/markdown, extra distribution costs)	65
Total COVID-19 direct costs	**290**

** We paid a 6% ‘thank you’ guaranteed annual bonus for all frontline colleagues, on average triple last year*

Figure 2 – 2020/21 profit reconciliation

£m	**FY 19/20**	**FY 20/21**	**Y on Y**
Operating profit	521	**254**	(51.2)%
Profit before tax	435	**165**	(62.1)%
Exceptional items:			
− Impairment and provision for onerous contracts (net)	(2)	**(7)**	
− (Profit)/loss on disposal and exit of properties	(66)	**(2)**	
− Restructuring and store closure costs	51	**56**	
− Online and home delivery transformation costs	-	**66**	
− Online and home delivery impairment write-back	-	**(76)**	
− Net retirement benefit interest income*	(19)	**(16)**	
− Other exceptional items	9	**15**	
Operating profit before exceptionals	**513**	**306**	**(40.4)%**
Profit before tax and exceptionals	**408**	**201**	**(50.7)%**
Operating profit before exceptionals and waived rates relief	513	536	4.5%
Profit before tax, exceptionals and waived rates relief	408	431	5.6%

** Adjusted in profit before tax and exceptionals, but not in operating profit before exceptionals*

Figure 3 – LFL sales performance (ex-VAT, reported in accordance with IFRS 15)

	2019/20	2020/21						
	FY	Q1	Q2	H1	Q3	Q4	H2	FY
Retail contribution to LFL	(1.4)%	5.1%	11.1%	7.9%	7.1%	8.2%	7.6%	7.8%
Wholesale contribution to LFL	0.6%	0.6%	1.2%	0.8%	0.7%	0.8%	0.8%	0.8%
Group LFL ex-fuel	**(0.8)%**	**5.7%**	**12.3%**	**8.7%**	**7.8%**	**9.0%**	**8.4%**	**8.6%**
Group LFL inc-fuel	(1.1)%	(3.9)%	2.1%	(1.1)%	2.2%	0.7%	1.4%	0.1%

Alternative Performance Measures

Guidelines on Alternative Performance Measures issued by the European Securities and Markets Authority came into effect for all communications released on or after 3 July 2016 for issuers of securities on a regulated market. The key alternative performance measures identified by the Group and contained in this announcement are detailed below. The Directors measure the performance of the Group based on the following financial measures which are not recognised under IFRS, and consider these to be important measures in evaluating the Group's results and financial position.

Definitions and additional requirements:

A full glossary of terms and alternative measures is provided in this announcement. The Directors believe the key metrics are the ones outlined below because they are used for internal reporting of the performance of the Group, they provide key information on the underlying trends and performance, and they are key measures for director and management remuneration.

(1) **Like-for-like (LFL) sales:** percentage change in year-on-year sales (excluding VAT), removing the impact of new store openings and closures in the current or previous financial year. A reconciliation between LFL sales and total revenue is provided in the glossary at the end of this announcement.

(2) **Profit before tax and exceptionals:** defined as profit before tax, exceptional items and net retirement benefit interest. Reference is also made to what profit would have been before waiving rates relief where this information is useful in understanding the results, as this is the basis on which we managed the business during the year. **Earnings per share (EPS) before exceptionals:** defined as profit before exceptional items and net retirement benefit interest, adjusted for a normalised tax charge. A reconciliation between profit before tax, operating profit, profit before tax and exceptionals, and operating profit before exceptionals is shown in Figure 2. See Note 8 for a reconciliation between basic EPS and EPS before exceptionals.

(3) **Free cash flow:** defined as movement in net debt before payment of dividends. Free cash flow for the period is £(450)m (2019/20: £238m), being the movement in net debt of £(711)m (2019/20: £(64)m) adjusted for dividends paid of £261m (2019/20: £302m).

Other Alternative Performance Measures used in this announcement are defined in the glossary.

(4) Compared to other Big 4 supermarkets. Source: YouGov Plc 2021 © All rights reserved

This announcement includes inside information.

Enquiries:

Wm Morrison Supermarkets PLC

Michael Gleeson – Chief Financial Officer	0345 611 5000
Andrew Kasoulis – Investor Relations Director	0778 534 3515

Media Relations

Wm Morrison Supermarkets PLC:	Simon Rigby	07771 784446
Citigate Dewe Rogerson:	Kevin Smith	07710 815924
	Ellen Wilton	07921 352851

Management will host an audio-only webcast this morning at 09:30 available at https://www.morrisons-corporate.com/investor-centre/

Dial-in details:

Participant dial in:	+44 (0) 33 0551 0200
Password:	Morrisons

Replay facility available for 7 days:

Replay access number:	+44 (0) 20 8196 1480
Replay access code:	9063531#

– ENDS –

Certain statements in this financial report are forward looking. Where the financial report includes 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 this report. Such statements are based on current expectations and are subject to a number of risks and uncertainties, including both economic and business risk factors that could cause actual events or results to differ materially from any expected future events or results referred to in these forward-looking statements. Unless otherwise required by applicable law, regulation or accounting standards, the Group undertakes no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

Financial overview

During 2020/21 our main focus was playing our full part in helping feed the nation. Our business performed well, with strong sales, operating leverage and growth in profit before tax and exceptionals (adjusting for £230m waived rates relief). Direct COVID-19 costs and other lost profit as a result of the various restrictions impacted reported profit.

Group LFL excluding fuel was very strong, up 8.6%, comprising a retail contribution of 7.8% and wholesale contribution of 0.8%. For Q4, LFL excluding fuel was 9.0% (8.2% retail contribution, 0.8% wholesale contribution).

Total revenue for 2020/21 was £17.6bn, up 0.4% year on year, with net new space sales contribution of 0.4%. Total revenue excluding fuel was up 8.9%.

Fuel sales were down 32.1% to £2.49bn, severely affected by the COVID-19 restrictions, especially during the periods of lockdown.

For retail, LFL sales were strong from the start of the COVID-19 pandemic in March 2020. There was initial volatility around the first lockdown and some moderation as the eat-out market temporarily opened up towards the end of Q2, but sales have generally remained strong throughout, following a general pattern of increasing as more severe restrictions were initially implemented and moderating as they eased. The anniversary of the first COVID-19 related step-up in sales was week commencing 1st March.

For wholesale, sales to all our partners were strong throughout the year. Since Q4 2020/21, we started to supply the remaining McColl's stores not previously covered by our initial wholesale supply agreement. By year end we had started to supply 130 stores, with the remaining 106 stores since.

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

All these profit measures were significantly impacted by both the considerable direct costs of COVID-19 and other pandemic-related impacts on profit. Total direct COVID-19 costs were £290m, which was £10m higher than guided in our Q3/Christmas trading statement as a result of an increase in colleague absence during lockdown three in January compared to lockdown two in November. As well as extra payroll, the direct COVID-19 costs during the year related to: extra colleague bonus; colleague and customer safety protection measures; distribution costs, and seasonal waste and markdown; plus various initiatives for food banks, charities and local communities. In addition, there was a significant impact on profit during the period due to the temporary closure (for an average of 24 weeks each during the year) and prolonged disruption of our 407 profitable cafés, plus lower sales and profit throughout the year in key categories such as Market Street service counters, food-to-go and fuel.

Mitigating these various cost and profit impacts, operational gearing was strong and sustained throughout, helped by the benefits of vertical integration and the further significant investment in price cuts driving strong volume growth, and we again performed well in reducing both shrink and the number of less effective promotions. We also invested our operational gearing into extra discounts for the benefit of our colleagues, farmer suppliers, and key workers in the NHS, teaching and blue light professions.

In December 2020 we announced our decision to waive our entitlement to business rates relief. The total amount of waived business rates is £274m, of which £230m related to 2020/21 and was paid before year end. Without this payment our profit before tax and exceptionals would have been £431m, up 5.6% year on year. Operating profit before exceptionals adjusted for the rates payment would have been £536m, up 4.5% year on year, and margin would have been up 12 basis points. EBITDA before exceptionals adjusted for the rates payment would have been £1,077m, up 3.7% year on year, and margin would have been up 20 basis points.

As stated at the Interim results, due to the exceptional circumstances created by COVID-19, we are not reporting against our target for £75m–£125m incremental profit from wholesale, services, online and interest.

Exceptional items recognised outside profit before tax and exceptionals were a net debit of £36m as listed in Figure 2 (2019/20: net credit of £27m).

Of the £36m, £56m were restructuring costs. These include completing the previously announced modernisation of our ways of working at head office by adopting more digital and flexible initiatives for colleagues and a more streamlined central structure. In addition, we have now completed our major retail restructuring initiative announced in January 2020, and successfully launched projects to reorganise transport and insource some of our depots within our logistics network. These restructuring initiatives will simplify and speed up the business in line with one of our seven priorities, and continue to improve our efficiency and productivity.

In addition, the transformation and other exceptional costs of the rapid expansion of online and home delivery amounted to £66m, and there was a store impairment write-back of £76m due to the improved utilisation of store assets for our online and home delivery offers. The overall position in relation to online and home delivery is a net credit of £10m.

Within the £66m, we incurred £42m of costs across our various online channels as we transformed our online operations very quickly and significantly grew our capacity, offering customers completely new ways to shop remotely with Morrisons and enabling a rapid fivefold increase in capacity for customers. In response to unprecedented demand, we accelerated our multi-year online expansion plans and made one-off changes to transform our online business, operational processes and ways of working. The scale and speed of the implementation of these programmes resulted in significant start-up costs during the year. We also incurred one-off costs of £24m relating to exceptional stock wastage as new process and systems integrations relating to store pick were being adapted.

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

Other exceptional costs of £15m include a £9m bonus for temporary colleagues not ordinarily eligible and £4m in respect of legal costs.

In addition, net retirement benefit interest income was £16m, property disposal profits were £2m, and the annual impairment review produced a net credit of £7m after adjusting for the write-back related to online capacity acceleration. This £7m comprises £65m release relating to other tangible assets, £9m credit on onerous contracts, and a £67m impairment charge on intangible assets following adoption of more cloud-based technology.

Basic EPS before exceptionals was down 54.9% to 5.95p (2019/20: 13.18p).

Cash capital expenditure was £539m (2019/20: £511m).

Group net debt was £3,169m, compared to £2,458m at the end of 2019/20. Excluding lease liabilities, net debt was £1,798m, broadly in line with guidance of c.£1.7bn (2019/20 year end: £1,082m). Debt continues to be temporarily adversely affected by: the impact on working capital of the ongoing lower national demand for fuel and fuel deflation (£347m at year end, up from £220m in early January due to fuel LFL during lockdown of -43%); investment in higher levels of stock availability both during COVID-19 and in our preparations for Brexit (£67m); and the extension of the scheme to pay our smaller suppliers immediately during the crisis (£45m). Due to these effects and the impact of COVID-19 on profit, there was a free cash outflow of £(450)m (2019/20: £238m inflow).

The proposed final ordinary dividend is 5.11p per share, taking the full-year ordinary dividend up 5.6% to 7.15p (2019/20: 6.77p). This is both consistent with our announcement in December 2020 that the final 2020/21 dividend would be based on underlying profit before the impact of waiving £230m of business rates relief, and is in line with our policy to pay a sustainable ordinary dividend covered around two times by EPS before exceptionals. In addition, with the previously deferred H2 2019/20 special dividend of 4.00p declared in December 2020 and paid in January 2021, the full-year total dividend is up 27.1% to 11.15p (2019/20: 8.77p).

Three new supermarkets opened in the second half, at Helensburgh, Glenfield and Dalton Park, bringing the total to six this year, plus a Nutmeg store on our Bolsover site. Together with extensions, net new space sales area increased by c.157,000 square feet.

ROCE was 3.9%, down from 7.0% for 2019/20 due to the impact of COVID-19 on profit before exceptionals.

Strategy update and summary of progress for stakeholders

Our Fix, Rebuild, Grow, Sustain strategy has proved highly flexible in allowing us to respond and adapt to each phase of the COVID-19 pandemic while we continue executing many of our prior plans. Despite the unprecedented and unique challenges we have continued to grow our business and retained real momentum throughout the crisis. We have grown sales and profit (adjusted for waived rates relief), while playing our full part in feeding the nation, and making sure no part of society gets left behind.

Our response to the crisis has included unprecedented measures and investment in protecting our colleagues and customers. In addition, we guaranteed pay for thousands of affected colleagues and tripled the average annual bonus as a ‘thank you’ to those on the frontline. In the first months of the pandemic, we recruited over 45,000 new colleagues to both cover absence and to invest significantly in expanding our online and home delivery services, including a doorstep delivery service for the most vulnerable. We have paid c.3,000 smaller suppliers immediately and are giving extra discounts to our colleagues, NHS workers, teachers, blue light workers and our farmer suppliers. We are also restocking Britain’s foodbanks, have made various donations to homeless charities, and developed new boxes and bulk delivery services to provide vital supplies to customers, charities and local authorities quickly and at great prices.

As we move through the stages of Fix, Rebuild, Grow, Sustain we have evolved our seven priorities and six ways of working to re-validate them against the increased spirit of teamwork, community and support that has prevailed at Morrisons since the start of COVID-19. We have listened and responded, and will keep doing so. We have added Pride in Hygiene to our seven priorities and evolved Local Integration and Serving the Community, and Creating and Scaling for Profitable Growth to reflect both our significant progress against our original priorities and the world we are in today. We have also added to and refined our ways of working which are now: Customers First; Teamwork; Listening Hard, Responding Quickly Wherever Possible; Freedom in the Framework; Driving Sales, Tough on Costs; We Care.

New Morrisons enters 2021/22 a broader, stronger business that is becoming more popular and accessible to all. Our shops are thriving in the local communities they serve, and our new online and wholesale channels are growing very quickly and are both profitable. We are fulfilling our ambitions for all our stakeholder groups, recently adding Environment and Community in recognition of how central they are to everything we do.

Customers

Price, service and range are the key components of the customer shopping trip, and we have ambitious plans for each. We are cutting the price of our customer favourites basket, improving our own-brand ranges, and investing in outstanding service programmes, especially in our unique Market Street counters and key Fresh areas such as fruit & veg. Morrisons is becoming more accessible to customers, especially as our online offer and channels grow very quickly. We are also becoming a more popular brand, with net promoter score and brand warmth[1] consistently strong during 2020 and ahead of other Big 4 retailers throughout the whole year.

[1] Source: YouGov Plc 2021 © All rights reserved

Colleagues

Everyone is welcome and celebrated at Morrisons, treated with respect and encouraged to have their say. Morrisons colleagues were recognised by government as key workers early on in the pandemic and stepped up to play their full part in helping feed the nation. We have several key ambitions for colleagues including "A fair day's pay for a fair day's work", and we have been rewarding and saying 'thank you' for our colleagues' recent hard work and commitment. As well as the guaranteed triple average annual bonus for 2020/21, we have also announced a new pay award for 2021/22 of at least £10 an hour for all Morrisons supermarkets colleagues from April 2021. That is an annual increase of around 9% and now up a cumulative 46% since 2015, and means Morrisons is the first supermarket to pay £10 per hour.

Suppliers

We aim to build trust and collaborative relationships with our suppliers, working to achieve profitable growth together. We want to be easy to work with: easy to buy, easy to order, easy to fill and easy to sell. On range, our focus with our partner suppliers is on quality and innovation.

Environment and Community

We aim for sustainable growth with a lower environmental impact. This includes stretching targets around: reducing carbon emissions; cutting waste and preserving natural resources through 'reducing, reusing, recycling'; sourcing from sustainable, ethical and resilient supply chains; and playing our full part in growing and developing British agriculture. In addition, we have an ambition to play our full part supporting the communities we serve and the lives of our colleagues: helping our customers live healthier lives; making a positive impact in every local community we serve; and providing a great place to work where everyone's effort is worthwhile and where everyone can make progress and a contribution.

Shareholders

Our key ambition for shareholders is to keep growing and create value. We are building a strong track record: since 2015/16 profit before tax and exceptionals has grown 43% (after adjusting for the waived rates relief in 2020/21) and we have generated £2.7bn of free cash flow, and total shareholder return is up 30% since 2014/15. At the core of our business and strategy there remains a strong balance sheet supported by a freehold store portfolio, low underlying debt and a net pension surplus. We also remain very cash generative, targeting growth that is capital light. We remain committed to the principles and disciplines of our capital allocation framework and will review the uses of free cash flow each year.

Seven priorities update

1. To be more competitive

Our customer favourites basket comprises around 2,000 items that our customers care most about, especially fresh food and our mid-tier own brand. Over the year, we cut the price of that basket by £120, with deflation sustained throughout 2020/21 and volume growth exceeding sales growth. Our premium 'Best' range also continued to grow, with sales up another 20% in the year. We are also working hard to keep improving the quality and nutrition of our own brand for customers and have ambitious plans to improve 6,000 items over the next two years, spanning mid tier, 'Best', and Nutmeg Home. In addition, we have recently launched a new healthier food range, 'Nourish', specially designed to provide different health benefits: good for bones, gut, heart, skin health or immunity. Our innovation continues to be recognised, with recent accolades including the Good Housekeeping award for the Best Valentine's Day meal deal and a BBC Good Food award for our Free From hot cross buns.

Supporting our investments in price, service and range, we continue to realise substantial cost-saving, productivity and costs of goods sold (COGS) opportunities. These include end-to-end distribution and supply chain costs, mix, volume-related discounts, replenishment, packaging and digitisation. There are also further specific opportunities within the centre, logistics, manufacturing and the stores. For example, we are now experiencing the benefits of our store reorganisation carried out during 2020/21, with fewer senior roles and bigger, broader roles elsewhere on the shop floor.

2. To serve customers better

Customer service and serving customers better are at the heart of Morrisons. We have friendly, helpful, food makers and shopkeepers, and uniquely skilled colleagues on our fresh food counters and at our manufacturing sites. We have invested an annualised £100m in more labour hours, improved availability, improved ranges, and upgraded technology, equipment and uniforms. This supports our 'outstanding' programmes in service, Market Street and fruit & veg.

The pandemic has meant unprecedented challenges while also bringing out the best in our colleagues. Initially this included adapting fast and with determination to the multiple practical demands around protecting customers and colleagues: social distancing, hygiene, queue management, marshals, and initiatives such as speedy shopping for smaller-basket shoppers. In addition, colleagues have reacted with real pace to serve customers better and adapt to their changing needs during the pandemic. Our online sales growth was particularly strong, with sales more than tripling by the end of the year and online capacity up fivefold. We are still learning and growing online but it is already profitable, and we expect it to become more so as we continue to develop our offers for customers.

Together with our partner Ocado, Morrisons.com sales grew through the Dordon CFC, and especially through a substantial increase in the number of store-pick home delivery stores, up from 33 to 197 by year end. In addition, we now offer click & collect from almost 450 stores. Both store pick for home delivery and click & collect use Ocado's in-store fulfilment solution. From February, our Morrisons.com capacity increased further as we re-entered Ocado's Erith CFC, where our capacity will build to 30% of delivery slots.

Our other online offers also continued to grow at pace. Together with our partner Amazon, the same-day delivery service 'Morrisons on Amazon' expanded very rapidly during the year, and is now available to millions of Prime members on the Amazon.co.uk website and app. Orders are currently being delivered in and around 50 British towns and cities, with 'Morrisons on Amazon' already accounting for more than 10% of sales in the majority of our stores where we offer the service for customers. In addition, Morrisons has started supplying the new Amazon Fresh grocery store with a range of branded and own-brand items. Amazon Fresh opened in Ealing, London last week, and is the first store in the UK to offer customers just walk out technology with all grocery purchases charged digitally without the need for checkouts or scanning barcodes.

The food box channel is now supplying a variety of different delivered boxes for customers. Orders can be placed online, and the boxes are then prepared and packed in our food manufacturing sites and delivered direct to customers. There have been many different boxes developed during the year, either for seasonal events or a specific need. For example, a Christmas Dinner Box feeding a family of four for £50, and a School Meal Box providing five days of breakfasts and lunches that schools can order and have delivered direct to those children entitled to free school meals.

In addition, our partnership with Deliveroo is progressing well. Groceries can be ordered and delivered to customers in as little as 30 minutes, with the service now available from over 180 Morrisons stores.

As a food maker as well as shopkeeper, Morrisons is uniquely positioned to serve customers better. We have recently added two more manufacturing facilities to further enhance our vertical integration capabilities. We acquired Lansen Nursery, a leading grower and supplier of outdoor plants based in Spalding, Lincolnshire. Since year end we have acquired Falfish, a family-owned wholesaler of sustainably sourced seafood based in Cornwall. Falfish has been a supplier of high-quality fresh fish and shellfish to Morrisons for over 16 years and around half of Falfish's c.£40 million turnover is with Morrisons. Both acquisitions are further investments by Morrisons in manufacturing and will mean improvements in range, quality and availability for customers.

3. Local integration and serving the community

In addition to those online channels targeted for all customers, we also introduced doorstep delivery, a very popular service provided especially for the vulnerable and self-isolating in local communities. It is a telesales service, offering a lifeline for the elderly and most vulnerable customers who do not have online access or other help with their grocery shopping. Customers simply call a central number, order groceries by talking direct to a Morrisons colleague, and the groceries are delivered next day, often by the local store's Community Champion. We are very proud of this doorstep delivery service, and have recently passed the 800,000 deliveries milestone.

Sales to all our local convenience store operator partners – McColl's, Rontec, MPK, Harvest Energy, and Sandpiper CI – were strong throughout the year. From the start of Q4, the remaining McColl's stores not so far covered by Morrisons wholesale supply began to transfer over to us. During the period we started to supply 130 stores, with the remaining 106 started since year end. In total, all our other wholesale channels and partners contributed 0.8% to Group LFL during the year. Along with 58 of our own Morrisons Daily forecourt shops (including three new builds during the year), we now supply over 1,350 convenience stores serving customers in their local catchment areas.

Since year end, McColl's and Morrisons have announced that 300 McColl's stores are to be converted to Morrisons Daily, including the 31 successful conversions already operating. The stores will offer a full Morrisons convenience range and will be branded Morrisons Daily, but will continue to be owned and operated by McColl's. In addition, Morrisons and McColl's have extended their partnership by a further three years, with a new contract out to 2027.

Our local supplier and community initiatives continue albeit some, such as the successful local food maker events, have temporarily gone online. However, as we are located in the heart of local communities, we have been ideally placed in other ways to leverage our local credentials. For example, as soon as the pandemic started we helped restock the nation's food banks with £10m of dedicated stock, and recently announced an extra £5m.

4. Simplify and speed up the organisation

Our six ways of working continue to help us act fast and with agility, enabling the momentum of change and improvement to accelerate throughout COVID-19, which is something we intend to sustain beyond the crisis. Most of our initiatives have the dual benefits of greater simplification while also reducing cost.

During the year we successfully completed the restructuring of colleagues' roles in stores and moved to more flexible, remote working hours across a six-day week for colleagues in the offices. In stores, we introduced capped shelves, with items stored above fixture to both improve availability and replenishment time and enable repurposing of back-of-house space for our online operations. This programme will accelerate during 2021/22.

In the supply chain, we continue to work hard at improving end-to-end product handling and productivity. For example, during the year we introduced wheeled cages and dollies for all our fresh foods, enabling more efficient in-store replenishment. We realigned our network through our 'right product, right depot' initiative, moving over 3,000 products between national and regional depots to help optimise efficiency, and insourced our Willow Green depot to give us better control over service and cost. We also invested in further improving our fresh infrastructure with the introduction of a Fresh Warehouse Management System in two more depots, and increased our double-decker transport fleet capacity.

For COGS savings, we are reducing range, increasing volume of our customer-favourite items, and investing in fewer, better promotions while removing those that customers do not value. By improving our end-to-end supply chain efficiency we and our suppliers are able to save significant shared cost.

5. Naturally digital

As well as the new trial Scan and Shop app and payment digitisation introduced in the first half we are making good progress with introducing more digital initiatives into stores. We are currently rolling out headsets for colleagues at all stores which will help improve service, availability and communication, and reduce shrink. We have also started to test digital shelf-edge labels, which will automate price changes, help us simplify stock and systems routines, and improve the online pick process.

In manufacturing, we are investing in automation and robotics for production lines and grading technology, improving product flow and raw material yield, and removing repetitive manual tasks. Examples include investment in automated grading and packing in our carrot and citrus sites. In distribution we are moving towards more depot automation with benefits including transport optimisation and reduced packaging.

6. Pride in hygiene

As food makers and shopkeepers, we have very high hygiene standards. We aim for customers and colleagues to always have a safe place to shop and work, and have a hygiene culture that maximises cleaning hours and cleaning stations across our stores, depots, manufacturing sites and offices. During 2021/22, we are continuing to invest in extra touch-point cleaning, thousands of sanitiser dispensers and extra colleagues responsible for hygiene.

7. Creating and scaling for profitable growth

We pursue opportunities with an owner's spirit and entrepreneurial hunger that is fast and fearless so we can swiftly scale up the ideas that work. Our various online and wholesale channels are good examples of this during the year, with both profitable and both driving their own scale and innovation.

Our existing Morrisons.com online channel has grown very quickly and was the inspiration for our new click & collect, boxes and doorstep delivery businesses, while also informing developments with our partners such as Amazon and Deliveroo.

For wholesale, our supply partnership with McColl's is scaling up very quickly, and there is significant future potential for the Morrisons Daily fascia and format. We have taken our doorstep delivery idea and scaled it further by forming partnerships with organisations such as retirement homes and charities. For example, we are now providing McCarthy & Stone with a doorstep delivery service to almost 450 of its retirement communities across Britain. We are also supplying local councils, care homes and some charities with great-value bulk supplies at wholesale prices.

In supermarkets, we continue to innovate, learn and apply modular improvements across the estate. Much of that innovation and learning is provided by our new stores. During the year we opened six new stores – in Amble, Bradwell, Stirchley, Helensburgh, Glenfield and Dalton Park – plus a new Nutmeg store on our Bolsover site. We further developed our new food-to-go Market Kitchen concept, which is now in four stores and, despite the challenges of COVID-19, completed another 18 Fresh Look refits and extensions. In addition we upgraded fascia and signage to the new, more modern look and feel at over 130 stores, as well as refreshing nearly 390 cafés for relaunch. We also introduced our new Nutmeg Menswear range and fixtures into over 50 stores, added over 70 new single-stem florist departments, and installed rapid electric vehicle chargers at a further 89 stores to take the number to almost 200, with another 100 planned for 2021/22.

Financial strategy and update

Capital allocation framework

A strong balance sheet is the foundation of our Fix, Rebuild, Grow, Sustain strategy. Debt is low, the property estate is predominantly freehold, and the pension is in a net accounting surplus position. Capital expenditure has halved since its peak and is at a sustainably lower level. In recent years we have generated significant and sustained levels of free cash flow, and managed the business with consistent capital discipline and capital allocation principles.

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

Shareholder returns

Our policy is for the ordinary annual dividend to be sustainable and covered around two times by underlying EPS. In December 2020, we announced that we would declare a final 2020/21 dividend based on profit before tax, exceptionals and the impact of waiving £230m of business rates relief. The proposed final ordinary dividend is 5.11p per share, taking the full-year ordinary dividend up 5.6% to 7.15p (2019/20: 6.77p).

In addition, in December 2020 we also announced a previously deferred H2 2019/20 special dividend of 4.00p, which was paid in January 2021.

In total for 2020/21, the full-year ordinary plus special dividends are up 27.1% to 11.15p per share (2019/20: 8.77p).

Subject to shareholder approval at our 2021 AGM, the final ordinary dividend of 5.11p per share will be payable on 28 June 2021 to shareholders on the share register at the close of business on 21 May 2021.

As previously announced, with year-end net debt temporarily higher, we will not be paying a special dividend relating to 2020/21. However, our business is weathering the significant financial challenges of COVID-19 very well, which is testimony to our financial and operational strength. While there remains uncertainty as to how COVID-19 may impact future customer behaviour and the British economy, we are confident Morrisons can continue to generate strong free cash flow. We will take a decision regarding a potential 2021/22 special dividend at the end of the year.

Cost savings

We have programmes to improve productivity spanning many work streams end to end across the business, many with the dual aims of improving the shopping trip for customers and saving costs. In addition, there are several ongoing opportunities within COGS and digitising Morrisons further that will both improve our business and reduce cost. We expect these cost saving programmes to remain significant and sustainable for many years to come.

Cash flow and working capital

Free cash flow was an outflow of £450m (2019/20: inflow of £238m). This was primarily due to the lower profit plus an operating working capital outflow of £390m (2019/20: £18m inflow) caused mainly by temporary impacts: lower fuel demand and deflation during lockdown (£347m); investment in higher levels of stock availability (£67m); and the extension of the scheme to pay our smaller suppliers immediately (£45m). We are confident that working capital will improve significantly once trading conditions normalise.

The new rules around UK corporation tax quarterly instalments mean companies now pay tax in the year to which it relates. We paid quarterly tax instalments for second-half 2019/20 and for 2020/21 during the year, which resulted in an additional tax payment in the period.

Property disposal proceeds were £27m (2019/20: £34m).

Cash capital expenditure, depreciation and amortisation

Cash capital expenditure was £539m (2019/20: £511m), compared to guidance of c.£525m. We expect 2021/22 cash capital expenditure to be around £600m, slightly higher than in recent years largely due to an increase in online capital expenditure as we invest in the infrastructure to support the much larger business. In addition, we incurred £22m of onerous cash payments, in line with our guidance of c.£25m, as we continued to renegotiate a small number of legacy leases. We expect onerous cash payments of c.£5m during 2021/22. As previously stated, our programme around onerous cash payments for freehold stores is now complete.

Depreciation and amortisation was up £16m to £541m (2019/20: £525m), in line with guidance of c.£550m. During 2021/22 we expect another increase in depreciation and amortisation, to c.£580m.

Debt and interest

Group net debt was £3,169m (2019/20 year end: £2,458m). Excluding lease liabilities, net debt was £1,798m (2019/20 year end: £1,082m), with the increase mostly due to the temporary outflow in working capital and the impact of COVID-19 on profit.

Morrisons continues to operate from a very robust financial position, with a strong balance sheet, low underlying debt and a strong debt maturity profile. As previously announced, in the early stages of the COVID-19 crisis we took the opportunity to further improve our liquidity. On attractive financial terms, we extended one £100m revolving credit facility (RCF) from July, and put in place another three new £100m RCFs, taking our total RCFs from £1.45bn to £1.75bn. Of the £1.75bn, £1.35bn runs until 2025 and, since year end, the four £100m facilities' maturities have been extended to dates between Sept 2021 and July 2022. As at the end of 2020/21 we were £880m drawn on our RCF, with still significant liquidity headroom.

Net finance costs before exceptionals were £105m (2019/20: £106m). This is in line with our guidance of c.£105m. We expect 2021/22 net finance costs before exceptionals to be c.£105m.

Impairment review

We perform an annual store-by-store review of impairment and onerous contracts. After adjusting for the write-back related to online capacity acceleration, the net credit was £7m, recognised outside profit before tax and exceptionals. This comprises £65m release relating to other tangible assets, £9m credit on onerous contracts, and a £67m impairment charge on intangible assets, following adoption of more cloud-based technology.

Pension

The net pension accounting surplus on the balance sheet was £718m (2019/20 year end: £944m).

Net retirement benefit interest income was £16m for the year, reported outside profit before tax and exceptionals.

Net new space

During the year we opened six new stores plus a Nutmeg store, and closed one store. Net new space sales contribution was 0.4%, slightly higher than guided. During 2021/22, we plan to open four new stores and expect net new space sales contribution to be around 0.2%.

Future reporting

As previously announced, due to the first May bank holiday in 2020 moving from Monday to Friday, we will again report a 14-week Q1 for 2021/22. The first 14 weeks of 2021/22 will be compared to the corresponding 14 weeks in 2020/21, allowing both periods to include the run-up to the first May bank holiday. Q1 will be reported on 11 May 2021.

Q2 will again this year be 12 weeks and will be reported within the first-half results as usual in September. Beyond 2021/22, both Q1 and Q2 will revert back to 13 weeks as they were before the bank holiday move in 2020.

From 2021/22, we will be adopting the Task Force on Climate-related Financial Disclosures (TCFD) reporting framework, which will enable all companies to more effectively report climate-related financial disclosures around governance, strategy, risk management, and metrics and targets.

Sustainability

We are committed to lowering our environmental footprint and playing our full part in the communities we serve. As well as being the right thing to do, we know how important it is to our customers, colleagues and investors.

We have set stretching targets to reduce our carbon footprint, plastic packaging and food waste. Our approach to sustainability also covers sourcing from ethical and resilient supply chains, helping to grow and develop British agriculture, and becoming integrated into the communities we serve.

Carbon emissions

We are a signatory to the British Retail Consortium's (BRC's) Climate Action Roadmap, which is designed to guide British retail along the steps necessary to achieve a net zero UK, ahead of the Government's 2050 target. Our current target, which was developed with the help of the Carbon Trust, is to reduce operational emissions (scope 1 and 2) by 33% by 2025, 53% by 2030 and to reach net zero emissions by 2040. In 2020 we reduced our carbon footprint by 32% against our 2017 baseline.

As British farming's biggest supermarket customer, we have also committed to net zero agriculture by 2030.This will cover products from the UK farmers directly sourced for our own brand products in beef, pork, lamb, potatoes, and eggs.

Energy efficiency initiatives

We introduced shelf-edge technology in 2020 to around 200 of our stores. This technology draws cold air back into the fridge and helps reduce electricity consumption. We continued with our investment in LED lighting and our programme to control voltage in stores to reduce power demand. A reduction in gas consumption has been achieved through our boiler replacement programme and the reinstatement of 'heat harvest' technology, which uses heat from refrigeration to provide hot water in store. Alongside energy efficiency we continue to consider the role of on-site renewables. We currently have five megawatts of on-site solar power installed across 28 sites and in 2020 prioritised optimising these panels to maximise generation.

Food waste

We have committed to reducing food waste in our stores by 50% by 2030 compared to a 2016 baseline. We sold over 100,000 'Magic Bags' through our 'Too Good To Go' app, which gives customers access to good quality products at a fraction of the retail price, and we encourage our stores to give surplus food to local causes, such as food banks. We redistribute edible surplus food from our manufacturing and distribution centre sites through a range of partners including Company Shop, FareShare and The Bread and Butter Thing. In 2020 we redistributed the equivalent of almost 6.5 million meals. Where food cannot be redistributed we send it to anaerobic digestion plants which generate renewable energy.

Plastics

Our target is to reduce own-brand plastic packaging by 50% by 2025 against a 2017 baseline. We were founding signatories to the UK Plastic Pact and have committed that all of our own-brand plastic packaging will be reusable, recyclable or compostable by 2025. In 2020 we trialled replacing plastic ‘bags for life’ with sustainable paper-based alternatives, and have brought our extended range of loose fruit and vegetables to an additional 269 stores, giving customers even more choice to buy products without plastic.

Deforestation

Deforestation is a contributing factor to biodiversity losses and climate change. We have committed to zero deforestation in our supply chains by 2025. This includes the use of both palm oil and soya, two important forest-risk commodities. Our target is for 100% of soya (including in animal feed) in own-brand products to come from sustainably certified sources by 2025. We also became members of the UK Roundtable on Sustainable Soy, committing to reporting our progress publicly.

Animal welfare

Ensuring every animal in our supply chain is content and has a good life through well managed farm animal welfare is a key priority for us and our customers. We met our target to procure 100% of our eggs from free-range production systems in 2020 – five years ahead of target. We also introduced a new ‘For Farmers’ range of eggs, giving customers the option to pay more for eggs from farms which are investing in biodiversity and welfare measures. Compassion in World Farming recognised our commitment to improve the health and welfare of beef from the dairy chain with a Good Calf Award in 2020. Managing the responsible use of antibiotics has remained a key area of focus and we do not permit routine use. In 2020 we took the additional step of banning the use of colistin, an antibiotic deemed a last-resort treatment for human health.

Our Community

In response to COVID-19, we strengthened our commitment to communities by investing 450,000 hours into our network of Community Champions, in-store colleagues who work with the local community, so they can better respond to local needs. We launched a new meal delivery service for primary school children who were eligible for free school meals and having to self-isolate, and helped restock the nation’s food banks with £10m of dedicated stock. We also set up Food Bank Hubs in our stores, giving customers the option to purchase pre-packed bags of groceries designed around the needs of local food banks, and also introduced ways for customers to make monetary donations to the Trussell Trust when doing their online shopping.

Supporting charities

Our colleagues, customers and suppliers raised over £3m for CLIC Sargent and we have made the decision to extend our partnership to February 2022 so we can deliver on our fundraising target to raise £15m. We also raised £1.25m for the Poppy Appeal, £750k for Marie Curie’s Great Daffodil Appeal and £65k for Children In Need.

The Morrisons Foundation donated a further £3m in grants to registered charities during the year, taking the total to £30m. It also set up a dedicated fund to support charities working with homeless people, donating £500k.

Responsible supply chain management

We acknowledge the responsibility we share with our suppliers to respect the human rights of the people who make and sell our products. This includes fair working conditions, health and safety in the workplace, gender equity and respect for the diverse communities in which we operate. In 2020 we published details of all first-tier factories producing our Nutmeg branded range of clothing and our own-brand food and non-food products, including data relating to gender and access to worker representation.

Supporting the British Farming & Fishing Industry

To support farmers at the start of the crisis we shortened payment terms to improve their cash flow and also opened our steak counters to offer products that, in normal times, would have been supplied to cafés and restaurants. We also opened seafood bars and launched British fish boxes to help sell fish previously destined for the food service sector.

Consolidated income statement

52 weeks ended 31 January 2021

		2021			2020		
	Note	**Before exceptionals £m**	**Exceptionals (note 4) £m**	**Total £m**	Before exceptionals £m	Exceptionals (note 4) £m	Total £m
Revenue	3	**17,598**	**-**	**17,598**	17,536	-	17,536
Cost of sales		**(17,097)**	**(113)**	**(17,210)**	(16,855)	(52)	(16,907)
Gross profit		**501**	**(113)**	**388**	681	(52)	629
Other operating income		**92**	**-**	**92**	94	-	94
Profit/loss on disposal and exit of properties		**-**	**2**	**2**	-	66	66
Administrative expenses		**(287)**	**59**	**(228)**	(262)	(6)	(268)
Operating profit		**306**	**(52)**	**254**	513	8	521
Finance costs	5	**(111)**	**-**	**(111)**	(111)	-	(111)
Finance income	5	**6**	**16**	**22**	5	19	24
Share of profit of joint venture (net of taxation)		**-**	**-**	**-**	1	-	1
Profit before taxation		**201**	**(36)**	**165**	408	27	435
Taxation	6	**(58)**	**(11)**	**(69)**	(94)	7	(87)
Profit for the period attributable to the owners of the Company		**143**	**(47)**	**96**	314	34	348
Earnings per share (pence)							
- Basic	8			**3.99**			14.60
- Diluted	8			**3.95**			14.44

Consolidated statement of comprehensive income

52 weeks ended 31 January 2021

Other comprehensive (expense)/income	**Note**	**2021 £m**	2020 £m
Items that will not be reclassified to profit or loss:			
Remeasurement of defined benefit schemes	17	**(248)**	231
Tax on defined benefit schemes		**32**	(38)
		(216)	193
Items that may be reclassified subsequently to profit or loss:			
Cash flow hedging movement		**41**	(57)
Exchange differences on translation of foreign operations		**1**	(2)
Tax on items that may be reclassified subsequently to profit or loss		**(7)**	10
		35	(49)
Other comprehensive (expense)/income for the period, net of tax		**(181)**	144
Profit for the period attributable to the owners of the Company		**96**	348
Total comprehensive (expense)/income for the period attributable to the owners of the Company		**(85)**	492

Consolidated statement of financial position

As at 31 January 2021

	Note	2021 £m	2020 £m
Assets			
Non-current assets			
Goodwill and intangible assets	9	**328**	381
Property, plant and equipment	10	**7,358**	7,147
Right-of-use assets	11	**997**	942
Investment property	12	**59**	58
Retirement benefit surplus	17	**754**	960
Investment in joint venture		**31**	39
Trade and other receivables	15	**70**	71
Derivative financial assets	20	**9**	-
		9,606	9,598
Current assets			
Inventories	14	**814**	660
Trade and other receivables	15	**336**	353
Current tax asset		**27**	-
Derivative financial assets	20	**13**	1
Cash and cash equivalents	19	**240**	305
		1,430	1,319
Assets classified as held-for-sale	13	**-**	3
		1,430	1,322
Total assets		**11,036**	10,920
Liabilities			
Current liabilities			
Trade and other payables	16	**(2,837)**	(3,051)
Borrowings	20	**(54)**	(237)
Lease liabilities	19	**(72)**	(72)
Derivative financial liabilities	20	**(18)**	(36)
		(2,981)	(3,396)
Non-current liabilities			
Borrowings	20	**(1,986)**	(1,108)
Lease liabilities	19	**(1,299)**	(1,304)
Derivative financial liabilities	20	**(2)**	(7)
Retirement benefit deficit	17	**(36)**	(16)
Deferred tax liabilities		**(463)**	(472)
Provisions		**(53)**	(76)
		(3,839)	(2,983)
Total liabilities		**(6,820)**	(6,379)
Net assets		**4,216**	4,541
Shareholders' equity			
Share capital	21	**241**	240
Share premium	21	**201**	192
Capital redemption reserve		**39**	39
Merger reserve		**2,578**	2,578
Retained earnings and other reserves		**1,157**	1,492
Total equity attributable to the owners of the Company		**4,216**	4,541

Consolidated statement of cash flows

52 weeks ended 31 January 2021

	Note	2021 £m	2020 £m
Cash flows from operating activities			
Cash generated from operations	18	**286**	1,017
Interest paid		**(116)**	(104)
Taxation paid		**(81)**	(87)
Net cash inflow from operating activities		**89**	826
Cash flows from investing activities			
Interest received		**-**	1
Dividends received from joint venture	23	**8**	9
Proceeds from the disposal of property, plant and equipment, investment property, right-of-use assets and assets held for sale		**27**	34
Purchase of property, plant and equipment, investment property and right-of-use assets		**(461)**	(429)
Purchase of intangible assets		**(77)**	(81)
Acquisition of business (net of cash received)		**(1)**	(1)
Net cash outflow from investing activities		**(504)**	(467)
Cash flows from financing activities			
Purchase of trust shares	21	**-**	(10)
Settlement of share awards	21	**(10)**	(2)
Proceeds from exercise of employee share options	21	**9**	14
New borrowings		**934**	347
Repayment of borrowings		**(237)**	(278)
Repayment of lease obligations		**(85)**	(87)
Dividends paid	7	**(261)**	(302)
Net cash inflow/(outflow) from financing activities		**350**	(318)
Net (decrease)/increase in cash and cash equivalents		**(65)**	41
Cash and cash equivalents at start of period		**305**	264
Cash and cash equivalents at end of period	19	**240**	305

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

	Note	2021 £m	2020 £m
Net (decrease)/increase in cash and cash equivalents		**(65)**	41
Cash inflow from increase in borrowings		**(934)**	(347)
Cash outflow from repayment of borrowings		**237**	278
Cash outflow from repayment of lease liabilities		**85**	87
Non-cash movements on lease liabilities[2]		**(80)**	(66)
Other non-cash movements		**46**	(57)
Opening net debt[1]		**(2,458)**	(2,394)
Closing net debt[1]	19	**(3,169)**	(2,458)

[1]Net debt is defined in the Glossary.

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

Consolidated statement of changes in equity

52 weeks ended 31 January 2021	Note	Share capital £m	Share premium £m	Capital redemption reserve £m	Merger reserve £m	Hedging reserve £m	Retained earnings £m	Total equity £m
		Attributable to the owners of the Company						
At 3 February 2020		240	192	39	2,578	(37)	1,529	4,541
Profit for the period		-	-	-	-	-	96	96
Other comprehensive income/(expense):								
Cash flow hedging movement		-	-	-	-	41	-	41
Exchange differences on translation of foreign operations		-	-	-	-	-	1	1
Remeasurement of defined benefit schemes	17	-	-	-	-	-	(248)	(248)
Tax in relation to components of other comprehensive income		-	-	-	-	(7)	32	25
Total comprehensive income/(expense) for the period		-	-	-	-	34	(119)	(85)
Employee share option schemes:								
Share-based payments charge		-	-	-	-	-	20	20
Settlement of share awards	21	-	-	-	-	-	(9)	(9)
Share options exercised	21	1	9	-	-	-	-	10
Dividends	7	-	-	-	-	-	(261)	(261)
Total transactions with owners		1	9	-	-	-	(250)	(240)
At 31 January 2021		**241**	**201**	**39**	**2,578**	**(3)**	**1,160**	**4,216**

52 weeks ended 2 February 2020	Note	Share capital £m	Share premium £m	Capital redemption reserve £m	Merger reserve £m	Hedging reserve £m	Retained earnings £m	Total equity £m
		Attributable to the owners of the Company						
At 4 February 2019		237	178	39	2,578	10	1,283	4,325
Profit for the period		-	-	-	-	-	348	348
Other comprehensive (expense)/income:								
Cash flow hedging movement		-	-	-	-	(57)	-	(57)
Exchange differences on translation of foreign operations		-	-	-	-	-	(2)	(2)
Remeasurement of defined benefit schemes	17	-	-	-	-	-	231	231
Tax in relation to components of other comprehensive income		-	-	-	-	10	(38)	(28)
Total comprehensive (expense)/income for the period		-	-	-	-	(47)	539	492
Purchase of trust shares	21	-	-	-	-	-	(10)	(10)
Employee share option schemes:								
Share-based payments charge		-	-	-	-	-	26	26
Settlement of share awards	21	-	-	-	-	-	(2)	(2)
Share options exercised	21	3	14	-	-	-	(3)	14
Tax in relation to components of equity		-	-	-	-	-	(2)	(2)
Dividends	7	-	-	-	-	-	(302)	(302)
Total transactions with owners		3	14	-	-	-	(293)	(276)
At 2 February 2020		**240**	**192**	**39**	**2,578**	**(37)**	**1,529**	**4,541**

1. General information and basis of preparation

The financial information, which comprises the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of cash flows, consolidated statement of changes in equity, and related notes, is derived from the full Group financial statements for the 52 week period ended 31 January 2021, which have been prepared for the 52 weeks ended 31 January 2021 (2020: 52 weeks ended 2 February 2020) in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 (IFRS) and the applicable legal requirements of the Companies Act 2006. In addition to complying with international accounting standards in conformity with the requirements of the Companies Act 2006, the financial statements also comply with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

It does not constitute statutory financial statements within the meaning of section 434 of the Companies Act 2006. This financial information has been agreed with the auditor for release. The Group's financial statements (comprising the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of cash flows, consolidated statement of changes in equity, and related notes) are available for download on the Group's website at https://www.morrisons-corporate.com/investor-centre/financial-reports/

The Annual Report and Financial Statements for the 52 week period ended 31 January 2021 on which the auditor has given an unqualified report and which does not contain a statement under section 498 of the Companies Act 2006, will be delivered to the Registrar of Companies in due course.

The accounting policies used in completing this financial information have, unless otherwise stated, been consistently applied in all periods shown. These accounting policies are detailed in the Group's financial statements for the 52 week period ended 31 January 2021 which can be found on the Group's website https://www.morrisons-corporate.com/investor-centre/financial-reports/

Going concern

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

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

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

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

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

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

1. General information and basis of preparation (continued)

New accounting standards, amendments and interpretations adopted by the Group

The following new standards, interpretations and amendments to standards are mandatory for the Group for the first time for the 52 weeks ended 31 January 2021:

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

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

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

There are a number of standards and interpretations issued by the IASB that are effective for financial statements after this reporting period.

Of these new standards, amendments and interpretations, there are none that are expected to have a material impact on the Group's consolidated financial statements.

Principal risks

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

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

RISKS	DESCRIPTION	MITIGATION
Business interruption	There is a risk that a major incident, such as a significant failure of technology or a strategic third party, a natural disaster, a global pandemic such as COVID-19, disruption in the supply chain or strike action, could cause significant disruption to business operations. The Group's response must be appropriate to minimise disruption and reputational damage.	• We have recovery plans in place covering our stores, depots, online operations, sites and offices; • These plans include, where appropriate, secondary locations which would be used as backup in case of an incident; • Business continuity resilience and disaster recovery exercises are undertaken to test processes and management's ability to respond effectively; • A Crisis Management Group is in place to oversee these plans and to manage and respond to any major incidents; • We conduct supplier risk assessments and have contingency plans in place, where possible, to manage the risk of loss of supply; • There has been continued investment in cloud technologies to provide further resilience to the Technology systems; and • We work alongside our strategic third party partners ensuring both parties' continuity plans are robust and aligned.
Competitiveness	The Grocery Sector continues to be highly competitive. If we do not engage with our suppliers or effectively manage our trade plan, harnessing the benefits of new technology to remain competitive, there is a risk this will adversely impact like-for like sales and financial performance.	• Our pricing, trade plan and promotional and marketing campaigns are actively managed; • Our strong balance sheet and strong cash flow allow us to continue to invest in our proposition; • Long-term agreements are established with suppliers, ensuring a competitive customer offer to help maintain security of supply; • We continue to work closely with British growers and farmers; and • We continually review our range, category plans and quality and respond to customer feedback.

1. General information and basis of preparation (continued)

Principal risks (continued)

RISKS	DESCRIPTION	MITIGATION
COVID-19 (new)	COVID-19 continues to have a significant and widespread impact on our business. Failure to appropriately respond to and manage the impacts of COVID-19 on our colleagues, customers and suppliers or to adapt our ways of working could adversely affect our business performance.	• A dedicated team is in place to coordinate our response with representation from all key business areas; • The safety and wellbeing of our colleagues and customers remains our top priority and we continue to adhere to the UK and devolved Government guidelines in all areas; • We continue to apply social distancing measures in all stores and sites, through installing protective screens and making hand sanitiser, gloves and face coverings available for all colleagues; • Increased focus on cleaning and hygiene; • We have a well managed balance sheet and liquidity strategy which has provided resilience to operate through the pandemic as well as take actions to support our customers, colleagues and suppliers; • We continue to closely monitor colleague absence and recruited new colleagues in stores, manufacturing, logistics, online and home delivery; • No colleagues have been furloughed. We have enhanced pay guarantees for sick, self-isolating and affected colleagues. We have provided greater flexibility around shifts and annual leave and in the year awarded a 6% 'thank you' guaranteed annual bonus for all frontline colleagues; • Increased our online capacity, introduced click and collect, launched food boxes and expanded our partnerships with Amazon and Deliveroo. We also introduced a telephone order grocery doorstep delivery service to support the most vulnerable; and • We continue to work hard with all our suppliers including supporting British Farmers and moving to immediate payment terms for small suppliers.
Customer	There is a risk that we do not meet the needs and expectations of our customers in respect of price, range, quality, service or respond to changes in eating and shopping habits. If we do not provide the shopping trip that customers want, both in store and online, we could lose sales and market share particularly in an environment of weaker customer sentiment.	• One of our seven priorities is to 'Serve customers better' and we have a range of activities to support that; • The ongoing programme of customer listening helps us to gain a deep understanding of what our customers want and has informed key activities such as our store Fresh Look programme as well as changes to range and the introduction of more locally sourced products; • We closely monitor research on customer perceptions and respond quickly wherever possible, such as, plastics, palm oil, red meat and changes to eating habits; • We have worked to make Morrisons products accessible to more customers by working with new wholesale partners and continuing to expand the geography covered by our online offering; • We actively respond to customer complaints and aim to continually improve the customer experience; and • Community Champions actively engage local communities to support local charities and initiatives such as doorstep deliveries.
Environment and sustainability (new)	This risk relates to a failure to reduce the environmental impact of the business, meet the external sustainability commitments and expectations of our customers and wider stakeholders which could result in financial penalties and/or reputational damage.	• Developments and progress in our sustainability agenda are reported to the new Sustain subcommittee and to the Corporate Compliance and Responsibility Committee; • The Corporate Compliance and Responsibility Committee meets regularly during the year and performs an oversight, monitoring and advisory role for key areas including environment, ethical compliance and corporate responsibility; • Each Sustain Workstream commitment has a responsible business owner providing updates to the Corporate Responsibility team, the Sustain subcomittee and their relevant Executive Committee Director; • Our Corporate Responsibility report is published annually on our corporate website, sharing progress against our environmental, ethical and sustainability targets;

1. General information and basis of preparation (continued)

Principal risks (continued)

RISKS	DESCRIPTION	MITIGATION
Environment and sustainability (new) (continued)		• We have a clear strategy to reduce Morrisons emissions footprint and expect to achieve Net Zero emissions by 2040; • This includes our ambition to be Net Zero in our UK agriculture supply chain by 2030, working with the farmers who directly supply us to reduce emissions from livestock and produce, increase carbon sequestration and improve the use of renewable energy on farm; and • We pledge to reduce the plastic we use in our products by 50% with 100% of plastic packaging used on our products to be recyclable, reusable or compostable by 2025.
Financial and treasury	The main areas of this principal risk are the availability of funding and management of cash flow, including liquidity requirements and debt maturity profiles, to meet business needs. There is a risk of a working capital outflow if there was a significant reduction in payment terms to suppliers. Some suppliers benefit from access to supply chain finance facilities. The withdrawal of these facilities could lead to some terms being reviewed. In addition, exposure to movement in foreign exchange rates continues to require management. The growth of wholesale supply contracts introduces credit risk which requires policies and monitoring to manage.	• The Group's treasury policy is to maintain an appropriate borrowing maturity profile and a sufficient level of headroom in committed facilities. This includes an assumption that supply chain finance facilities are not available for the benefit of suppliers; • The Group's Treasury function is responsible for the forward-planning and management of funding, interest rates, foreign currency exchange rates and certain commodity price risks. They report to the Treasury Committee and operate within clear policies and procedures which are approved by the Board. The appropriateness of policies are reviewed on a regular basis; • There are governance processes in place to control purchases in foreign currency and management of commodity prices; • For livestock and produce, we track prices and forecasts and enter into long-term contracts where appropriate to ensure stability of price and supply; and • We continue to monitor credit risk across our Wholesale customers.
Food safety, product integrity and ethical sourcing	There is a risk that the products we sell are unsafe or not of the integrity that our customers expect. It is of utmost importance to us, and to the confidence that customers have in our business, that we meet the required standards. If we do not do this it could impact business reputation and financial performance. It is also important to us to support sustainable, ethical and resilient supply chains.	• Monitoring processes are in place to manage food safety and product integrity throughout the Group and supply chain; • Regular assessments of our suppliers and own manufacturing and store production facilities are undertaken to ensure adherence to standards; • Our vertical integration model gives us control over the integrity of a significant proportion of our fresh food; • Management regularly monitors food safety and product integrity performance and compliance as well as conducting horizon scanning to anticipate emerging issues, such as the new allergen regulation which comes into force in 2021; • The process is supported by external accreditation and internal training programmes; • Our Ethical Trading Policy and Code establish key requirements for all suppliers. We actively monitor compliance through an extensive third party audit programme and provide support for suppliers when issues are identified; • We work closely with our supply chain to understand food provenance, sustainable and ethical practices including animal welfare; and • Our measures to tackle Modern Slavery are reported annually in our Modern Slavery Act Statement.
Health and safety	The main aspect of this principal risk is of injury or harm to customers or colleagues. Failure to prevent incidents could impact business reputation and customer	• We have clear policies and procedures detailing the controls required to manage health and safety risks across the business;

1. General information and basis of preparation (continued)

Principal risks (continued)

RISKS	DESCRIPTION	MITIGATION
Health and safety (continued)	confidence and lead to financial penalties.	• An ongoing training programme is in place for frontline operators and management. These have been updated in light of our expanded online operations; • A programme of health and safety audits is in place across the Group with resource dedicated to manage this risk effectively; • Introduced a programme of store and site COVID-19 health and safety audits; and • Management regularly monitors health and safety performance and compliance and has introduced new electronic accident reporting across all stores and sites to help us identify and respond to any trends.
Information security (new)	A cyber attack or security breach could lead to a loss of customer, colleague or Group confidential data, business disruption, reputational damage and significant fines. The risk environment is challenging, with increased levels of sophisticated cyber-crime, complex regulatory requirements and our use of a number of third parties.	• The Data Steering Group has the responsibility for overseeing data management practices, policies, regulatory awareness and training. This includes change management activities and a review of third parties managing data on our behalf; • Information security policies, procedures and controls are in place, including encryption, network security, systems access and data protection; • This is supported by ongoing monitoring, reporting and rectification of vulnerabilities; and • Focused working groups are in place which review the management of data across the business including colleague data, customer data, commercial data, financial data and the sharing of any data with third parties.
People	Our colleagues are key to the achievement of our plan, particularly as we improve the business. There is a risk that if we fail to attract, retain or motivate talented colleagues, we will not provide the quality of service that our customers expect.	• We have fair employment policies, and competitive remuneration and benefits packages; • A Group-wide reward framework is in place and roles are evaluated against an external framework, driving stronger consistency of rewards; • Our training and development programmes are designed to give colleagues the skills they need to do their job and support their career aspirations; • Line managers conduct regular talent reviews and processes are in place to identify and actively manage talent; • We have worked to give colleagues increased visibility and flexibility of their hours and rotas with the introduction of a new People System and modernised working patterns; • During the year, no colleagues have been furloughed and we awarded a '6% thank you' guaranteed annual bonus for all our frontline colleagues; • Colleague engagement surveys, listening sessions and networking forums are used to understand and respond to our colleagues; and • We take pride in creating an inclusive work environment where everyone feels welcome and we celebrate our differences.
Regulation	The Group operates in an environment governed by numerous regulations including GSCOP (Groceries Supply Code of Practice), General Data Protection Regulation, competition, employment and regulations over the Group's products. The Board takes its responsibilities very seriously and recognises that breach of regulation can lead to	• The Group monitors for potential regulatory and legislative changes and the impact on contractual arrangements; • We actively engage with government and regulatory bodies on policy changes which could impact our colleagues and our customers; • We have a GSCOP compliance framework in place including training for relevant colleagues and processes to monitor compliance; • We have a senior level working group in place to review and improve GSCOP compliance activity;

1. General information and basis of preparation (continued)

Principal risks (continued)

RISKS	DESCRIPTION	MITIGATION
Regulation (continued)	reputational damage and financial damages to the Group. Consideration is also given to any potential changes to regulations.	• We have an independent whistleblowing line for suppliers to provide feedback to the Group and a Code Compliance Officer so that action can be taken as necessary; • We have an established General Data Protection Regulation governance framework including data management practices, policies, regulatory awareness and training; and • We have training, policies and legal guidance in place to support compliance with Competition Law and other regulations.
UK - EU Trade	Failure to adequately adapt to the post-Brexit trading and regulatory environment could have significant implications for business performance; including supply chain disruption, availability and rising costs due to currency fluctuations.	• A business-wide Stability Group continues to monitor regulatory requirements and supply chain impacts and coordinate our operational responses. • We continue to actively engage our key suppliers to reduce any impact to our supply chains and have maintained our focus on UK sourcing; • We increased the stock holding on a number of key lines to ensure availability for our customers; • We have maintained Authorised Economic Operator status to enable streamlined border checks and have introduced additional procedures to support our store in Gibraltar; • We have also continued to work with our suppliers and freight providers to identify alternative supply routes to avoid the busiest ports; • The Group has a treasury policy in place for hedging to mitigate risks on currency fluctuations. All required changes to taxes and tariffs have been applied; and • We continue to monitor the availability of labour across the Group and we have enacted specific people plans across our manufacturing and logistics sites including supporting EU colleagues through the process of applying for settled status and increasing the number of apprentices.

Responsibility statement

This statement is given pursuant to Rule 4 of the Disclosure and Transparency Rules. It is given by each of the Directors.

To the best of each Director's knowledge:

a) The consolidated financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and its subsidiaries included in the consolidation as a whole; and

b) the strategic report includes a fair review of the development of the business and the position of the Group and its subsidiaries included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

2. Segmental Reporting

The Group's principal activity is that of retailing, derived from the UK both in-store and online.

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

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

The Group has considered the overriding core principles of IFRS 8 'Operating segments' as well as its internal reporting framework, management and operating structure. In particular, the Group considered its retail outlets, the fuel sale operation, the manufacturing entities, online operations and wholesale supply. The Directors' conclusion is that the Group has one operating segment, that of retailing.

3. Revenue

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

All revenue is derived from contracts with customers.

4. Profit before exceptionals

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

The Directors consider that these adjusted profit and adjusted earnings per share measures referred to in the results provide useful information on ongoing trends and performance, and are consistent with how business performance is measured internally. The adjustments made to reported profit are to: exclude exceptional items, which are significant in size and/or nature; exclude net retirement benefit interest; and to apply a normalised tax rate of 28.7% (2020: 23.1%).

'Profit before exceptionals' and 'earnings per share before exceptionals' measures are not recognised measures under IFRS and may not be directly comparable with adjusted measures used by other companies. The classification of items excluded from profit before exceptional requires judgement including considering the nature, circumstances, scale and impact of a transaction. Reversals of previous exceptional items are assessed based on the same criteria.

Given the significance of the Group's property portfolio and the quantum of impairment and property-related provisions recognised in the consolidated statement of financial position, movements in impairment and other onerous and property-related provisions would typically be included as exceptional items, as would significant impairments or impairment write backs of other non-current assets. During the year the appropriateness of the policy has been reviewed and the policy expanded to capture significant one off costs incurred where they have resulted in a significant write back of impairments of tangible assets as part of the annual impairment exercise, to provide consistent treatment between the cost of development incurred and the recognition of the impairment write back. As a result the costs in the year relating to the considerable expansion of the online and home delivery business have been treated as exceptional.

Despite being a recurring item, the Group has chosen to also exclude net retirement benefit interest from profit before exceptionals as it is not part of the operating activities of the Group, and its exclusion is consistent with the way it has historically been treated and with how the Directors assess the performance of the business.

4. Profit before exceptionals (continued)

	2021 **£m**	2020 £m
Profit after tax	**96**	348
Add back: tax charge for the period[1]	**69**	87
Profit before tax	**165**	435
Adjustments for:		
Restructuring and online costs[1]	**56**	51
Online and home delivery expansion:		
Transformation costs[1]	**66**	-
Impairment write back – store pick[1]	**(76)**	-
Net impairment and provision for onerous contracts[1]	**(7)**	(2)
Profit/loss arising on disposal and exit of properties[1]	**(2)**	(66)
Other exceptional items[1]	**15**	9
Net retirement benefit interest [1]	**(16)**	(19)
Profit before tax and exceptionals	**201**	408
Normalised tax charge at 28.7% (2020: 23.1%)[1,2]	**(58)**	(94)
Profit before exceptionals after tax	**143**	314
Earnings per share before exceptionals (pence)		
- Basic (note 8)	**5.95**	13.18
- Diluted (note 8)	**5.89**	13.03

[1]Adjustments marked 1 increase post-tax adjusted earnings by £47m (2020: decrease of £34m) as shown in the reconciliation of earnings disclosed in note 8.
[2]Normalised tax is defined in the Glossary.

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

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

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

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

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

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

4. Profit before exceptionals (continued)

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

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

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

Other exceptional items
Other exceptional items include:

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

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

Taxation
The total tax charge for the 52 period ended 31 January 2021 of £69m includes an exceptional tax charge of £11m (2020: £7m credit) being a £41m (2020; £nil) charge due to the change in the standard rate of corporation tax in respect of deferred tax (see note 6) and a £30m (2020: £7m) credit in relation to other exceptional items.

5. Finance costs and income

	2021 £m	2020 £m
Interest payable on short-term loans and bank overdrafts	**(5)**	(4)
Interest payable on bonds	**(45)**	(43)
Interest on lease liabilities	**(60)**	(63)
Interest capitalised	**2**	2
Total interest payable	**(108)**	(108)
Provisions: unwinding of discount	**(1)**	(2)
Other finance costs	**(2)**	(1)
Finance costs[1]	**(111)**	(111)
Bank interest and other finance income	**3**	4
Finance lease income	**-**	1
Other receivables: unwinding of discount	**3**	
Finance income before exceptionals[1]	**6**	5
Net retirement benefit interest (notes 4 and 17)	**16**	19
Finance income	**22**	24
Net finance costs	**(89)**	(87)

[1]Net finance costs before exceptionals marked 1 amount to £105m (2020: £106m).

6. Taxation

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

The effective tax rate for the year was 42.0% (2020: 20.0%). The effective tax rate for the year was 23.0% (2020: 1.0%) above the UK statutory tax rate of 19.0% (2020: 19.0%). The main item increasing the effective tax rate is a deferred tax charge arising as a result of a change in the rate at which deferred tax is provided (see below).

The normalised tax rate for the year was 28.7% (2020: 23.1%). The normalised tax rate was 9.7% (2020: 4.1%) above the UK statutory tax rate of 19.0% (2020: 19.0%). The main item increasing the normalised tax rate is disallowed depreciation on UK properties which reflects the Group's strategy to maintain a majority freehold estate. The normalised tax rate increased year-on-year due to a reduction in profit before exceptionals.

Legislation to reduce the standard rate of corporation tax to 17% from 1 April 2020 was enacted in Finance Act 2016. The Budget on 11 March 2020 announced that the standard rate of corporation tax would remain at 19% from 1 April 2020 and the legislation was substantively enacted during the year so at 31 January 2021 all deferred tax balances have been calculated at 19%. The deferred tax liability recognised on the balance sheet increased by £55m due to the change in rate at which deferred tax is provided which resulted in a £41m deferred tax charge recognised within exceptional items in the income statement for the period (see note 4) and a £14m deferred tax charge recognised in other comprehensive income.

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

7. Dividends

Amounts recognised as distributed to equity holders in the period:

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

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

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

8. Earnings per share (EPS)

Basic EPS is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period excluding shares held in trust. For diluted EPS, the weighted average number of ordinary shares in issue is adjusted to assume conversion of potentially dilutive ordinary shares.

The Company has two (2020: two) classes of instrument that are potentially dilutive: those share options granted to employees where the exercise price together with the future IFRS 2 charge of the option is less than the average market price of the Company's ordinary shares during the period and contingently issuable shares under the Group's Long Term Incentive Plans (LTIPs).

a) Basic and diluted EPS (unadjusted)
Reconciliations of the earnings and weighted average number of shares used in the calculations are set out below:

		2021				2020
	Earnings £m	**Weighted average number of shares millions**	**EPS pence**	Earnings £m	Weighted average number of shares millions	EPS pence
Unadjusted EPS						
Basic EPS						
Profit attributable to ordinary shareholders	**95.8**	**2,398.1**	**3.99**	347.9	2,382.5	14.60
Effect of dilutive instruments						
Share options and LTIPs	**-**	**25.2**	**(0.04)**	-	26.3	(0.16)
Diluted EPS	**95.8**	**2,423.3**	**3.95**	347.9	2,408.8	14.44

b) EPS before exceptionals

EPS before exceptionals is defined as earnings per share before exceptional items and net retirement benefit interest. Basic EPS is adjusted to more appropriately reflect ongoing business performance.

The reconciliation of the earnings used in the calculations of EPS before exceptionals is set out below:

		2021				2020
	Earnings £m	**Weighted average number of shares millions**	**EPS pence**	Earnings £m	Weighted average number of shares millions	EPS pence
EPS before exceptional						
Basic EPS before exceptionals						
Profit attributable to ordinary shareholders	**95.8**	**2,398.1**	**3.99**	347.9	2,382.5	14.60
Adjustments to determine profit before exceptionals (note 4)	**47.0**	**-**	**1.96**	(34.0)	-	(1.42)
	142.8	**2,398.1**	**5.95**	313.9	2,382.5	13.18
Effect of dilutive instruments						
Share options and LTIPs	**-**	**25.2**	**(0.06)**	-	26.3	(0.15)
Diluted EPS before exceptionals	**142.8**	**2,423.3**	**5.89**	313.9	2,408.8	13.03

9. Goodwill and intangible assets

	2021 £m	2020 £m
Net book value		
At start of period	**381**	404
Additions	**84**	82
Interest capitalised	**1**	2
Disposals	**-**	(1)
Impairment	**(67)**	(15)
Amortisation charge for the period	**(71)**	(91)
At end of period	**328**	381

The Group has performed its annual assessment of its amortisation policies and asset lives and deemed them to be appropriate. Following the annual impairment review conducted by the Group, an impairment charge of £67m (2020: £15m) has been recognised in relation to intangible assets. This impairment primarily relates to software assets impacted by a move to more cloud based solutions during the 52 weeks ended 31 January 2021.

10. Property, plant and equipment

	2021 £m	2020 £m
Net book value		
At start of period	**7,147**	7,094
Additions	**516**	398
Interest capitalised	**1**	-
Disposals	**(3)**	(5)
Depreciation charge	**(405)**	(371)
Net impairment write back	**102**	34
At end of period	**7,358**	7,147

The Group has performed its annual assessment of its depreciation policies and asset lives and deemed them to be appropriate. There have been no changes made to asset category lives during the year.

The cost of financing property developments prior to their opening date has been included in the cost of the asset. The cumulative amount of interest capitalised in the total cost above amounts to £199m (2020: £199m).

Impairment
The Group considers each store location as a separate cash generating unit (CGU) and therefore considers every location for impairment annually. The Group calculates each location's recoverable amount and compares this amount to its book value. The recoverable amount is determined as the higher of 'value-in-use' and 'fair value less costs of disposal'. If the recoverable amount is less than the book value, an impairment charge is recognised based on the following methodology:

'Value-in-use' is calculated by projecting individual locations pre-tax cash flows over the life of the store, based on forecasting assumptions. The methodology used for calculating future cash flows is to:

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

10. Property, plant and equipment (continued)

Impairment (continued)
'Fair value less costs of disposal' is estimated by the Directors based on their knowledge of individual stores, the markets they serve and likely demand from grocers or other retailers. This assessment takes into account the continued low demand from major grocery retailers for supermarket space, when assessing rent and yield assumptions on a store by store basis. In certain years, the Directors also obtain store level valuations prepared by independent valuers to aid this assessment. When assessing the assumptions at individual store level the Directors take into account the following factors:

- whether a major grocery operator might buy the store, taking into consideration whether they are already located near the store, and whether the store size is appropriate for their business model, and then if not;
- assessing whether a smaller store operator might buy the store, in which case the value has been updated to reflect the Directors' assessment of the yield which would be achievable if such an operator acquired the store, and then if not; and
- assessing whether a non-food operator might buy the store, in which case the value has been updated to reflect the Directors' assessment of the yield which would be achievable if such an operator acquired the store.

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

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

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

11. Right-of-use assets

	2021 £m	2020 £m
Net book value		
At start of period	**942**	929
Additions	**78**	75
Disposals	**(1)**	(3)
Depreciation charge	**(63)**	(60)
Net impairment write back	**41**	1
At end of period	**997**	942

The Group has performed its annual assessment of its depreciation policies and asset lives and deemed them to be appropriate. There have been no changes made to asset category lives during the year.

Impairment
Having applied the same methodology and key assumptions as for property, plant and equipment as set out in note 10, the Group has recognised a net impairment write back of £41m (£54m impairment write back offset by £13m impairment charge) during the year in respect of right-of-use assets (2020: net £1m impairment write back; £24m impairment write back offset by £23m impairment charge). This movement reflects fluctuations from store level trading performance and local market conditions.

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

12. Investment property

	2021 £m	2020 £m
Net book value		
At start of period	**58**	60
Additions	**6**	7
Disposals	**(1)**	(1)
Depreciation charge	**(2)**	(3)
Net impairment	**(2)**	(5)
At end of period	**59**	58

13. Assets classified as held-for-sale

	2021 £m	2020 £m
Net book value		
At start of period	**3**	39
Transfer from property, plant and equipment	**-**	3
Disposals	**(3)**	(39)
At end of period	**-**	3

14. Inventories

	2021 £m	2020 £m
Finished goods	**814**	660

Unearned elements of commercial income are deducted from finished goods as the inventory has not been sold.

15. Trade and other receivables

	2021 £m	2020 £m
Finance leases – Group is lessor	**8**	8
Other receivables	**62**	63
Total non-current	**70**	71
Commercial income trade receivables	**6**	7
Accrued commercial income	**47**	28
Other trade receivables	**142**	175
Less: provision for impairment of trade receivables	**(5)**	(4)
Trade receivables	**190**	206
Prepayments and accrued income	**128**	116
Other receivables	**18**	31
Total current	**336**	353

In the 52 weeks ended 31 January 2021, £20m (2020: £25m) of deferred cash consideration has been received in relation to the sale of the Camden site on the 13 December 2019. Within the Consolidated statement of cash flows this has been included within Proceeds from the disposal of property, plant and equipment, investment property, right-of-use assets and assets held for sale.

As at 31 January 2021 and 2 February 2020, trade receivables that were neither past due nor impaired, related to a number of debtors for whom there is no recent history of default. The other classes of receivables do not contain impaired assets.

As at 7 March 2021, £6m of the £6m commercial income trade receivables balance had been settled and all of the £47m accrued commercial income balance invoiced, of which £35m had been settled.

16. Trade and other payables

	2021 £m	2020 £m
Trade payables	**2,335**	2,467
Less: commercial income due, offset against amounts owed	**(32)**	(21)
	2,303	2,446
Other taxes and social security payable	**64**	131
Other payables	**104**	58
Accruals and deferred income	**366**	416
	2,837	3,051

Included within accruals and deferred income is £2m (2020: £1m) in respect of deferred commercial income. Amounts accrued in relation to store restructuring activity are included within accruals and deferred income at 31 January 2021.

As at 7 March 2021, £24m of the £32m commercial income due above had been offset against payments made.

17. Retirement benefits

Defined benefit schemes

The Group operates a number of defined benefit retirement schemes (together 'the Schemes') providing benefits based on a benefit formula that depends on factors including the employee's age and number of years of service. The Morrison and Safeway Schemes provide retirement benefits based on either the employee's compensation package and/or career average revalued earnings (CARE) (the 'CARE Schemes'). The CARE Schemes are not open to new members and were closed to future accrual in July 2015. The Retirement Saver Plan ('RSP') is a cash balance scheme, which provides a lump sum benefit based upon a defined proportion of an employee's annual earnings in each year, which is revalued each year in line with inflation subject to a cap. The RSP was closed to future accrual in September 2018.

The position of each scheme at 31 January 2021 is a follows:

Statement of financial position	2021 CARE £m	2021 RSP £m	2020 CARE £m	2020 RSP £m
Fair value of scheme assets	**5,111**	**407**	5,013	389
Present value of obligations	**(4,357)**	**(443)**	(4,053)	(405)
Net retirement benefit surplus/(deficit)	**754**	**(36)**	960	(16)

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

	2021 £m	2020 £m
Net retirement benefit surplus at start of the period	**944**	688
Net interest income	**16**	19
Settlement and curtailment gain	**3**	-
Remeasurement in other comprehensive income[1]	**(247)**	231
Employer contributions	**5**	9
Administrative expenses	**(3)**	(3)
Net retirement benefit surplus at end of the period	**718**	944

[1] In the 52 weeks ended 31 January 2021, there was a further £1m charge following the write off of a receivable balance relating to retirement benefits which was not part of the net retirement benefit surplus.

17. Retirement benefits (continued)

Defined benefit schemes (continued)

At 31 January 2021, schemes in surplus have been disclosed within the assets in the Consolidated statement of financial position. The Group obtained legal advice with regard to the recognition of a retirement benefit surplus and also recognition of a minimum funding requirement under IFRIC 14 'IAS 19 – The limit on a defined benefit asset, minimum funding requirement and their interaction'. This advice concluded that recognition of a surplus is appropriate on the basis that the Group has an unconditional right to a refund of a surplus. In respect of the Morrison Scheme, this is on the basis that paragraph 11(b) or 11(c) of IFRIC 14 applies enabling a refund of surplus assuming the gradual settlement of the scheme liabilities over time until all members have left the scheme or the full settlement of the Scheme's liabilities in a single event (i.e. as a scheme wind up). In respect of the Safeway Scheme, a refund is available on the basis that paragraph 11(b) of IFRIC 14 applies. The International Accounting Standards Board (IASB) have been considering amendments to the current version of IFRIC 14, however the IASB has decided not to finalise these amendments and is considering whether to develop new proposals. The legal advice received by the Group has concluded that the above accounting treatment should not be materially affected by the previous proposed amendments to IFRIC 14.

Assumptions

The main financial assumptions used by the Group to calculate the net retirement benefit surplus/deficit were as follows:

	2021 CARE	**2021 RSP**	2020 CARE	2020 RSP
Discount rate applied to scheme liability (% p.a.)	**1.5%**	**1.5%**	1.8%	1.8%
Inflation assumption (RPI) (%p.a.)	**3.0%**	**3.0%**	2.9%	2.9%

Assumptions regarding future mortality experience are set based on actuarial advice and in accordance with published statistics. The mortality tables used for the 52 weeks ended 31 January 2021 are the S2PMA/S2PFA-Heavy mortality tables (males/females) based on year of birth with a scaling factor of 110% applied to the mortality rates in both the Morrison and Safeway Schemes, with CMI 2019 core projections and a long-term rate of improvement of 1.5% p.a. For the 52 weeks ended 2 February 2020, the Group used the S2PMA/S2PFA-Heavy mortality tables (males/females) based on year of birth with a scaling factor of 110% applied to the mortality rates in both the Morrison and Safeway Schemes respectively, with CMI 2018 core projections and a long-term rate of improvement of 1.5% p.a

The latest full actuarial valuations were carried out as at 1 April 2019 for the Safeway Scheme and 5 April 2019 for the Morrison Scheme and the RSP. The valuations indicated that, on the agreed funding basis, the Safeway, Morrison and RSP Schemes had surpluses of £518m, £157m and £7m respectively. As a result of these funding positions there are currently no deficit contributions payable. As such there is no 'minimum funding requirement' in force.

Defined contribution scheme

The Group opened a defined contribution retirement benefit scheme called the Morrisons Personal Retirement Scheme ('MPRS') for colleagues during the 53 weeks ended 4 February 2018. The MPRS became the auto enrolment scheme for the Group. As the MPRS is a defined contribution scheme, the Group is not subject to the same investment, interest rate, inflation or longevity risks as it is for the defined benefit schemes. The benefits that employees receive are dependent on the contributions paid, investment returns and the form of benefit chosen at retirement. During the 52 weeks ended 31 January 2021, the Group paid contributions of £97m to the MPRS (2020: £78m), and expects to contribute £105m for the following period (2020: £80m).

18. Cash generated from operations

	2021 £m	2020 £m
Profit for the period	**96**	348
Net finance costs	**89**	87
Taxation charge	**69**	87
Share of profit of joint venture (net of tax)	**-**	(1)
Operating profit	**254**	521
Adjustments for:		
Depreciation and amortisation	**541**	525
Impairment	**125**	108
Impairment write back	**(199)**	(123)
Profit/loss arising on disposal and exit of properties	**(2)**	(66)
Gain arising on reduction of lease terms	**-**	(10)
Defined benefit scheme contributions paid less operating expenses	**(6)**	(5)
Share-based payments charge	**20**	26
Decrease/(Increase) in inventories[1]	**(154)**	53
Increase in Trade and other receivables[1]	**(3)**	(14)
Increase in Trade and other payables[1]	**(267)**	29
Decrease in provisions[1]	**(23)**	(27)
Cash generated from operations	**286**	1,017

Total working capital outflow (the sum of items marked [1] in the table) is £447m (2020: £41m inflow) in the year. This includes £nil (2020: £2m) as a result of the current year charges in respect of onerous contracts and accruals of onerous commitments and £7m (2020: £63m) of non-cash exceptional charges, net of £22m (2020: £41m) of onerous payments and £42m (2020: £1m) exceptional and other non-operating payments. When adjusted to exclude these items, the operating working capital outflow is £390m (2020: £18m inflow).

19. Analysis of net debt[1]

	2021 £m	2020 £m
Fuel and energy price contracts	**9**	-
Non-current financial assets	**9**	-
Foreign exchange forward contracts	**1**	-
Fuel and energy price contracts	**12**	1
Current financial assets	**13**	1
Bonds[2]	**-**	(237)
Other short-term borrowings[2]	**(54)**	-
Cross-currency interest rate swaps[2]	**-**	(4)
Lease liabilities[2]	**(72)**	(72)
Foreign exchange forward contracts	**(17)**	(17)
Fuel and energy price contracts	**(1)**	(15)
Current financial liabilities	**(144)**	(345)
Bonds[2]	**(1,109)**	(1,110)
Revolving credit facility[2]	**(877)**	2
Lease liabilities[2]	**(1,299)**	(1,304)
Foreign exchange forward contracts	**(1)**	-
Fuel and energy price contracts	**(1)**	(7)
Non-current financial liabilities	**(3,287)**	(2,419)
Cash and cash equivalents	**240**	305
Net debt[1]	**(3,169)**	(2,458)

[1]Net debt is defined in the Glossary.

Total net liabilities from financing activities (the sum of items marked [2] in the table) is £3,411m in the 52 weeks ended 31 January 2021 (2020: £2,725m). Of the £686m increase (2020: £49m) in net liabilities from financing activities, £74m (2020: £67m) relates to non-cash movements and £612m (2020: £18m decrease) related to cash movements.

20. Financial instruments

	2021 Carrying amount £m	**2021 Fair Value £m**	2020 Carrying amount £m	2020 Fair Value £m
Derivative financial assets	**9**	**9**	-	-
Total non-current financial assets	**9**	**9**	-	-
Derivative financial assets	**13**	**13**	1	1
Total current financial assets	**13**	**13**	1	1
Borrowings	**(54)**	**(54)**	(237)	(237)
Derivative financial liabilities	**(18)**	**(18)**	(36)	(36)
Total current financial liabilities	**(72)**	**(72)**	(273)	(273)
Borrowings	**(1,986)**	**(2,145)**	(1,108)	(1,238)
Derivative financial liabilities	**(2)**	**(2)**	(7)	(7)
Total non-current financial liabilities	**(1,988)**	**(2,147)**	(1,115)	(1,245)

The fair value of bonds are measured using closing market prices (level 1) (2 February 2020: Level 1). The fair value of all derivative financial instruments are calculated by using benchmark observable market interest rates and discounted future cash flows (level 2) (2 February 2020: Level 2).

21. Share capital and share premium

	Number of shares	Share capital	Share premium	**Total**
	millions	£m	£m	**£m**
At 2 February 2020	2,405	240	192	**432**
Share options exercised and shares issued under LTIP schemes[1]	5	1	9	**10**
At 31 January 2021	2,410	241	201	**442**

[1]The £1m and £9m movement in share capital and share premium has been rounded up to ensure that the total share capital and total share premium positions, are correctly stated.

All issued shares are fully paid and have a par value of 10p per share (2020: 10p per share). The Group did not acquire any of its own shares for cancellation in the 52 weeks ended 31 January 2021 or the 52 weeks ended 2 February 2020. The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at the meetings of the Company.

Trust shares
Included in retained earnings is a deduction of £19m (2020: £30m) in respect of own shares held at the reporting date. This represents the cost of 8,720,882 (2020: 14,215,041) of the Group's ordinary shares (nominal value of £0.9m (2020: £1.4m)). These shares are held in a trust and were acquired by the business to meet obligations under the Group's employee share plans using funds provided by the Group. The market value of the shares at 31 January 2021 was £16m (2020: £26m). The trust has waived its right to dividends. These shares are not treasury shares as defined by the London Stock Exchange.

During the period, the Group acquired none (2020: 4,881,284) of its own shares to hold in trust for consideration of £nil (2020: £10m), and utilised 5,494,159 (2020: 551,491) trust shares to satisfy awards under the Group's employee share plans.

Proceeds from exercise of share awards
The Group issued 4,751,802 (2020: 8,532,407) new shares to satisfy options exercised by employees during the period in respect of the Group's Share save schemes. Proceeds received on exercise of these shares amounted to £9m (2020: £14m), which has been presented as a £1m addition to share capital and a £9m addition to share premium in the period to ensure that share capital and share premium agree in total. In addition, the Group issued no (2020: 28,166,736) shares under the Group's Long Term Incentive Plan ('LTIP') scheme for nominal value, with all current year schemes being settled through trust shares.

Settlement of share awards
During the 52 weeks ended 31 January 2021, the Group has settled 5,494,159 of share options out of trust shares which have vested during the period net of tax. During the period there was a £9m (2020: £2m) charge to retained earnings in relation to the settlement of share awards, comprising £10m (2020: £2m) of cash paid on behalf of the employees, rather than selling shares on the employees' behalf to settle the employees' tax liability on vesting of the share options, offset by a £1m non-cash settlement credit (2020: £nil).

22. Commercial income

Types of commercial income recognised by the Group and the recognition policies are:

Type of commercial income	**Description**	**Recognition**
Marketing and advertising funding	Examples include income in respect of in-store and online marketing and point of sale, as well as funding for advertising.	Income is recognised dependent on the terms of the specific supplier agreement in line with when performance obligations in the agreement are met. Income is invoiced once the performance conditions in the supplier agreement have been achieved.
Volume-based rebates	Income earned by achieving volume or spend targets set by the supplier for specific products over specific periods.	Income is recognised through the year based on forecasts for expected sales or purchase volumes, informed by current performance, trends and the terms of the supplier agreement. Income is invoiced throughout the year in accordance with the specific supplier terms. In order to minimise any risk arising from estimation, supplier confirmations are also obtained to agree the final value to be recognised at year end.

22. Commercial income (continued)

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

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

23. Related party transactions

The Group's related party transactions in the period include the remuneration of the senior managers, and the Directors' emoluments and retirement benefit entitlements, share awards and share options as disclosed in the audited section of the Directors' remuneration report, which forms part of the Group's Annual Report and Financial Statements.

During the 52 weeks ended 31 January 2021, the Group received a dividend of £8m (2020: £9m) from MHE JVCo Limited. The Group has a c.51% interest in MHE JVCo Limited.

24. Guarantees, contingent liabilities and contingent assets

Guarantees
Following the disposal of the land and building of its customer fulfilment centre at Dordon to a third party, the Group continues to guarantee the lease in respect of this site through until 2038. If the lessee were to default during the period of guarantee, their lease obligations could revert back to the Group under the terms and become a liability of the Group. Should the lessee default, the additional future commitment is estimated at up to £29m (2020: £30m).

Data theft claim
The Group has previously had a legal case brought by a number of current and former colleagues relating to employee data theft in the 52 weeks ended 1 February 2015. In December 2017, the High Court concluded that the Group was vicariously liable for the actions of the former employee who conducted the data theft. The Group launched an appeal of this judgement to the High Court and subsequently to the Supreme Court.

The Supreme Court hearing took place in November 2019. On 1 April 2020, the Supreme Court ruled in favour of the Group and the claim was entirely dismissed. This brings an end to the matter, other than for recovery of legal costs form the claimants. An interim payment has been received by the Group in respect of these costs and an estimate made of the amount to be received. These amounts have been included within 'other exceptional items'. The Group has previously disclosed an unquantified contingent liability in respect of the potential settlement. Following the Supreme Court ruling, this contingent liability no longer exists. Since 31 January 2021, the Group has received full and final settlement of outstanding legal costs.

Interchange fee claim
The Group, along with other claimants, has had an ongoing claim against Mastercard in respect of bank interchange fees. In the 52 weeks ended 31 January 2021, the Supreme Court found in favour of the claim against Mastercard and determined the fixing of interchange fees by Mastercard over many years was an unlawful infringement of competition law. The Supreme Court's definitive decision means that the case will now be remitted back to the Competition Appeal Tribunal to determine the level of damages payable to the Group. At this stage the Group is not able to quantify the amount of settlement which it will receive, and accordingly no asset has been recognised in the financial statements in the 52 weeks ended 1 February 2021. In addition, legal costs associated with this claim will be recovered, and the Group has made an estimate of the amount of fees to be recovered. The income receivable has been included within 'other exceptional items'.

10.3 Post balance sheet events

On 27 February 2021, the Group acquired 100% of the share capital of Falfish (Holdings) Limited, a leading supplier of fresh seafood, for consideration of £9m. The Directors consider this event to be a non-adjusting post balance sheet event.

Since 31 January 2021, the Group has extended the duration of its four existing £100m committed revolving credit facilities (RCF) as follows: two £100m RCFs now mature in September 2021, a £100m RCF matures in March 2022 and a £100m RCF matures in July 2022.

Glossary

Alternative Performance Measures

In response to the Guidelines on Alternative Performance Measures (APMs) issued by the European Securities and Markets Authority (ESMA), we have provided additional information on the APMs used by the Group. The Directors use the APMs listed below as they are critical to understanding the financial performance and financial health of the Group. As they are not defined by IFRS, they may not be directly comparable with other companies who use similar measures.

<table>
<tr><th>Measures</th><th>Closest equivalent IFRS Measure</th><th>Definition and purpose</th><th>Reconciliation for 2020/21 Group measures [1]</th></tr>
<tr><td colspan="4">Profit Measures</td></tr>
<tr><td>Like-for-like (LFL) sales growth</td><td>Revenue</td><td>Percentage change in year-on-year sales (excluding VAT), removing the impact of new store openings and closures in the current or previous financial year.

The measure is used widely in the retail industry as an indicator of ongoing sales performance. It is also a key measure for Director and management remuneration.</td><td><table><tr><th></th><th>52 weeks ended 2 February 2021 %</th></tr><tr><td>Group LFL (exc. fuel)</td><td>8.6%</td></tr><tr><td>Group LFL (inc. fuel)</td><td>0.1%</td></tr><tr><td>Net new space (inc. fuel)</td><td>0.3%</td></tr><tr><td>Total revenue year-on-year</td><td>0.4%</td></tr></table></td></tr>
<tr><td>Total sales growth</td><td>Revenue</td><td>Including fuel:
Percentage change in year-on-year total reported revenue.

Excluding fuel:
Percentage change in year-on-year total sales excluding fuel.

This measure illustrates the total year-on-year sales growth.

This measure is a key measure for Director and management remuneration.</td><td>A reconciliation of total sales including and excluding fuel is provided in note 3.</td></tr>
<tr><td>Profit before tax and exceptionals</td><td>Profit before tax</td><td>Profit before tax and exceptionals is defined as profit before tax, exceptional items and net retirement benefit interest. This excludes exceptional items which are significant in size and/or nature and net retirement benefit interest.

This measure is a key measure used by the Directors. It provides key information on ongoing trends and performance of the Group and is used for Director and management remuneration.</td><td>A reconciliation of this measure is provided in note 4.</td></tr>
<tr><td>Profit before exceptionals after tax</td><td>Profit after tax</td><td>Profit before tax and exceptionals after a normalised tax charge.

This measure is used by the Directors as it provides key information on ongoing trends and performance of the Group, including a normalised tax charge.</td><td>£143m being profit before tax and exceptionals (£201m) less a normalised tax charge (£58m) (see note 4).</td></tr>
</table>

[1] Certain ratios referred to in the financial statements are calculated using more precise numbers rather than rounded numbers. These stated ratios may therefore differ slightly to those calculated by the numbers in this report due to rounding (as numbers in the financial statements are presented in round millions).

Glossary (continued)

Measures	Closest equivalent IFRS measure	Definition and purpose	Reconciliation for 2020/21 Group measures [1]
Profit Measures (continued)			
Operating profit before exceptionals	Operating profit[2]	Reported operating profit before exceptional items, which are significant in size and/or nature. This measure is used by the Directors as it provides key information on on-going trends and performance of the Group.	£306m being reported operating profit (£254m) less profit/loss on disposal and exit of properties (£2m), net online and home delivery expansion (£10m) and impairment and provisions for onerous contracts (£7m) plus store restructuring and closure costs (£56m) and other exceptional items (£15m).
Net finance costs before exceptionals	Finance costs	Reported net finance costs excluding the impact of net retirement benefit interest and other exceptional items, which are significant in size and/or nature. This measure is used by the Directors as it provides key information on ongoing cost of financing excluding the impact of exceptional items.	A reconciliation of this measure is provided in note 5.
Earnings before interest, tax, depreciation and amortisation (EBITDA) before exceptionals	Operating profit[2]	Operating profit before exceptional items including share of profit from joint venture, before depreciation and amortisation. This measure is used by the Directors as it provides key information on ongoing trends and the performance of the Group before capital investment and financing costs.	£847m being operating profit before exceptionals (£306m), plus share of profit from joint venture (£nil), plus depreciation (£470m) and amortisation (£71m).
EBITDA margin before exceptionals	No direct equivalent	EBITDA before exceptional items, as a percentage of revenue. This measure is used by the Directors as it provides key information on ongoing trends and the performance of the Group before capital investment and financing costs.	4.8% being EBITDA before exceptional items (£847m) divided by revenue (£17,598m).
Interest cover	No direct equivalent	Operating profit before exceptionals divided by net finance costs before exceptionals. This measure is used by the Directors as a measure of the Group's ability to meet its financing costs.	2.8x being operating profit before exceptionals (£306m) divided by net finance costs before exceptionals (£105m).
Basic earnings per share before exceptionals	Basic earnings per share	Basic earnings per share based on profit before exceptionals after tax rather than reported profit after tax as described above. This measure is a key measure used by the Directors. It provides key information on ongoing trends and performance of the Group and is used for Director and management remuneration, and in applying the dividend policy.	A reconciliation of this measure is included in note 8.

[1] Certain ratios referred to in the financial statements are calculated using more precise numbers rather than rounded numbers. These stated ratios may therefore differ slightly to those calculated by the numbers in this report due to rounding (as numbers in the financial statements are presented in round millions).
[2] Operating profit is not defined under IFRS. However, it is a generally accepted profit measure.

Glossary (continued)

Measures	Closest equivalent IFRS measure	Definition and purpose	Reconciliation for 2020/21 Group measures [1]
Diluted earnings per share before exceptionals	Diluted earnings per share	Diluted earnings per share based on profit before exceptionals after tax rather than reported profit after tax as described above.	A reconciliation of this measure is included in note 8.
Tax measures			
Normalised tax	Effective tax	Normalised tax is the tax rate applied to the Group's principal activities on an ongoing basis. This is calculated by adjusting the effective tax rate for the period to exclude the impact of exceptional items and net retirement benefit interest. This measure is used by the Directors as it provides a better reflection of the normalised tax charge for the Group.	A reconciliation of the tax charge is found in note 2.2.3 of the Group financial statements.
Cash flows and net debt measures			
Free cash flow	No direct equivalent	Movement in net debt before dividends. This measure is used by the Directors as it provides key information on the level of cash generated by the Group before the payment of dividends.	£450m outflow being the movement in net debt (£711m) before payment of dividend (£261m).
Adjusted free cash flow	No direct equivalent	This measure is a key measure used by the Directors. It provides key information on the level of cash generated by the Group and is used for Director and management remuneration.	See page 63 in the Directors' remuneration report within the Group's annual report.
Net debt	No direct equivalent	Net debt is current and non-current: borrowings, lease liabilities and derivative financial assets & liabilities; net of cash and cash equivalents.	A reconciliation of this measure is provided in note 19.
Gearing	No direct equivalent	Net debt as a percentage of net assets. This measure is used by the Directors as a measure of the capital structure of the Group and its ability to maintain its credit ratings and covenants.	75% being net debt (£3,169m) as a percentage of net assets (£4,216m).
Working capital movement	No direct equivalent	Movement in inventories, trade and other receivables, trade and other payables and provisions.	A reconciliation of this measure is provided in note 18.
Operating working capital movement	No direct equivalent	Working capital movement adjusted for onerous contract charges, onerous payments and other non-operating payments. This measure is used by the Directors as it provides a more appropriate reflection of the working capital movement by excluding certain non-recurring movements.	A reconciliation of this measure is provided in note 18.

[1] Certain ratios referred to in the financial statements are calculated using more precise numbers rather than rounded numbers. These stated ratios may therefore differ slightly to those calculated by the numbers in this report due to rounding (as numbers in the financial statements are presented in round millions).

Glossary (continued)

Measures	Closest equivalent IFRS measure	Definition and purpose	Reconciliation for 2020/21 Group measures [1]
Other measures			
Return on capital Employed (ROCE)	No direct equivalent	ROCE is calculated as return divided by average capital employed. Return is defined as annualised profit before exceptionals after tax adjusted for net finance costs before exceptionals. Capital employed is defined as average net assets excluding net retirement benefit surplus and deficit, less average net debt. This measure is used by the Directors as it is a key ratio in understanding the performance of the Group.	ROCE (3.9%) equals return divided by average capital employed: Return (£248m) = profit before exceptionals after tax annualised (£143m) adjusted for annualised net finance costs before exceptionals (£105m). Average capital employed (£6,361m) = Average net assets excluding the net retirement benefit surplus (£3,548m) and average net debt (£2,813m).
Onerous payments	No direct equivalent	Payments made to settle onerous contractual commitments, include amounts paid to exit 'pipeline' sites or sums paid to exit onerous contracts early (e.g. leases).	Onerous capital payments (£22m) plus £nil payment to exit leases, included within repayment of lease obligations in the consolidated cash flow statement.