Morrisons
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News Release

Release date: 9 September 2021

INTERIM RESULTS FOR THE HALF YEAR TO 1 AUGUST 2021

Offer update

- The Board has received offers for the company from CD&R and Fortress and is recommending CD&R's offer of 285p per share. Shareholders will be asked to approve this offer at a Court Meeting and General Meeting to be held in or around w/c 18 Oct

Strategic and operating highlights

- Very strong two-year Group like-for-like (LFL) sales(1) ex-fuel/ex-VAT of 8.4%
- Online LFL of 48.0% (237.1% on a two-year basis)
- Wholesale LFL of 18.1% (36.7% on a two-year basis)
- Significant acceleration of Morrisons Daily roll-out with our partner McColl's: now 350 McColl's store conversions by Nov 2022, up from original target of 300 by end-2023
- 'Morrisons on Amazon' now expanded to over 60 towns and cities, covering 60% of the British population and accounting for more than 10% of sales in the majority of stores offering the service. We are also supplying the new Amazon Fresh UK stores
- Morrisons stores offering Deliveroo grocery home delivery increased from 183 to 328
- Several new Sustain and community initiatives, including commitments to Net Zero carbon agriculture by 2030 and removing all plastic bags from our stores by early 2022, and our Growing British Brands and Seeds of Hope campaigns

Financial summary

- Total revenue including fuel up 3.7% to £9.05bn (2020/21: £8.73bn)
- Group LFL ex-fuel/ex-VAT down 0.3% (2020/21: up 8.7%)
- Q2 Group LFL ex-fuel/ex-VAT down 3.7% (Q2 2020/21: up 12.3%), including a retail contribution to LFL of -4.6% (Q2 2020/21: up 11.1%). Two-year Q2 Group LFL of 8.1%
- PBT and exceptionals(2) down 37.1% to £105m (2020/21: £167m*), impacted in-year by £41m of COVID-19 direct costs, and £80m lost profit in cafés, fuel and food-to-go
- PBT and exceptionals adjusted for rates timing of £93m up 41.9% (2020/21: £74m*)
- Basic EPS before exceptionals(2) down 37.0% to 3.35p (2020/21: 5.32p*)
- Statutory profit before tax down 43.4% to £82m (2020/21: £145m)
- Free cash inflow(3) £266m (2020/21: outflow £228m)
- Net debt £3,026m (2020/21 year end: £3,169m)
- No interim dividend declared given offers from CD&R and Fortress (2020/21: 2.04p)

Guidance unchanged

- We expect 2021/22 PBT and exceptionals including rates paid to be higher than the £431m** achieved in 2020/21 excluding the £230m waived rates relief. Assumptions for the second half include significantly lower lost profit, minimal further direct COVID-19 costs, and mitigation of potential sustained cost increases in the supply chain
- During the second half we expect strong free cash flow and a further reduction in net debt, with net debt/EBITDA expected to be no higher than the 2019/20 level of 2.4x
- For 2022/23 we expect material benefits of both no direct COVID-19 costs and the full recovery of lost profit, and remain confident of a year of meaningful profit growth

** Restated due to an accounting policy change in 2020/21. See Figure 1 and Note 4 for details*

Andrew Higginson, Chair, said:

"Across the business the whole Morrisons team has shown commendable resilience facing into a variety of continuing challenges during the first half, including the ongoing pandemic, disruption at some of our partner suppliers, and the impact on our supply chain of HGV driver shortages. As we approach our busiest time of year, I'm confident the team will continue to rise to all challenges and keep up all the good work to improve the shopping trip for customers."

David Potts, Chief Executive, said:

"I want to thank all Morrisons colleagues for their unswerving dedication and commitment during the long pandemic period. Their innovation, enterprise, hard work and boundless compassion have shone through, and a new Morrisons is taking shape. You are a special team and together have built a strong and broad foundation on which Morrisons will thrive in the future."

Outlook

In 2020/21, profit before tax and exceptionals was £201m, and would have been £431m had we not waived £230m of business rates relief. As previously guided, we expect 2021/22 profit before tax and exceptionals including business rates paid to be higher than the £431m for 2020/21**.

The whole British food industry is currently facing into the continued challenges of COVID-19 and sustained supply chain cost increases, which are largely outside of our control. However, we are working to address those challenges and second-half 2021/22 profit before tax and exceptionals is expected to be considerably higher than the £105m achieved in the first half. We are planning for significantly lower lost profit year on year in the key business areas of fuel, café, and food-to-go. Among other assumptions, we are also budgeting for minimal further direct COVID-19 costs, continued improvement in online and wholesale profitability, and lower marketing costs from the My Morrisons loyalty scheme and stakeholder discounts.

We expect some industry-wide retail price inflation during the second half, driven by sustained recent commodity price increases and freight inflation, and the current shortage of HGV drivers. We will seek to mitigate these and other potential cost increases, such as any incurred to maintain good on-shelf availability. Our broader assumptions in relation to this guidance remain as per the Scheme Document published in connection with the Fortress Offer on 22 July (a copy of which can be found at https://www.morrisons-corporate.com/globalassets/21-21443-5_c6-1..101.pdf). These include no material changes to market conditions and continued gradual economic recovery.

We continue to expect strong free cash flow and a significant fall in net debt during the second half of 2021/22, with net debt/EBITDA still expected to be no higher than the 2019/20 year-end level of 2.4x.

Also as previously guided, for 2022/23 we expect material benefits of both no direct COVID-19 costs and the full recovery of lost profit, and remain confident of a year of meaningful profit growth for that year.

*** Last published consensus for 2021/22 profit before tax and exceptionals was £435m (Source: VUMA, published on Investor section of Morrisons website, 5 May 2021), up from £431m at the time of the 2020/21 Prelims in March*

Figure 1 – H1 2021/22 profit reconciliation

£m	H1 20/21	H1 21/22	Y on Y
Statutory operating profit	190	129	(32.1)%
Statutory profit before tax	**145**	**82**	**(43.4)%**
Exceptional items:			
– Net impairment and provision for onerous contracts	(4)	(6)	
– Online and home delivery expansion transformation costs*	19	-	
– Profit/loss arising on disposal and closure	-	9	
– Restructuring costs	15	16	
– Other exceptional items	-	3	
– Net retirement benefit credit**	(8)	(4)	
– Proposed takeover costs	-	5	
Operating profit before exceptionals*	220	157	
Profit before tax and exceptionals*	**167**	**105**	**(37.1)%**
Allocation of business rates relief waived	(93)	-	
Profit before tax and exceptionals adjusted for timing of rates paid*	**74**	**105**	**41.9%**

** Following a change in accounting policy at 31 January 2021, £19m of costs has been restated as an exceptional online transformation cost for the 26 weeks ended 2 August 2020. There is no change to reported profit before tax and exceptionals or statutory profit before tax for the year ended 31 January 2021*

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

Figure 2 – LFL sales performance (ex-VAT, reported in accordance with IFRS 15)

	2020/21					2021/22		
	Q1	**Q2**	**H1*****	**H2**	**FY**	**Q1**	**Q2**	**H1*****
Retail contribution to LFL	5.1%	11.1%	7.9%	7.6%	7.8%	1.6%	(4.6)%	(1.4)%
Wholesale contribution to LFL	0.6%	1.2%	0.8%	0.8%	0.8%	1.1%	0.9%	1.0%
Group LFL ex-fuel	**5.7%**	**12.3%**	**8.7%**	**8.4%**	**8.6%**	**2.7%**	**(3.7)%**	**(0.3)%**
Two-year Group LFL ex-fuel						**8.7%**	**8.1%**	**8.4%**
Group LFL inc-fuel	(3.9)%	2.1%	(1.1)%	1.4%	0.1%	4.7%	1.7%	3.3%

**** As previously announced, due to the first May bank holiday in 2020 moving from Monday to Friday, we again reported a 14-week period for Q1 2021/22. Q2 was again 12 weeks in duration*

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 performance 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 (PBT) and exceptionals:** defined as profit before tax, exceptional items and net retirement benefit credit. **Earnings per share (EPS) before exceptionals:** based on profit before exceptional items and net retirement benefit credit, adjusted for a normalised tax charge. A reconciliation between statutory profit before tax, statutory operating profit, profit before tax and exceptionals, and operating profit before exceptionals is shown in Figure 1. See Note 8 for a reconciliation between basic EPS and EPS before exceptionals.

[3] **Free cash flow:** defined as movement in net debt before the payment of dividends. Free cash flow for the period is an inflow of £266m (2020/21: outflow of £228m), being the decrease in net debt of £143m (2020/21: £344m increase) adjusted for dividends paid of £123m (2020/21: £116m).

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

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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.

Offer for Morrisons and strategy update

During the first half the Board received offers for the company from CD&R and Fortress and is recommending CD&R's offer of 285p per share. A Scheme Document containing further information about the CD&R Offer will be posted to shareholders on or around 25 September. The Scheme Document will include notices of the Court Meeting and General Meeting at which shareholder approval of the CD&R Offer will be sought. It is expected that these shareholder meetings will be held in or around week commencing 18 October 2021 and that the offer process will complete in late October 2021.

In addition to the financial terms of both the CD&R and Fortress Offers, Morrisons has placed very significant emphasis on the wider responsibilities of ownership. These responsibilities include recognising the distinct heritage and history of Morrisons, the legacy of Sir Ken Morrison, and the important role that Morrisons plays for all stakeholders, including colleagues, customers, pension trustees and suppliers.

Accordingly, the Board held extensive discussions with CD&R and Fortress in relation to a number of specific areas which it believes are critical to protecting and developing the fundamental character of Morrisons for the benefit of all stakeholders, and to its evaluation of a suitable and appropriate owner of the Morrisons business. Each of CD&R and Fortress have confirmed to Morrisons that they believe in long-term ownership and in providing strong management teams with the necessary flexibility and support to execute their strategy in a sustainable and value-enhancing way. Consistent with this approach, both CD&R and Fortress have been clear that they intend to support the Morrisons management team in continuing to execute its existing strategy for the long-term success of the Morrisons business.

CD&R and Fortress have, in particular, been very supportive of our Fix, Rebuild, Grow, Sustain strategy. That strategy has continued to prove flexible and adaptable in the most unprecedented and extreme times during COVID-19. In doing what has always been most important to us – listening and responding – we have embraced greater entrepreneurship, teamwork and sense of community. The business has moved faster and been more effective.

New Morrisons is broader, stronger, and 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 profitable. Many new innovations such as ‘Morrisons on Amazon’, Morrisons.com store pick and click & collect, home delivery boxes, doorstep delivery, the McColl’s conversions to Morrisons Daily, and wholesale bulk supply were either born or grew quickly during the crisis. We now plan to seize some of these step-change opportunities and continue to grow across this new broad spectrum of potential. For example, together with our partner McColl’s we now expect to convert 350 McColl’s stores to Morrisons Daily by the end of November 2022, up from the original target of 300 by end-2023, and there are hundreds more McColl’s stores with the potential to be converted to the Morrisons Daily format.

Financial overview

With many ongoing pandemic and other challenges during the first half, our year-on-year trading was robust, with our two-year performance remaining consistently strong throughout.

Against last year's very strong COVID-19 sales comparative, Group LFL excluding fuel was down just 0.3%, comprising a retail contribution of -1.4% and wholesale contribution of 1.0%. With the pandemic meaning 2020/21 sales were volatile, we view two-year LFL as a good indicator of underlying trends. Two-year group LFL was 8.4%, with both quarters very similar (8.7% for Q1, 8.1% for Q2).

Q2 Group LFL excluding fuel was down 3.7%, comprising a retail contribution of -4.6% and wholesale contribution of 0.9%. Despite various price pressures in commodities and freight and higher HGV costs, we again delivered lower prices and deflation for our customers. By the end of the period these industry-wide price and cost increases had become sustained, meaning deflation had transitioned to slight inflation, and we now expect these pressures to persist during the second half.

Total revenue including fuel was £9.05bn, up 3.7% year on year.

Fuel sales were up 26.9% to £1.51bn, recovering gradually as Britain opened up from lockdown.

For retail, LFL was positive in Q1 and, as expected, negative in Q2 against a very tough year-on-year comparative of 11.1%. Two-year retail LFL was 6.4%, with the eat-at-home and online grocery markets remaining larger than in 2019. We sustained strong absolute and relative growth online, with Morrisons.com and 'Morrisons on Amazon' contributing to 48.0% year-on-year growth in the channel, or 237.1% on a two-year basis.

For wholesale, the contribution to Group LFL was 1.0%, equivalent to very strong wholesale LFL of 18.1%, and 36.7% on a two-year basis, primarily due to the c.230 extra McColl's stores that we started to supply recently. In addition, 25 McColl's stores were converted to Morrisons Daily during the period plus 25 more since, taking the total now to over 80. As previously announced, we agreed several new supply arrangements, including with buying group Unitas; wholesaler Blakemore; and two other convenience forecourt retailers, Highland Fuels Ltd, based in Scotland, and Gardner Garages Ltd, in south-west England. We have also recently started supplying another forecourt retailer, Platinum Retail in the Midlands/northern England.

Operating profit before exceptionals was down 28.6% to £157m (2020/21: £220m*), and EBITDA before exceptionals was down 10.6% to £439m (2020/21: £491m*), with margin down 77bps to 4.85%.

Net finance costs before exceptionals were £52m (2020/21: £53m).

Profit before tax and exceptionals was down 37.1% to £105m (2020/21: £167m*).

Directly comparing the 2021/22 first-half profit with 2020/21 is difficult as the years were significantly impacted by COVID-19. For both years, there were three pandemic-related influences: business rates timing, direct COVID-19 costs, and lost profit in cafés, fuel and food-to-go.

We paid £93m more business rates during the first half of 2021/22 compared to the first half of 2020/21. Last year we paid the majority of our business rates in the second half, after waiving our right to £230m of relief in December 2020 and paying it in a lump sum shortly after. Without this timing impact, and so assuming a more even spread of rates payments during 2020/21, profit before tax and exceptionals would have been £74m for the first half of 2020/21 compared to £105m for 2021/22, meaning a 41.9% increase this year on last year (see Figure 1).

Direct COVID-19 costs associated with the pandemic were £41m in the first half of 2021/22 as we continued to prioritise further customer and colleague safety protection measures. These costs were higher in our first quarter between February and April when lockdown restrictions were at their most strict. Direct COVID-19 costs were £155m during the first half of 2020/21, at the start of the pandemic.

In addition, with the majority of our cafés closed until mid-May, and our fuel and food-to-go volume recovering gradually throughout the first half of 2021/22, we incurred considerable lost profit of £80m in these key areas of our business compared to a pre-COVID-19 year such as 2019/20.

As well as the direct effects of the pandemic, other features of the first half this year were the impacts of rising commodity prices and freight inflation, plus a shortage of HGV drivers across the UK. We absorbed many of these industry-wide price and cost pressures, which was an investment in margin, and helped us sustain lower prices and deflation for customers.

Exceptional items recognised outside profit before tax and exceptionals were a net charge of £18m, plus there were £5m of bid costs incurred in the period relating to the proposed takeover of Morrisons (see Figure 1).

Net impairment and provision for onerous contracts was a credit of £6m, including a £102m charge on tangible and intangible assets, and a £111m impairment write back on tangible assets.

There was a net loss on disposal and closure of £9m, comprising net property disposal profits of £4m and £13m of costs in relation to the closure of some operations such as Eat Fresh and the temporary food box offer, and consolidation of some store-pick sites. One-off restructuring costs were £16m, comprising £9m for reorganisations within logistics to increase the flexibility of the distribution network to respond to changes in the business, £4m for changes in the restructuring of store management and operations, and £3m to conclude modernising ways of working at head office. Net retirement benefit credit was £4m.

The exceptional items policy was reviewed and expanded at 31 January 2021 as disclosed on page 96 of the 2020/21 Annual Report. This change in policy resulted in a reclassification of £19m of costs as exceptional online transformation costs for the 26 weeks ended 2 August 2020, consistent with the treatment of these costs for the year ended 31 January 2021. There is no change to reported profit before tax and exceptionals or statutory profit before tax for the year ended 31 January 2021.

Basic EPS before exceptionals was down 37.0% to 3.35p (2020/21: 5.32p*).

Cash capital expenditure was £256m (2020/21: £200m).

There was a free cash inflow of £266m (2020/21: £228m outflow). For working capital, there was some improvement during the first half, although not yet a full return to pre-COVID-19 levels. The temporary impacts of investment in higher levels of stock availability during Brexit and COVID-19, and of paying small suppliers immediately have now unwound. However, as freight prices rose during the period we made the decision to invest in availability, temporarily increasing our depot stock levels. In addition, as fuel sales have improved, so too has fuel working capital, although sales are not yet fully back to pre-lockdown levels.

No interim dividend has been declared given the offers for the company from CD&R and Fortress (2020/21: 2.04p). In the event that the proposed takeover does not go ahead, the Board may review whether to declare a special dividend in lieu of an interim dividend.

Overall, group net debt fell to £3,026m from £3,169m. Excluding lease liabilities, net debt was £1,664m (2020/21 year end: £1,798m).

Two temporary stores opened in the period, in Camden and Little Clacton, and one new store is now planned in the second half, in Kirby.

Return on capital employed (ROCE) was 3.1%, down from the first half of 2020/21 (6.4%[*]) due to the lower profit year on year.

Seven priorities update

1. To be more competitive

We have continued to invest in customer favourites, our basket of around 2,000 items that we know our customers care about most. During the first half we cut the price of that basket by a further c.£45. Despite a build-up in both global commodity prices and freight inflation, we resisted these pressures and kept prices low for customers for as long as possible, with deflation again sustained during the period. Industry-wide commodity price inflation and high freight prices persist, and we now expect those pressures to continue during the second half.

We have made a good start with our plans to improve the quality, nutrition and packaging of 6,000 of our own brand food items, with c.1,200 completed in the first half. We modernised the branding of our premium ‘The Best’ range, once again improved quality, and added new lines. Customers responded very well, with sales of ‘The Best’ up 18% year on year. We also continued to innovate, with new ranges in ready meals, an updated summer range, and our own Nutmeg-branded baby food.

Our own brand products were once again very well recognised. So far this year we have won 145 awards and taste tests. These include Valentine’s best dine-in meal from Good Housekeeping and, for Easter, awards from BBC Good Food for our Free From Hot Cross Buns and The Best Free From Salted Caramel & Honeycomb Egg. Our VTaste Little Smokies were voted the best vegan sausage by Olive magazine, and our The Best Shorthorn Burgers and Morrisons Sticky Kansas Style BBQ Marinade and sauce were winners in BBC Good Food Summer Taste Tests.

** Restated due to an accounting policy change in 2020/21. See Figure 1 and Note 4 for details*

We have an opportunity to keep improving the end-to-end flow of products throughout our network, creating greater efficiencies in packaging, merchandising and transport. For example, with higher utilisation of double-decker trailers our distribution fleet is travelling fewer miles, creating both cost savings and a reduction in emissions, while also increasing the amount of back-hauling from suppliers.

2. To serve customers better

We continue to broaden our reach for customers across different formats and channels. For example, in response to sustained high customer demand, our various online offers continue to expand and grow. Against the very strong sales growth last year, total online sales were up 48.0%, or 237.1% on a two-year basis.

For Morrisons.com, we have added hundreds more made-in-store, Market Street and service counter products to our online range, improving choice for customers, and offering something different to other online retailers. We are also working to improve the efficiency of our store-based Morrisons.com service for customers, for example, consolidating store-pick stores to optimise volume throughput, and investing capital expenditure into picking capacity and dedicated delivery vans. In addition, operations for Morrisons.com are now back up to normal at Ocado's Erith customer fulfilment centre after some temporary disruption due to the recent fire.

Sales through the 'Morrisons on Amazon' home delivery channel have remained very strong even as lockdown restrictions have eased, thereby confirming both its popularity with customers and the ongoing opportunity. The same-day delivery service is available to millions of Prime members on the Amazon.co.uk website and app and has now expanded to more than 60 towns and cities covering 60% of the British population predominantly in and around major towns and cities. In the majority of those stores 'Morrisons on Amazon' accounts for more than 10% of sales. Together with our partner Amazon, we are working to open more 'Morrisons on Amazon' locations during 2021.

In addition, during the first half we started supplying all Amazon Fresh UK stores with a range of items for customers to purchase. These stores are powered by Amazon's Just Walk Out technology.

3. Local integration and serving the community

We made some further significant moves during the first half to become even more locally and nationally integrated and serve our communities better.

Morrisons Make Good Things Happen was introduced as the nation emerged from lockdown. Among the many initiatives, Seeds of Hope (inspired by Community Champion Rose Morgan at our Peckham store) distributed 2.5 million packets of free sunflower seeds to customers and communities across Britain. Stories of Hope introduced Morrisons Little Libraries at all of our stores with customers donating books for parents and children to pick up for free. We also issued 500,000 Messages of Hope cards for colleagues, customers and local school children to send our Doorstep Delivery customers and local care homes a message of support during their social isolation.

We recently launched our Growing British Brands programme, which is an initiative to encourage British entrepreneurs to approach us with distinctive and innovative British products. Successful applicants will have the chance to supply Morrisons locally or nationally, and to date 700 have registered an interest, with the first brands likely to launch in the second half.

In addition, we continue to donate to our local food banks, celebrate our diverse local communities, and source more products locally. Direct to local stores is a particular area of current growth, enabling suppliers a quick and cost effective route to Morrisons customers. Notable other local highlights during the first half were a 34% increase in local sales in our South West stores, small local breweries direct-to-store sales up 96%, and a successful Local Foodmaker event in Newtown at which local suppliers traded and showcased their range outside our store.

As at the end of the first half, we were supplying almost 1,400 local convenience stores, of which around 1,200 are McColl's. This includes the remaining c.230 of McColl's largest stores, which switched over to Morrisons supply in recent months.

A further 25 McColl's were converted to Morrisons Daily during the first half plus 25 more since, bringing the total now to over 80. Sales and overall performance are very good, with McColl's recently reporting 20%-25% sales increases on conversion, and a Morrisons Daily blueprint that offers a strong return on investment and a two- to three-year payback period. Consequently, McColl's has announced an acceleration in the rate and number of Morrisons Daily store conversions. Together we now expect to convert 350 McColl's stores to Morrisons Daily by the end of November 2022, up from the original target of 300 by end-2023. McColl's has also now identified hundreds more of its stores which it considers have the potential to be converted to the Morrisons Daily format. In addition, McColl's is trialling on-demand local home delivery from Morrisons Daily with Uber Eats.

We have also agreed new wholesale supply arrangements with three other local convenience forecourt retailers, Highland Fuels Ltd based in Scotland, Gardner Garages Ltd in south-west England, and Platinum Retail in the Midlands/northern England. In addition, we continue to expand the Morrisons Daily franchise with our existing partners, including Harvest, MPK and Rontec, who have opened a combined nine new convenience stores so far this year. Also, we have agreed several new supply and bulk delivery arrangements, including with buying group Unitas and wholesaler Blakemore.

In addition, our partnership with Deliveroo accelerated significantly during the first half, with 328 stores now offering the service, up from 183 at 2020/21 year end. Groceries can be ordered, picked at a Morrisons store, and delivered to local customers in as little as 30 minutes, with the average number of items per delivery currently running at almost 12.

Overall, wholesale LFL was up 18.1%, or 36.7% on a two-year basis, and contributed 1.0% to Group LFL.

4. To simplify and speed up the organisation

Despite the additional complexities brought by COVID-19, we have continued to simplify and speed up the business. Six stores are now trialling digital shelf edge labels, with automated updates of pricing and stock status to minimise errors and administration. Our store mobile app has been upgraded to include functionality to check code life on fresh food, manage stock records and order forecasts for counters. Our store teams are also now better connected through headsets that are hosted on an upgraded WiFi which offers full coverage in all parts of our stores and sites.

In addition, as part of our plans to consolidate our Morrisons.com store-pick operations and become more efficient, we plan to cease home delivery operations in around 50 stores from October. We will continue to maintain the same Morrisons.com service levels, including the number of customers and postcodes we deliver to, through c.150 stores as well as our fulfilment centres. All colleagues affected by these proposed changes will be given the opportunity to either apply for voluntary redundancy or move into an alternative role within Morrisons.

5. Naturally Digital

We continue to invest to improve our productivity and deliver growth as we become a more naturally digital organisation. As previously announced, we recently replaced the More Card with the My Morrisons digital loyalty scheme, which can be swiped at the till using a mobile phone and gives customers personalised offers and digital till receipts.

We have also further developed our MyMorri portal, giving colleagues a simple 'one-stop shop' where they can broaden their knowledge using new learning and development capability, communicate with stores, manage their colleague discount benefit and spend, and raise and track IT service requests.

6. Pride in hygiene

As food makers and shopkeepers, high hygiene standards and creating a safe place for our customers and colleagues to shop and work have always been high priorities. Over the last 18 months, we have been striving for even higher hygiene standards in stores, depots, manufacturing sites and offices. We have continued to invest in extra touch-point cleaning, thousands of sanitiser dispensers and screens, as well as extra colleagues. Our hygiene standards are now externally reviewed in every Morrisons shop every month.

7. Creating and scaling for profitable growth

Our 406 cafés reopened and relaunched after lockdown in May, with a significant investment in décor refresh, substantial further safety measures, and a brand new menu. As well as our traditional customer favourites, the new menu includes fresh fish and bread directly from our Market Street counters, a separate vegetarian and vegan menu, and Morrisons ‘The Best’ products. We have been running a Kids Eat Free All Day offer all summer which has been successful in encouraging families back to our cafés.

In addition, we now offer outdoor dining at over 150 cafés, and have introduced an ‘Order & Pay’ QR code for customers to order directly from their booth and have food delivered straight to their table. We also now offer a Deliveroo takeaway service in 35 cafés, which we will be expanding further in the second half of the year, and have rolled out our new barista coffee BREW into 15 cafés and four new stand-alone BREW coffee bars.

We completed one major extension at Witham, and five major Fresh Look refits. In addition, we added our new food-to-go Market Kitchen concept at Canning Town and Camden, and at two more stores shortly after half-year end, in Wood Green and Merrion Centre, Leeds. We are also currently rolling out several low energy and carbon initiatives. Alongside other refit improvements we are converting store refrigeration to lower carbon emissions, while also introducing more LED lighting and various energy efficient initiatives in heating, ventilation and voltage optimisation.

We are on track to install rapid (50 kW/hour) electric vehicle chargers in 300 stores, with c.220 achieved so far and another c.80 planned for the second half. Our network now spans both England and Wales, from Redruth in Cornwall to Amble in the north east of England, with a roll-out in Scotland also just started.

Financial strategy and update

Capital allocation framework

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

At the time of our Q1 trading statement in May we announced that we would refresh our long-term capital allocation plans, within the context of our capital allocation framework, at the time of the Interim results. That review has been superseded by the ongoing recommended offer for Morrisons by CD&R.

Shareholder returns

No interim dividend has been declared given the offers for the company from CD&R and Fortress (2020/21: 2.04p). In the event that the proposed takeover does not go ahead, the Board may review whether to declare a special dividend in lieu of an interim dividend.

Cash flow and working capital

There was a free cash inflow of £266m (2020/21: £228m outflow).

For working capital, there was some improvement during the first half, although not yet a full return to pre-COVID-19 levels. The temporary impacts of investment in higher levels of stock availability during Brexit and COVID-19 (£67m as at 2020/21 year end), and of paying small suppliers immediately during the crisis (£45m), have now unwound. However, as freight prices rose during the period we made the decision to invest in availability, thereby temporarily increasing our depot stock levels.

In addition, as fuel sales have improved, so too has fuel working capital, although sales are not yet fully back to pre-lockdown levels and our fuel payment terms mean there is a lag in the improvement of working capital. As at 2020/21 year end, the impact on working capital of the then significantly lower national demand for fuel and fuel deflation was £347m. That impact had reduced by £279m by the end of the first half, and we expect further improvement during the second half.

Overall for working capital, there was an inflow of £148m during the first half.

Capital expenditure/depreciation and amortisation

Cash capital expenditure was £256m (2020/21: £200m). We still 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 infrastructure to support the much larger online business we have developed since the start of COVID-19. In addition, we incurred onerous cash payments of £4m, and still expect c.£5m for the full year 2021/22. Depreciation and amortisation was £282m (2020/21: £271m), and we still expect full-year 2021/22 to be c.£580m.

Debt and interest

Group net debt fell to £3,026m (2020/21 year end: £3,169m). Excluding lease liabilities, net debt was down to £1,664m (2020/21 year end: £1,798m). As at half-year end, we were £780m drawn on our revolving credit facility, with still significant liquidity headroom.

Net finance costs before exceptionals were £52m (2020/21: £53m), with the full year still expected to be c.£105m.

Tax

An increase in the tax rate from 19% to 25% applicable from 1 April 2023 has resulted in an exceptional non-cash deferred tax charge in the period of £115m. We still expect the full year 2021/22 normalised tax rate to be 22.5%-23.0%.

Pension

The net pension accounting surplus on the balance sheet was £897m (£718m as at 31 January 2021). We continue to work with the pension trustees to identify opportunities to de-risk the schemes. In June 2021, the trustees completed a further £207m buy-in of part of the Safeway scheme liabilities, bringing the cumulative pensions buy-in total so far to £1,353m.

Net retirement benefit credit was £4m, reported outside profit before tax and exceptionals.

Impairment review

As customer behaviour and shopping patterns continue to be affected by the pandemic and store-pick locations continue to mature, we have again reviewed the carrying value of property, plant and equipment, right-of-use assets, investment property, and intangible assets. Net impairment and provision for onerous contracts was a credit of £6m, including a £102m charge on tangible and intangible assets, and a £111m impairment write back on tangible assets.

Net new space

We opened two temporary new stores in the first half and now expect to open one further new store in the second half. We still expect 2021/22 net new space sales contribution (ex-fuel) to be 0.2%.

People

Our dedicated team of food makers and shopkeepers continue to show commitment to serving our customers and local communities, growing the business and building our brand, despite the challenges of the past eighteen months.

We know how valuable the contribution of our key worker colleagues is, and we have clear stakeholder ambitions to create the right environment for everyone to be able to work with purpose. These include having a 'manager who helps and supports me' and, during the first half, we delivered a culture and ways of working programme to more than 200 senior leaders to further embed the pace, determination, creativity, freedom and focus on listening that has enabled our response to the pandemic.

We also continued to deliver on our ambition that all our colleagues can 'have their say and be treated with respect'. In April we ran a company-wide survey in which 71,291 colleagues took the opportunity to share their feedback, and then in May we held a digital National Your Say forum, with representatives invited from every store and site, so Executive and Non-Executive Directors could hear colleague questions and respond directly.

As part of our ambition to provide colleagues with 'the opportunity to succeed' we have continued to invest in growing and developing our talent. We reached a milestone, spending £10m of our apprenticeship levy on eligible programmes for our colleagues, and also donated a further £2m of our levy to the Yorkshire Ambulance Service. In addition during the first half, we enrolled 50 craft apprentices, taking the total number of colleagues on our butchery, bakery and fishmonger programmes to 400, with a further 150 recruited to begin in September.

We have also seen an 82% increase in applications for our early careers programmes, and have recruited 138 new colleagues for our degree apprentice and graduate programmes, taking the total currently enrolled and in our employment to 362. We are particularly pleased that 49% of all these successful candidates came through our 'Generations' campaign, and so are existing colleagues, or their family and friends. We have also run our first internship for ten BAME undergraduates this year, who worked in our Bradford head office experiencing the breadth of our business and helping deliver important projects while also gaining valuable work experience. In addition, in response to the current HGV driver shortage we have recently started a new recruitment programme for our own colleagues and their families and friends. We have identified hundreds of potential HGV drivers who we, together with our logistics partners, now plan to fast-track through Morrisons-funded training.

Sustainability

We continue to disclose performance against our sustainability strategy through a number of publications including our Sustainability Report, Farm Animal Health and Welfare Report, and Modern Slavery Report.

Extending our COVID-19 support

While restrictions have been eased in the UK, we recognise that the economic impact of COVID-19 is still being felt acutely by many of the communities we serve. We have set aside an extra £5m of food to support food banks in 2021, which our dedicated team of Community Champions are distributing at a local level. This follows the £10m we made available to help restock the nation's food banks in the early months of the pandemic in 2020, where we ran our manufacturing sites for an extra hour each day.
We also continue to recognise the exceptional contribution of those working for the NHS. The 10% discount we introduced during the peak of the pandemic has been extended to the end of 2021 and we have gone further by offering NHS workers a free Morrisons 'anytime' Delivery Pass for online shopping.

Net Zero agriculture

Land use is estimated to contribute to around 10% of the UK's carbon footprint and, as British farming's biggest direct supermarket customer, we are totally committed to playing our part. We are working towards Net Zero agriculture by 2030, covering products from the 3,000 UK farmers and growers sourced directly for our own brand products.

Our Net Zero approach covers the whole lifecycle of farm produce, from germination to leaving the farm gate for a Morrisons store. Farmers will be encouraged to reduce emissions through a range of methods, such as rearing different animal breeds and using low food-mile feedstuffs. Residual carbon emissions will be offset through a range of measures including planting trees and seeding hedgerows within the farm footprint.

We expect that the first products to come from Net Zero carbon farms will be eggs as early as 2022, followed by lamb, fruit, vegetables, pork and beef in the years to follow.

Helping our customers to eat well

We are now signatories to the Peas Please pledge, which brings together farmers, retailers, restaurant chains, caterers, processors and government departments with a common goal of making it easier for everyone to eat vegetables. Our pledges include commitments to regularly include vegetables in our communications, including advertising, and to increase the amount of vegetables in new and reformulated products. For example, half of our pre-pack sandwiches will contain at least half a portion of vegetables by the end of 2021.

We have also committed to growing our own brand plant-based products by 300% by 2025. We believe this is important, both in terms of helping our customers to eat well and, alongside our work on Net Zero farming, reducing carbon emissions associated with the food we sell.

Increasing plastic free options

As part of our commitment to reduce own brand plastic packaging by 50% by 2025, we have continued to introduce new products to help customers live their lives with less plastic.

Following a successful trial, our sustainable paper-based bags will be rolled out to all our stores over the next six months, completely replacing all plastic bags and removing approximately 3,200 tonnes of plastic a year. The new bags are manufactured at an eco-powered site in Wales, and a life-cycle analysis conducted by the University of Sheffield found they have a lower carbon footprint than the plastic equivalent they replace.

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

We have also teamed up with local dairy farmers to bring back reusable glass milk bottles. Available initially in stores across Kent and Sheffield, our pint-sized glass milk bottles are delivered direct to our stores by local dairy farms. Once returned to store by customers they are collected, carefully washed, and can be reused over and over again.

One million masks recycled in the first four weeks

While important in protecting against the spread of COVID-19, single use masks are made with plastic and can take hundreds of years to decompose. If dropped on the ground they can end up polluting our woods, beaches, rivers and seas, affecting the ecosystem and wildlife. In the first two months of the Mask Force campaign in partnership with The Sun, one million masks have been disposed of into the dedicated bins at the front of Morrisons stores and recycled into a plastic version of ply board to be used in construction and new products.

Adding more rapid vehicle chargers to our stores

We now have c.220 rapid charge points across our stores helping electric vehicle drivers to charge on the go, which have so far saved the equivalent of 2,000 tonnes of carbon. Over the next year, we will be adding an additional c.80 rapid chargers to the network. A typical 30-40 minute charge will give drivers up to 100 miles of travel range, which is up to six times quicker than some standard charging points.

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

Recognising the contribution our colleagues have made in feeding the nation, and in line with our commitment to provide ‘a fair day's pay for a fair day's work’, we became the first UK supermarket group to guarantee pay of at least £10 an hour from April 2021. The increase is applied to hourly pay, removing the uncertainty of a bonus payment and, for colleagues in London, we are also paying London weighting.

Morrisons Foundation

So far in 2021, the Morrisons Foundation, which receives all its funding from Morrisons PLC, has donated another £1m in grants to registered charities. Since launch it has donated over £33m and has supported over 2,800 charities to make a positive difference in local communities.

The Foundation continues to support charities helping people affected by COVID-19, such as the National Literacy Trust, whose research demonstrated that reading amongst children has provided a vital refuge for them during periods of lockdown and isolation. With Foundation funding, 497 schools throughout England, Scotland and Wales received a bundle of books for their pupils to discover a love of reading.

Young Lives vs Cancer

Our partnership with Young Lives vs Cancer, recently renamed from CLIC Sargent, has so far raised £16m. In its fifth and final year, the target is to raise over £17m by January 2022. All money raised in this year is funding Jack's House, a brand new Home from Home in Manchester named after Jack Thompson, a 13-year old boy diagnosed with a brain tumour when he was a baby, who himself has raised a fantastic £120,000 for the charity, much of it at Morrisons stores. Jack's House will provide free accommodation to young cancer patients and their families while receiving treatment at the nearby Christie Hospital. The home is currently under renovation and is set to open to families in January 2022.

Principal risks and uncertainties

The Board assesses and monitors the principal risks of the business on a regular basis. The principal risks for the Group and the key mitigating activities were set out in Wm Morrison Supermarkets PLC's Annual Report and Financial Statements for the 52 weeks ended 31 January 2021.

Our risks and uncertainties are summarised in the 12 Group Risks as follows:

- Business Interruption
- Competitiveness
- COVID-19
- Customer
- Environment and Sustainability
- Financial and Treasury
- Food Safety, Product Integrity and Ethical Sourcing
- Health and Safety
- Information Security
- People
- Regulation
- UK-EU Trade

The Board believes that the Group's principal risks remain appropriate and the overall net risk ratings at the half year remained broadly unchanged with appropriate mitigating actions in place to manage them.

The impact of the proposed takeover has been considered by the Board, and as there are no fundamental changes planned to the strategic direction and operational function of the business, at the interim date we do not believe there are any changes required to the identified risks.

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

The Board continues to monitor the external risk environment including the ongoing impact of COVID-19 and UK-EU Trading arrangements which could potentially impact our plans for the second half of the year. The Directors will continue to take appropriate actions, including working closely with suppliers and haulage providers to adapt and reduce disruption across our supply chains.

More information on the principal risks and the Group's approach to mitigate those risks can be found on pages 35 to 37 of the 2020/21 Annual Report and Financial Statements, which can be viewed online on our corporate website, https://www.morrisons-corporate.com/investor-centre/annual-report/.

The Board
The Board of Directors that served during the 26 weeks to 1 August 2021 and up to the date of signing the condensed consolidated interim financial statements, and their respective responsibilities, were:

Andrew Higginson – Chairman*
David Potts – Chief Executive Officer
Trevor Strain – Chief Operating Officer
Michael Gleeson – Chief Financial Officer
Rooney Anand*
Susanne Given*
Kevin Havelock*
Lyssa McGowan*
Jeremy Townsend*
Paula Vennells* (resigned on 25 April 2021)

* Non-Executive Director

Consolidated income statement

26 weeks ended 1 August 2021

		26 weeks ended 1 August 2021 (unaudited)			26 weeks ended 2 August 2020 (unaudited)			52 weeks ended 31 January 2021		
	Note	**Before exceptionals £m**	**Exceptionals (note 4) £m**	**Total £m**	*Before exceptionals £m	*Exceptionals (note 4) £m	Total £m	Before exceptionals £m	Exceptionals (note 4) £m	Total £m
Revenue	3	**9,054**	**-**	**9,054**	8,734	-	8,734	17,598	-	17,598
Cost of sales		**(8,816)**	**(11)**	**(8,827)**	(8,418)	(25)	(8,443)	(17,097)	(113)	(17,210)
Gross profit		**238**	**(11)**	**227**	316	(25)	291	501	(113)	388
Other operating income		**50**	**-**	**50**	45	-	45	92	-	92
Profit/loss on disposal and closure		**-**	**(9)**	**(9)**	-	-	-	-	2	2
Administrative expenses		**(131)**	**(8)**	**(139)**	(141)	(5)	(146)	(287)	59	(228)
Operating profit		**157**	**(28)**	**129**	220	(30)	190	306	(52)	254
Finance costs	5	**(55)**	**-**	**(55)**	(57)	-	(57)	(111)	-	(111)
Finance income	5	**3**	**5**	**8**	4	8	12	6	16	22
Profit before taxation		**105**	**(23)**	**82**	167	(22)	145	201	(36)	165
Taxation	6	**(24)**	**(112)**	**(136)**	(39)	(36)	(75)	(58)	(11)	(69)
Profit/(loss) for the period attributable to the owners of the Company		**81**	**(135)**	**(54)**	128	(58)	70	143	(47)	96
Earnings per share (pence)										
Basic	8			**(2.25)**			2.92			3.99
Diluted	8			**(2.25)**			2.91			3.95

*Restated following a change in accounting policy at 31 January 2021 (see note 4).

Consolidated statement of comprehensive income

26 weeks ended 1 August 2021

Other comprehensive income/(expense)	Note	**26 weeks ended 1 August 2021 (unaudited) £m**	26 weeks ended 2 August 2020 (unaudited) £m	52 weeks ended 31 January 2021 £m
Items that will not be reclassified to profit or loss				
Remeasurement of defined benefit schemes	14	**170**	(75)	(248)
Tax on defined benefit schemes		**(73)**	(1)	32
		97	(76)	(216)
Items that may be reclassified subsequently to profit or loss				
Cash flow hedging movement		**75**	21	41
Exchange differences on translation of foreign operations		**(1)**	2	1
Tax on cash flow hedging		**(19)**	(3)	(7)
		55	20	35
Other comprehensive income/(expense) for the period, net of tax		**152**	(56)	(181)
(Loss)/profit for the period attributable to the owners of the Company		**(54)**	70	96
Total comprehensive income/(expense) for the period attributable to the owners of the Company		**98**	14	(85)

Consolidated statement of financial position

As at 1 August 2021

	Note	**1 August 2021 (unaudited) £m**	2 August 2020 (unaudited) £m	31 January 2021 £m
Assets				
Non-current assets				
Goodwill and intangible assets	9	**316**	386	328
Property, plant and equipment	10	**7,358**	7,120	7,358
Right-of-use assets	11	**985**	960	997
Investment property	12	**58**	58	59
Retirement benefit surplus	14	**935**	909	754
Investment in joint venture		**31**	39	31
Trade and other receivables		**82**	69	70
Derivative financial assets	17	**19**	3	9
		9,784	9,544	9,606
Current assets				
Inventories		**739**	691	814
Trade and other receivables		**405**	365	336
Current tax asset		**23**	18	27
Derivative financial assets	17	**36**	6	13
Cash and cash equivalents	16	**274**	229	240
		1,477	1,309	1,430
Assets classified as held-for-sale	13	**-**	6	-
		1,477	1,315	1,430
Total assets		**11,261**	10,859	11,036
Liabilities				
Current liabilities				
Trade and other payables		**(2,950)**	(2,787)	(2,837)
Borrowings	17	**(96)**	(47)	(54)
Lease liabilities	16	**(75)**	(72)	(72)
Derivative financial liabilities	17	**(12)**	(20)	(18)
		(3,133)	(2,926)	(2,981)
Non-current liabilities				
Borrowings	17	**(1,885)**	(1,577)	(1,986)
Lease liabilities	16	**(1,287)**	(1,318)	(1,299)
Derivative financial liabilities	17	**-**	(6)	(2)
Retirement benefit deficit	14	**(38)**	(29)	(36)
Deferred tax liabilities		**(672)**	(502)	(463)
Provisions		**(42)**	(54)	(53)
		(3,924)	(3,486)	(3,839)
Total liabilities		**(7,057)**	(6,412)	(6,820)
Net assets		**4,204**	4,447	4,216
Shareholders' equity				
Share capital	18	**242**	241	241
Share premium	18	**216**	198	201
Capital redemption reserve		**39**	39	39
Merger reserve		**2,578**	2,578	2,578
Retained earnings and other reserves		**1,129**	1,391	1,157
Total equity attributable to the owners of the Company		**4,204**	4,447	4,216

Consolidated statement of cash flows

26 weeks ended 1 August 2021

	Note	**26 weeks ended 1 August 2021 (unaudited) £m**	26 weeks ended 2 August 2020 (unaudited) £m	52 weeks ended 31 January 2021 £m
Cash flows from operating activities				
Cash generated from operations	15	**534**	130	286
Interest paid		**(53)**	(64)	(116)
Taxation paid		**(8)**	(67)	(81)
Net cash inflow/(outflow) from operating activities		**473**	(1)	89
Cash flows from investing activities				
Dividends received from joint venture	21	**-**	-	8
Proceeds from the disposal of property, plant and equipment, right-of-use assets, investment property and assets classified as held-for-sale		**2**	4	27
Purchase of property, plant and equipment and investment property		**(210)**	(162)	(461)
Purchase of intangible assets		**(38)**	(38)	(77)
Acquisition of subsidiary (net of cash received)	22	**(8)**	-	(1)
Net cash outflow from investing activities		**(254)**	(196)	(504)
Cash flows from financing activities				
Purchase of company shares held in trust	18	**(3)**	-	-
Settlement of share awards	18	**(8)**	(10)	(10)
Proceeds from exercise of employee share options	18	**16**	6	9
Proceeds from settlement of derivative contracts[1]	18	**30**	-	-
New borrowings		**42**	517	934
Repayment of borrowings		**(100)**	(237)	(237)
Repayment of lease liabilities		**(39)**	(39)	(85)
Dividends paid	7	**(123)**	(116)	(261)
Net cash (outflow)/inflow from financing activities		**(185)**	121	350
Net increase/(decrease) in cash and cash equivalents		**34**	(76)	(65)
Cash and cash equivalents at start of period		**240**	305	305
Cash and cash equivalents at end of period	16	**274**	229	240

[1] Cash arising on early settlement of derivative contracts, see note 18 for details.

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

	Note	**26 weeks ended 1 August 2021 (unaudited) £m**	26 weeks ended 2 August 2020 (unaudited) £m	52 weeks ended 31 January 2021 £m
Financing activities:				
Cash inflow from increase in borrowings		**(42)**	(517)	(934)
Cash outflow from repayment of borrowings		**100**	237	237
Cash outflow from repayment of lease liabilities		**39**	39	85
Non-cash movements on lease liabilities[2]		**(30)**	(53)	(80)
Other financing non-cash movements		**1**	1	2
Net decrease/(increase) from financing activities		**68**	(293)	(690)
Other non-cash movements		**41**	25	44
Net increase/(decrease) in cash and cash equivalents		**34**	(76)	(65)
Opening net debt[1]		**(3,169)**	(2,458)	(2,458)
Closing net debt[1]	16	**(3,026)**	(2,802)	(3,169)

[1] Net debt is defined in the Glossary.

[2] Non-cash movements on lease liabilities comprise £25m (2 August 2020: £11m, 31 January 2021: £15m) in relation to new leases and £5m (2 August 2020: £42m, 31 January 2021: £65m) from the remeasurement of existing leases.

Consolidated statement of changes in equity

26 weeks ended 1 August 2021 (unaudited)	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 1 February 2021		241	201	39	2,578	(3)	1,160	4,216
Loss for the period		-	-	-	-	-	(54)	(54)
Other comprehensive income/(expense):								
Cash flow hedging movement		-	-	-	-	75	-	75
Exchange differences on translation of foreign operations		-	-	-	-	-	(1)	(1)
Remeasurement of defined benefit schemes	14	-	-	-	-	-	170	170
Tax in relation to components of other comprehensive income		-	-	-	-	(19)	(73)	(92)
Total comprehensive income for the period		-	-	-	-	56	42	98
Employee share option schemes:								
Purchase of company shares held in trust	18	-	-	-	-	-	(3)	(3)
Share-based payments		-	-	-	-	-	(2)	(2)
Settlement of share awards	18	-	-	-	-	-	(6)	(6)
Share options exercised	18	1	15	-	-	-	-	16
Tax in relation to components of equity		-	-	-	-	-	8	8
Dividends	7	-	-	-	-	-	(123)	(123)
Total transactions with owners		1	15	-	-	-	(126)	(110)
At 1 August 2021		**242**	**216**	**39**	**2,578**	**53**	**1,076**	**4,204**

26 weeks ended 2 August 2020 (unaudited)	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		-	-	-	-	-	70	70
Other comprehensive income/(expense):								
Cash flow hedging movement		-	-	-	-	21	-	21
Exchange differences on translation of foreign operations		-	-	-	-	-	2	2
Remeasurement of defined benefit schemes	14	-	-	-	-	-	(75)	(75)
Tax in relation to components of other comprehensive income		-	-	-	-	(3)	(1)	(4)
Total comprehensive income/(expense) for the period		-	-	-	-	18	(4)	14
Employee share option schemes:								
Share-based payments		-	-	-	-	-	10	10
Settlement of share awards	18	-	-	-	-	-	(9)	(9)
Share options exercised		1	6	-	-	-	-	7
Dividends	7	-	-	-	-	-	(116)	(116)
Total transactions with owners		1	6	-	-	-	(115)	(108)
At 2 August 2020		**241**	**198**	**39**	**2,578**	**(19)**	**1,410**	**4,447**

Consolidated statement of changes in equity (continued)

52 weeks ended 31 January 2021		Attributable to the owners of the Company						
		Share capital	Share premium	Capital redemption reserve	Merger reserve	Hedging reserve	Retained earnings	Total equity
	Note	£m	£m	£m	£m	£m	£m	£m
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	14	-	-	-	-	-	(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		-	-	-	-	-	20	20
Settlement of share awards	18	-	-	-	-	-	(9)	(9)
Share options exercised	18	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**

1. General information and basis of preparation

Wm Morrison Supermarkets PLC (the 'Company') is a public limited company incorporated in the United Kingdom under the Companies Act 2006 (Registration number 00358949). The Company is domiciled in the United Kingdom and its registered address is Hilmore House, Gain Lane, Bradford, BD3 7DL.

The 2021/22 condensed consolidated interim financial statements do not constitute financial statements within the meaning of Section 434 of the Companies Act 2006 and do not include all of the information and disclosures required for full annual financial statements.

The condensed consolidated interim financial statements for the 26 weeks ended 1 August 2021 are unaudited. However, the auditor, PricewaterhouseCoopers LLP, has carried out a review of the condensed consolidated interim financial statements and their report is included in this interim financial report.

The comparative financial information contained in the condensed consolidated interim financial statements in respect of the 52 weeks ended 31 January 2021 has been extracted from the 2020/21 Annual Report and Financial Statements.

The financial statements included in the 2020/21 Annual Report and Financial Statements have been reported on by PricewaterhouseCoopers LLP, and delivered to the Registrar of Companies. The report was unqualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and did not contain a statement under Section 498 of the Companies Act 2006.

The 2021/22 condensed consolidated interim financial statements were approved by the Board of Directors on 8 September 2021.

Going concern
The condensed consolidated interim financial statements have been prepared on the going concern basis as the Directors have a reasonable expectation that the Group has adequate resources for a period of at least 12 months from the date of approval, having reassessed the principal risks facing the Group and determined that there are no material uncertainties to disclose. In making their assessment of the Group's ability to continue as a going concern, the Directors have considered the projected performance of the Group and its financial resources, as well as the CD&R Offer (as defined below), which the Directors have recommended to shareholders.

The COVID-19 pandemic has continued to have an impact on customer behaviour during the 26 weeks ended 1 August 2021. All stores continued to trade throughout the period although elements of the store were restricted during periods of lockdown, with cafés closed for 15 weeks of the period and fuel sales affected by reduced demand from customers. Profit before tax and exceptionals continued to be impacted in the period by the direct costs associated with COVID-19, as expected.

The Directors' assessment of the Group's ability to continue as a going concern includes consideration of cash flow forecasts for the Group and the committed borrowing and debt facilities of the Group that were in place at 1 August 2021. These forecasts include consideration of future trading performance in line with current guidance, working capital requirements and the wider economy and include the modelling of a number of downside scenarios. The scenarios considered take account of a number of severe, but plausible, downsides the Group might experience by flexing the forecasts for a number of financial assumptions such as reductions in LFL sales and fuel volumes.

The Group continues to maintain a robust financial position providing it with sufficient access to liquidity, through a combination of cash and committed facilities, to meet its needs in the short and medium term. The Group has a centralised treasury function which manages funding, liquidity and other financial risk in accordance with the Board-approved Treasury Policy, as detailed on page 122 of the 2020/21 Annual Report and Financial Statements.

At 1 August 2021, the Group had total committed facilities of £2,850m in place comprising £1,100m of bond debt with maturity dates between December 2023 and October 2031 and £1,750m of committed revolving credit facilities ('RCFs') of which £1,350m has a maturity date of June 2025, £200m matures in September 2021, £100m in March 2022 and £100m in July 2022. At the balance sheet date, £970m of the committed RCFs remains undrawn. The Group's covenants in relation to its committed RCFs are net debt (excluding leases)/EBITDA ratio[1] which at 1 August 2021 was 2.5x, and EBITDA/net interest expense ratio[1] which was 4.6x, 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] As defined in the lending agreements

1. General information and basis of preparation (continued)

Going concern (continued)
On 19 August 2021, the Directors of Wm Morrison Supermarkets PLC announced that they had reached an agreement on the terms of a recommended cash offer to be made by Market Bidco Limited (a newly incorporated entity formed by Clayton, Dubilier & Rice, LLP in its capacity as adviser to Clayton, Dubilier & Rice, LLC as CD&R Fund XI) ('CD&R') for the entire issued and to be issued share capital of the Company (the 'CD&R Offer') to be implemented by means of a scheme of arrangement under Part 26 of the Companies Act 2006. The completion of the acquisition remains subject to the approval of Morrisons shareholders and the sanction of the High Court. The intentions of CD&R and their plans for the Group, should the acquisition complete, have been shared with the Group and published on the corporate website (www.morrisons-corporate.com/investor-centre/offer-from-cdr), along with CD&R's proposed funding structure. These published intentions, stated in accordance with the Takeover Code, confirm an alignment to the existing strategy and support of the management team and confirm that the committed funding structure comprises £3.4bn equity, £5.6bn term loans from banks with a 7-8 year maturity profile, as well as a £1bn RCF.

The Directors have considered the available information on CD&R's intentions for the Group, the funding secured and related cash flow modelling. They are satisfied that the going concern basis remains appropriate for the preparation of the condensed consolidated interim financial statements with the Group being well funded, profitable and cash generative for a period of at least 12 months from the date of approval of the interim financial report, regardless of whether the CD&R Offer completes.

Basis of preparation
The condensed consolidated interim financial statements of the Group for the 26 weeks ended 1 August 2021 have been prepared in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the UK's Financial Conduct Authority and the requirements of UK adopted IAS 34 'Interim Financial Reporting'. It should be read in conjunction with the 2020/21 Annual Report and Financial Statements which have been prepared in accordance with International Financial Reporting Standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002. This is available either on request from the Company's registered office or to download from www.morrisons-corporate.com.

In the year to 30 January 2022, the Annual Report and Financial Statements will be prepared in accordance with IFRS as adopted by the UK Endorsement Board. This change in basis of preparation is required by UK Company Law for the purposes of financial reporting as a result of the UK's exit from the EU on 31 January 2020 and the cessation of the transition period on 31 December 2020. This change does not constitute a change in accounting policy but rather a change in framework which is required to ground the use of IFRS in Company Law. There is no impact on recognition, measurement or disclosure between the two frameworks in the period reported.

The condensed consolidated interim financial statements include a prior year restatement following a change in accounting policy at 31 January 2021. The exceptional items' policy was reviewed and expanded at 31 January 2021 as disclosed on page 96 of the 2020/21 Annual Report. This change in policy has resulted in a reclassification of £19m of costs as exceptional online transformation costs for the 26 weeks ended 2 August 2020, consistent with the treatment of these costs for the year ended 31 January 2021. There is no change to reported profit before tax and exceptionals or statutory profit before tax for the year ended 31 January 2021. There is no impact on the 2 August 2020 consolidated statement of financial position, consolidated statement of cash flows or consolidated statement of changes in equity. See note 4 for more detail.

Significant and new accounting policies
The accounting policies applied in these condensed consolidated interim financial statements are the same as those applied in the Group's consolidated financial statements in the 2020/21 Annual Report and Financial Statements.

New standards, interpretations and amendments to standards that are mandatory for the Group for the first time for the 26 weeks ended 1 August 2021 were considered and it was concluded that none were relevant to the Group and it did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards.

Critical estimates and judgements
In preparing the condensed consolidated interim financial statements, the Group is required to make accounting judgements, assumptions and estimates. The judgements, assumptions and estimation methods are consistent with those applied to the 2020/21 Annual Report and Financial Statements and have therefore not been set out again here (see pages 92 – 93 of the 2020/21 Annual Report and Financial Statements).

1. General information and basis of preparation (continued)

Critical estimates and judgements (continued)
The Group has considered the impact of the proposed takeover on its critical estimates and judgements and does not consider there to be a significant impact on any of those areas (as at 1 August 2021).

Recognising the ongoing impact of COVID-19 in the 26 weeks ended 1 August 2021, the Group continues to provide more information in relation to its consideration of impairment of non-financial assets.

Impairment of non-financial assets
The Group's policy is to test non-financial assets for impairment annually, or if events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. The Group has considered whether there have been any indicators of impairment during the 26 weeks ended 1 August 2021, which would require an impairment review to be performed. The Group has considered indicators of impairment with regards to a number of factors, and based upon this, the Group has concluded that there are indicators of impairment or impairment write back during the period ended 1 August 2021. See note 10 for further details.

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 fundamentally have 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 Group's 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 has considered its retail outlets, the fuel sale operation, the manufacturing entities, its online operations and wholesale supply. The Directors' conclusion is that the Group has one operating segment, that of retailing.

3. Revenue

	26 weeks ended 1 August 2021 (unaudited) £m	26 weeks ended 2 August 2020 (unaudited) £m	52 weeks ended 31 January 2021 £m
Sale of goods in-store and online	**7,007**	7,087	14,183
Other sales	**541**	460	922
Total sales excluding fuel	**7,548**	7,547	15,105
Fuel	**1,506**	1,187	2,493
Total revenue	**9,054**	8,734	17,598

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 credit. 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 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 the net retirement benefit credit; and to apply a normalised tax rate of 22.9% (2 August 2020: 23.5%, 31 January 2021: 28.7%).

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

Given the significance of the Group's property portfolio and the quantum of impairment and property-related provisions recognised in the consolidated statement of financial position, movements in impairment and other onerous and property related provisions would typically be included as exceptional items, as would significant impairments or impairment write backs of other non-current assets.

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

	26 weeks ended 1 August 2021 (unaudited) £m	26 weeks ended 2 August 2020 (unaudited) as restated* £m	52 weeks ended 31 January 2021 £m
(Loss)/profit after tax	**(54)**	70	96
Add back: tax charge for the period[1]	**136**	75	69
Profit before tax	**82**	145	165
Adjustments for:			
Net impairment and provision for onerous contracts[1]	**(6)**	(4)	(83)
Online and home delivery expansion transformation costs[1]	**-**	19	66
Profit/loss arising on disposal and closure[1]	**9**	-	(2)
Restructuring costs[1]	**16**	15	56
Other exceptional items[1]	**3**	-	15
Net retirement benefit credit[1]	**(4)**	(8)	(16)
Proposed takeover costs[1]	**5**	-	-
Profit before tax and exceptionals	**105**	167	201
Normalised tax charge at 22.9% (2 August 2020: 23.5%, 31 January 2021: 28.7%)[1,2]	**(24)**	(39)	(58)
Profit before exceptionals after tax	**81**	128	143
Earnings per share before exceptionals (pence)			
Basic (note 8)	**3.35**	5.32	5.95
Diluted (note 8)	**3.35**	5.30	5.89

[1] Adjustments marked 1 increase post-tax adjusted earnings by £135m (2 August 2020: £58m increase, 31 January 2021: £47m increase) as shown in the reconciliation of earnings disclosed in note 8.
[2] Normalised tax is defined in the Glossary.
* Following a change in accounting policy as at 31 January 2021, £19m of costs has been restated as an exceptional online transformation cost for the 26 weeks ended 2 August 2020. The normalised tax charge at 2 August 2020 has also been restated. There is no change to reported profit before tax and exceptionals or statutory profit before tax for the year ended 31 January 2021.

Net impairment and provision for onerous contracts

A net credit of £6m (2 August 2020: credit of £4m, 31 January 2021: credit of £83m) has been recognised for impairment and provision for onerous contracts. This net credit includes:

- a net £9m impairment write back, comprising a £10m impairment charge on intangible assets and a £92m impairment charge on tangible assets offset by a £111m write back of impairment on tangible assets (net £19m tangible asset write back); and
- a £3m charge relating to temporary store build costs associated with one site.

The £92m impairment charge on tangible assets includes £58m in relation to property, plant and equipment, £34m in relation to right-of-use assets and £nil in relation to investment property (see notes 10, 11 and 12 respectively).

4. Profit before exceptionals (continued)

Net impairment and provision for onerous contracts (continued)
The £111m impairment write back includes £85m in relation to property, plant and equipment, £26m in relation to right-of-use assets, and £nil in relation to investment property (see notes 10,11 and 12 respectively).

In the 26 weeks ended 2 August 2020, the net credit of £4m included an impairment charge of £8m against specific tangible assets offset by a £12m release from provisions for onerous contracts and amounts provided for onerous commitments.

In the 52 weeks ended 31 January 2021, the net credit of £83m included:

- a net £74m impairment credit, comprising a £67m impairment charge on intangible assets and a net £141m tangible asset write back (comprising a £58m impairment charge offset by a £199m write back); and
- a net £9m credit recognised in relation to provisions for onerous contracts.

The £76m impairment write back shown separately in 'impairment write back – store pick' at 31 January 2021 has been presented alongside other impairments within 'net impairment and provision for onerous contracts' at 1 August 2021. In the 26 weeks ended 1 August 2021, £23m of the impairment write back relates to store pick operations reaching maturity.

Online and home transformation costs
There were no transformation costs incurred in the 26 weeks to 1 August 2021 (2 August 2020: £19m, 31 January 2021: £66m). In the 52 weeks ended 31 January 2021, the costs of the rapid roll out of online and home delivery amounted to £66m which comprised £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. The exceptional items' policy was reviewed and expanded at 31 January 2021 as disclosed on page 96 of the 2020/21 Annual Report. This change in policy has resulted in a reclassification of £19m of costs as exceptional online transformation costs for the 26 weeks ended 2 August 2020, consistent with the treatment of these costs for the year ended 31 January 2021.

Profit/loss arising on disposal and closure
A net loss arising on disposal and closure of £9m has been recognised (2 August 2020: £nil, 31 January 2021: £2m profit) in relation to property disposals (net profit of £4m) and business closure (costs of £13m). The amount includes a £13m charge in relation to the closure of some operations such as Eat Fresh and the temporary food box offering, and consolidation of certain store pick sites.

Restructuring
Restructuring costs total £16m (1 August 2020: £15m, 31 January 2021: £56m). This amount includes a £3m charge relating to the conclusion of organising and modernising the ways of working across head office (2 August 2020: £9m, 31 January 2021: £17m); a £9m charge from reorganisations within logistics to increase the flexibility of the distribution network to respond to changes in the business (2 August 2020: £nil, 31 January 2021: £16m); and a £4m charge for changes in the restructuring of store management and operations (2 August 2020: £6m, 31 January 2021: £21m).

Other exceptional items
Other exceptional items recognised in the 26 weeks ended 1 August 2021 of £3m (2 August 2020: £nil, 31 January 2021: £15m) comprises fees relating to legal cases in respect of historical events (2 August 2020: £nil, 31 January 2021: £4m).

In the 52 weeks ended 31 January 2021 other exceptional items included a £9m charge relating to additional bonuses paid to colleagues during the year who would not ordinarily have been eligible for the bonus scheme and a £2m (2 August 2020: £nil) charge relating to the increased mark down of excess stock and one-off costs relating to Brexit.

Proposed takeover costs
Costs of £5m (2 August 2020: £nil, 31 January 2021: £nil) represent fees incurred in the period relating to the proposed takeover of the Group.

Taxation
A normalised tax charge of 22.9% (2 August 2020: 23.5%, 31 January 2021: 28.7%) has been applied in arriving at profit before exceptionals after tax. The total tax charge for the 26 week period ended 1 August 2021 of £136m includes £112m in relation to exceptional tax, comprising a £115m charge due to the change in the standard rate of corporation tax in respect of deferred tax (see note 6) and a £3m credit relating to other exceptional items.

5. Finance costs and income

	26 weeks ended 1 August 2021 (unaudited) £m	26 weeks ended 2 August 2020 (unaudited) £m	52 weeks ended 31 January 2021 £m
Interest payable on short-term loans and bank overdrafts	**(5)**	(2)	(5)
Interest payable on bonds	**(21)**	(24)	(45)
Interest on lease liabilities	**(29)**	(30)	(60)
Interest capitalised (notes 9 and 10)	**1**	1	2
Total interest payable	**(54)**	(55)	(108)
Provisions: unwinding of discount	**(1)**	(1)	(1)
Other finance costs	**-**	(1)	(2)
Finance costs before exceptionals[1]	**(55)**	(57)	(111)
Finance costs	**(55)**	(57)	(111)
Bank interest and other finance income	**2**	2	3
Other receivables: unwinding of discount	**1**	2	3
Finance income before exceptionals[1]	**3**	4	6
Net retirement benefit interest (note 14)[2]	**5**	8	16
Finance income	**8**	12	22
Net finance costs	**(47)**	(45)	(89)

[1] Net finance costs before exceptionals marked [1] amount to £52m (2 August 2020: £53m, 31 January 2021: £105m). Net finance costs before exceptionals are defined in the Glossary.
[2] Included within the £4m net retirement benefit credit exceptional (note 4).

6. Taxation

Tax charged within the 26 weeks ended 1 August 2021 has been calculated by applying the effective rate of tax which is expected to apply to the Group for the 52 weeks ending 30 January 2022 using rates substantively enacted at 1 August 2021 as required by IAS 34 'Interim Financial Reporting'.

The normalised rate of tax of 22.9% (2 August 2020: 23.5%, 31 January 2021: 28.7%) has been calculated using the full year projections, excluding the impact of any changes that may arise due to the proposed takeover, and has been applied to profit before exceptionals for the 26 weeks ended 1 August 2021. The standard rate of corporation tax of 19% (2 August 2020: 19%, 31 January 2021: 19%) for the full year has been applied to the exceptional profits and losses in the 26 weeks ended 1 August 2021, on an item by item basis.

The March 2021 Budget announced an increase in the UK standard rate of corporation tax to 25% from 1 April 2023. The legislation was substantively enacted during the period so deferred tax balances for the 26 weeks ended 1 August 2021 have been calculated at 25% or 19% depending upon when the temporary difference is expected to reverse. The deferred tax liability recognised in the consolidated statement of financial position increased by £146m as a result of the rate change, comprising a £115m deferred tax charge recognised within exceptional items in the consolidated income statement for the period and a £31m deferred tax charge recognised within the £73m tax on defined benefit schemes charge in other comprehensive income.

Previous legislation to reduce the standard rate of corporation tax to 17% from 1 April 2020 was enacted in the 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 prior year so at 31 January 2021 and 2 August 2020 all deferred tax balances were calculated at 19%.

Factors affecting current and future tax charges
The normalised tax rate was 3.9% above the UK statutory tax rate of 19%. The main item increasing the normalised tax rate is disallowed depreciation on UK properties which reflects the Group's strategy to maintain a majority freehold estate. The Group considers its normalised tax rate to be sustainable.

7. Dividends

	26 weeks ended 1 August 2021 (unaudited) £m	26 weeks ended 2 August 2020 (unaudited) £m	52 weeks ended 31 January 2021 £m
Amounts recognised as distributed to equity holders in the period:			
Final dividend for the period ended 2 February 2020 of 4.84p	**-**	116	116
Interim dividend for the period ended 31 January 2021 of 2.04p	**-**	-	49
Special interim dividend for the period ended 31 January 2021 of 4.00p	**-**	-	96
Final dividend for the period ended 31 January 2021 of 5.11p	**123**	-	-
	123	116	261

The dividends paid during the period are from the cumulative realised distributable reserves of Wm Morrison Supermarkets PLC.

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 company 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 (2 August 2020: two, 31 January 2021: 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').

	26 weeks ended 1 August 2021 (unaudited)		26 weeks ended 2 August 2020 (unaudited)		52 weeks ended 31 January 2021	
	Basic Pence	**Diluted[2] Pence**	Basic Pence	Diluted Pence	Basic Pence	Diluted Pence
EPS	**(2.25)**	**(2.25)**	2.92	2.91	3.99	3.95
EPS before exceptionals[1]	**3.35**	**3.35**	5.32*	5.30*	5.95	5.89
	Basic £m	**Diluted £m**	Basic £m	Diluted £m	Basic £m	Diluted £m
Basic earnings						
Earnings attributable to ordinary shareholders	**(54.1)**	**(54.1)**	69.9	69.9	95.8	95.8
Earnings before exceptionals						
Earnings attributable to ordinary shareholders	**(54.1)**	**(54.1)**	69.9	69.9	95.8	95.8
Adjustments to determine profit before exceptionals (note 4)	**134.7**	**134.7**	57.6*	57.6*	47.0	47.0
Earnings before exceptionals attributable to ordinary shareholders	**80.6**	**80.6**	127.5*	127.5*	142.8	142.8
	Basic Millions	**Diluted Millions**	Basic Millions	Diluted Millions	Basic Millions	Diluted Millions
Weighted average number of shares						
Ordinary shares in issue/diluted ordinary shares	**2,403.2**	**2,403.2**	2,395.4	2,403.8	2,398.1	2,423.3

[1] Basic earnings per share before exceptionals and diluted earnings per share before exceptionals are defined in the Glossary.
[2] The effect of dilutive instruments would improve basic EPS as total earnings is a loss of £54m. Diluted EPS cannot exceed basic EPS, therefore the diluted EPS disclosed above has been adjusted so that it equals basic EPS.
* Restated following a change in accounting policy (see note 4).

9. Goodwill and intangible assets

Net book value	**1 August 2021 (unaudited) £m**	2 August 2020 (unaudited) £m	31 January 2021 £m
At start of the period	**328**	381	381
Additions	**35**	43	84
Interest capitalised	**1**	1	1
Amortisation charge	**(38)**	(39)	(71)
Impairment charge	**(10)**	-	(67)
At end of the period	**316**	386	328

The net book value of goodwill and intangible assets principally consists of software development costs and licences of £306m (2 August 2020: £376m, 31 January 2021: £318m). Within this asset class, there are assets under construction of £14m (2 August 2020: £46m, 31 January 2021: £14m).

An impairment charge of £10m of software development costs (2 August 2020: £nil, 31 January 2021: £67m) was recognised in the period. The cost of internal labour capitalised is £9m (2 August 2020: £9m, 31 January 2021: £22m).

10. Property, plant and equipment

Net book value	**1 August 2021 (unaudited) £m**	2 August 2020 (unaudited) £m	31 January 2021 £m
At start of the period	**7,358**	7,147	7,147
Acquisition of subsidiary	**7**	-	-
Additions	**177**	189	516
Interest capitalised	**-**	-	1
Disposals	**(2)**	(3)	(3)
Transfers to assets classified as held-for-sale	**-**	(6)	-
Depreciation charge	**(209)**	(199)	(405)
Impairment charge	**(58)**	(8)	(42)
Impairment write back	**85**	-	144
At end of the period	**7,358**	7,120	7,358

At each reporting date, in line with IAS 36 'Impairment of non-financial assets,' the Group reviews the carrying amount of its property, plant and equipment, right-of-use assets, investment property and intangible assets to determine whether there is an indication that those assets have suffered an impairment loss or write back. In addition, it is Group policy to consider specific indicators of impairment for certain assets on an ongoing basis. If such an indication exists, an impairment exercise is undertaken to assess the recoverable amount of the assets, being the higher of its fair value less costs to dispose and its value-in-use, in order to determine the extent of any impairment loss or write back.

Customer behaviour and shopping patterns continue to be affected by the pandemic and the store pick locations continue to mature. The Group's weighted-average cost of capital ('WACC') continues to reduce, partly influenced by the increase in debt during the pandemic following the reduction in fuel sales and associated costs. These factors have been considered by management and deemed to be an indicator of impairment, and as such a full impairment review of the store portfolio and other centrally held assets has been undertaken during the period ended 1 August 2021.

The methodology used in determining the impairment charge/write back is disclosed in the 2020/21 Annual Report and Financial Statements, and this has been applied consistently at the half year. The assumptions used have also been applied on a consistent basis. Cash flows have been discounted using a pre-tax discount rate of 7.5% (2 August 2020: 9.0%, 31 January 2021: 9.0%). The Group has estimated the discount rates using pre-tax rates that reflect the market assessment of the time value of money and the risks specific to the cash-generating-units. The Group takes into account a number of factors when assessing the discount rate, including the Group's WACC and other wider market factors. A combination of these factors has resulted in the decrease in the discount rate used at 1 August 2021.

10. Property, plant and equipment (continued)

At 1 August 2021, the assumptions to which the value-in-use calculation is most sensitive are the discount and cash flow growth rates. The Group has estimated that a reasonably possible change of a +1% discount rate or a -1% growth rate would result in a c.£35m loss and a -1% discount rate or a +1% growth rate would result in a c.£40m gain.

11. Right-of-use assets

Net book value	**1 August 2021 (unaudited) £m**	2 August 2020 (unaudited) £m	31 January 2021 £m
At start of the period	**997**	942	942
Additions	**30**	51	78
Disposals	**-**	(1)	(1)
Depreciation charge	**(34)**	(32)	(63)
Impairment charge	**(34)**	-	(13)
Impairment write back	**26**	-	54
At end of the period	**985**	960	997

Included within the table above is land and buildings with a net book value of £934m (2 August 2020: £916m, 31 January 2021: £964m) and plant and equipment with a net book value of £51m (2 August 2020: £44m, 31 January 2021: £33m).

A net impairment charge of £8m (2 August 2020: £nil, 31 January 2021: £41m write back) was recognised in the period. See note 10 for further details.

At 1 August 2021, the assumptions to which the value-in-use calculation is most sensitive are the discount and cash flow growth rates. The Group has estimated that a reasonably possible change of a +1% discount rate or a -1% growth rate would result in a c.£10m loss and a -1% discount rate or a +1% growth rate would result in a c.£10m gain.

12. Investment property

Net book value	**1 August 2021 (unaudited) £m**	2 August 2020 (unaudited) £m	31 January 2021 £m
At start of the period	**59**	58	58
Additions	**-**	1	6
Disposals	**-**	-	(1)
Depreciation charge	**(1)**	(1)	(2)
Impairment charge	**-**	-	(3)
Impairment write back	**-**	-	1
At end of the period	**58**	58	59

Included within the table above are right-of-use leasehold land and buildings with a net book value of £36m (2 August 2020: £35m, 31 January 2021: £37m).

13. Assets classified as held-for-sale

Net book value	**1 August 2021 (unaudited) £m**	2 August 2020 (unaudited) £m	31 January 2021 £m
At start of the period	**-**	**3**	3
Transfer from property, plant and equipment	**-**	**6**	-
Disposals	**-**	**(3)**	(3)
At end of the period	**-**	**6**	-

14. Retirement benefits

The Group operates a number of defined benefit retirement schemes (together ‘the Schemes’) providing benefits based on a 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 disclosures below show the details of the Schemes combined:

	1 August 2021 (unaudited) £m	2 August 2020 (unaudited) £m	31 January 2021 £m
CARE Schemes	**935**	909	754
RSP	**(38)**	(29)	(36)
Net retirement benefit surplus	**897**	880	718

The movement in the net retirement benefit surplus during the period was as follows:

	26 weeks ended 1 August 2021 (unaudited) £m	26 weeks ended 2 August 2020 (unaudited) £m	52 weeks ended 31 January 2021 £m
Net retirement benefit surplus at start of the period	**718**	944	944
Net retirement benefit interest income	**5**	8	16
Settlement and curtailment gain	**1**	3	3
Remeasurement in other comprehensive income[1]	**170**	(75)	(247)
Employer contributions	**4**	1	7
Administrative expenses	**(1)**	(1)	(3)
Net retirement benefit surplus at end of the period	**897**	880	718

[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.

The movement in the net retirement benefit surplus has increased by £179m since the 31 January 2021, driven in the main by scheme asset performance offset by changes in financial and demographic assumptions.

At 1 August 2021, schemes in surplus have been disclosed within assets in the consolidated statement of financial position. The Group has previously obtained legal advice with regards 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 the continuing recognition of a surplus is appropriate on the basis that the Group has an unconditional right to a refund of a surplus. The International Accounting Standards Board (‘IASB’) have been considering amendments of the current version of IFRIC 14, however the IASB has decided not to finalise these amendments and is considering whether to develop new proposals. The legal advice received by the Group has concluded that the above accounting treatment should not have been materially affected by the previous proposed amendments to IFRIC 14.

Annuity policies
During the 26 weeks ended 1 August 2021, the Safeway CARE Scheme entered into a new buy-in policy that provides insurance for a proportion of the pensioner population. This policy is in addition to the three buy-in policies previously entered into. The policies pay income to the Schemes that is exactly equal to the benefits paid to the insured populations. This has removed all investment, interest rate, inflation and longevity risks in respect of these members. The value of the annuity is determined using the disclosed assumptions used for valuing the benefits of the Scheme and is equal to the accounting liabilities of the insured pensioner population.

Scottish Limited Partnership
The Group has previously entered into a pension funding partnership structure with the CARE Schemes whereby the partnership structure holds properties which are leased back to the Group in return for rental income payments. The Group retains control over these properties, including the flexibility to substitute alternative properties. The CARE Schemes were entitled to receive fixed distributions of £7m per annum until 2033 subject to certain conditions.

14. Retirement benefits (continued)

Scottish Limited Partnership (continued)
During the 26 weeks ended 2 August 2020, the Group and the Schemes' Trustees agreed to reorganise the limited partnership structure, so that future distributions would be made to the RSP. The pension funding partnership structure was amended to permanently cease fixed distributions to the CARE schemes. On the same day, Wm Morrison Supermarkets PLC and the RSP, entered into a new pension funding partnership. As a partner, the RSP is entitled to receive a fixed distribution of £7m per annum from the profits of the partnership for 13 years from 2020, subject to certain conditions. The fixed distribution is comparable to the distributions that would have been made under the previous partnership structure.

The fixed distributions made to the RSP are reflected in the Group's financial statements as employer retirement benefit contributions. £3m of distributions were made in the 26 weeks ended 1 August 2021 (2 August 2020: £nil, 31 January 2021: £3m). The RSP's interest in the partnership structure reduces the scheme's deficit on a funding basis, although the agreement does not affect the position directly on an IAS 19 accounting basis, because the investment held by the RSP does not qualify as a scheme asset for IAS 19 purposes.

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

	1 August 2021 (unaudited)	2 August 2020 (unaudited)	31 January 2021
Financial assumptions			
Discount rate applied to scheme liability (% p.a.):			
Safeway CARE Scheme	**1.5%**	1.4%	1.5%
Morrison CARE Scheme	**1.6%**	1.4%	1.5%
RSP	**1.5%**	1.4%	1.5%
Inflation assumption (RPI) (% p.a.):			
Safeway CARE Scheme	**3.4%**	2.9%	3.0%
Morrison CARE Scheme	**3.3%**	2.9%	3.0%
RSP	**3.3%**	2.9%	3.0%
Life expectancies			
Longevity in years from age 65 for current pensioners:			
Male	**21.1**	20.9	21.1
Female	**22.5**	22.3	22.5
Longevity in years from age 65 for current members aged 45:			
Male	**22.8**	22.6	22.8
Female	**24.4**	24.2	24.4

Assumptions regarding future mortality experience are set based on actuarial advice and in accordance with published statistics. The mortality tables used for the 26 weeks ended 1 August 2021 and the 52 weeks ended 31 January 2021 were 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. The mortality tables used for the 26 weeks ended 2 August 2020 were the S2PMA/S2PFA-Heavy mortality tables (males/females) based on year of birth with a scaling factor of 110%/100% applied to the mortality rates in the Morrison/Safeway Schemes respectively, with CMI 2018 core projections and a long-term rate of improvement of 1.5% p.a.

15. Cash generated from operations

	1 August 2021 (unaudited) £m	2 August 2020 (unaudited) £m	31 January 2021 £m
(Loss)/profit for the period	**(54)**	70	96
Net finance costs (note 5)	**47**	45	89
Taxation charge (note 6)	**136**	75	69
Operating profit	**129**	190	254
Adjustments for:			
Depreciation and amortisation	**282**	271	541
Impairment	**102**	8	125
Impairment write back	**(111)**	-	(199)
Profit/loss arising on disposal and exit of properties	**(6)**	-	(2)
Defined benefit scheme contributions paid less operating expenses	**(8)**	(3)	(6)
Share-based payments (credit)/charge	**(2)**	10	20
Decrease/(increase) in inventories[1]	**75**	(31)	(154)
Increase in trade and other receivables[1]	**(74)**	(11)	(3)
Increase/(decrease) in trade and other payables[1]	**158**	(282)	(267)
Decrease in provisions[1]	**(11)**	(22)	(23)
Cash generated from operations	**534**	130	286

Total working capital inflow (the sum of items marked [1] above) is £148m in the period (2 August 2020: £346m outflow, 31 January 2021: £447m outflow). This includes £6m of non-cash exceptional charges (2 August 2020: £6m, 31 January 2021: £7m), net of £4m of onerous payments (2 August 2020: £7m, 31 January 2021: £22m), £nil releases in respect of onerous contracts and accruals of onerous commitments (2 August 2020: £12m, 31 January 2021: £nil) and £2m exceptional and other non-operating payments (2 August 2020: £49m, 31 January 2021: £42m). When adjusted to exclude these items, the operating working capital inflow is £148m (2 August 2020: £284m outflow, 31 January 2021: £390m outflow).

16. Analysis of net debt[1]

	1 August 2021 (unaudited) £m	2 August 2020 (unaudited) £m	31 January 2021 £m
Fuel and energy price contracts	**19**	3	9
Non-current financial assets	**19**	3	9
Foreign exchange forward contracts	**-**	6	1
Fuel and energy price contracts	**36**	-	12
Current financial assets	**36**	6	13
Other short-term borrowings[2]	**(96)**	(47)	(54)
Lease liabilities[2]	**(75)**	(72)	(72)
Foreign exchange forward contracts	**(12)**	(8)	(17)
Fuel and energy price contracts	**-**	(12)	(1)
Current financial liabilities	**(183)**	(139)	(144)
Bonds[2]	**(1,105)**	(1,110)	(1,109)
Revolving credit facility[2]	**(780)**	(467)	(877)
Lease liabilities[2]	**(1,287)**	(1,318)	(1,299)
Forward foreign exchange contracts	**-**	(1)	(1)
Fuel and energy price contracts	**-**	(5)	(1)
Non-current financial liabilities	**(3,172)**	(2,901)	(3,287)
Cash and cash equivalents	**274**	229	240
Net debt[1]	**(3,026)**	(2,802)	(3,169)

[1] Net debt is defined in the Glossary.

Total net liabilities from financing activities (the sum of the items marked [2] in the table) is £3,343m in the 26 weeks ended 1 August 2021 (2 August 2020: £3,014m, 31 January 2021: £3,411m).

16. Analysis of net debt (continued)

Available facilities
At 1 August 2021, the Group has total committed facilities of £2,850m, comprising bond debt of £1,100m (maturing between 2023 and 2031) and £1,750m of committed bank facilities. Of these, the Group has £970m (2 August 2020: £1,280m, 31 January 2021: £870m) of undrawn facilities available.

The Group's £1,350m syndicated revolving credit facilities ('RCF') matures in June 2025. Additionally, during the period ended 1 August 2021, the Group extended its four existing bilateral RCF facilities as follows:

- Two £100m RCFs mature in September 2021
- One £100m RCF matures in March 2022
- One £100m RCF matures in July 2022

All committed bank facilities have the same financial covenants. In the event of default of covenants, the principal amounts of borrowings and any interest accrued become repayable on demand.

The Group also has a number of uncommitted facilities which are available to meet short-term borrowing requirements, and incur interest charges according to usage. As at 1 August 2021 the Group had £96m of borrowings on uncommitted facilities (2 August 2020: £47m, 31 January 2021: £54m).

Wm Morrison Supermarkets PLC's senior unsecured debt obligations continue to be rated Baa2 with Moody's. Moody's reaffirmed its rating in May 2021, following the release of the results for the period ended 31 January 2021 and considering the ongoing impact of COVID-19. However, in July, Moody's placed the rating on review for possible downgrade due to the proposed takeover of the Group.

The Group policy is to maintain an appropriate maturity profile across its borrowings and a sufficient level of committed headroom to meet obligations. The Group finances its operations using a diversified range of funding providers including banks and bondholders.

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

Supply chain financing
The Group offers suppliers the option to access supply chain financing through certain third party providers. These facilities allow suppliers to receive payments earlier than the contractual payment terms. The policy applied and the assessment performed by the Group is consistent with that disclosed on pages 114 and 122 of the 2020/21 Annual Report and Financial Statements.

The total size of the facility at 1 August 2021 was £1,078m (2 August 2020: £1,078m, 31 January 2021: £1,078m) across a number of banks and platforms. The level of utilisation is dependent on the individual supplier requirements and varies significantly over time, dependent on suppliers' requirements. Trade payables include £643m (2 August 2020: £466m, 31 January 2021: £522m) where suppliers have chosen to receive early payment under the Group's supply chain finance facilities.

17. Financial instruments

	1 August 2021 (unaudited) Carrying amount £m	Fair value £m	2 August 2020 (unaudited) Carrying amount £m	Fair value £m	31 January 2021 Carrying amount £m	Fair value £m
Other receivables – deferred consideration	**35**	**35**	34	34	35	35
Derivative financial assets	**19**	**19**	3	3	9	9
Total non-current financial assets	**54**	**54**	37	37	44	44
Other receivables – deferred consideration	**-**	**-**	20	20	-	-
Derivative financial assets	**36**	**36**	6	6	13	13
Total current financial assets	**36**	**36**	26	26	13	13
Borrowings	**(96)**	**(96)**	(47)	(47)	(54)	(54)
Derivative financial liabilities	**(12)**	**(12)**	(20)	(20)	(18)	(18)
Total current financial liabilities	**(108)**	**(108)**	(67)	(67)	(72)	(72)
Borrowings	**(1,885)**	**(1,916)**	(1,577)	(1,726)	(1,986)	(2,145)
Derivative financial liabilities	**-**	**-**	(6)	(6)	(2)	(2)
Total non-current financial liabilities	**(1,885)**	**(1,916)**	(1,583)	(1,732)	(1,988)	(2,147)

The fair value of bonds are measured using closing market prices (level 1) (2 August 2020 and 31 January 2021: level 1). The fair value of all derivative financial instruments is calculated by using benchmark observable market interest rates and discounted future cash flows (level 2) (2 August 2020 and 31 January 2021: level 2).

Trade receivables and trade payables are held at carrying amount which is judged to be a reasonable approximation of their fair value.

18. Share capital and share premium

	Number of shares millions	Share capital £m	Share premium £m	**Total £m**
At 3 August 2020 (unaudited)	2,408	241	198	**439**
Share options exercised	2	-	3	**3**
At 1 February 2021	2,410	241	201	**442**
Share options exercised[1]	8	1	15	**16**
At 1 August 2021 (unaudited)	**2,418**	**242**	**216**	**458**

[1] The 8m movement in number of share options exercised has been rounded down to ensure that the total number of shares are correctly stated.

Trust shares

Included in retained earnings is a deduction of £13m (2 August 2020: £19m, 31 January 2021: £19m) in respect of own shares held at the reporting date. This represents the cost of 6,335,027 (2 August 2020: 8,720,882, 31 January 2021: 8,720,882) of the Group's ordinary shares with a nominal value of £0.6m (2 August 2020: £0.9m, 31 January 2021: £0.9m). 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 1 August 2021 was £17m (2 August 2020: £16m, 31 January 2021: £16m). 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 1,455,420 (2 August 2020: none, 31 January 2021: none) of its own shares to hold in trust for consideration of £3m (2 August 2020: £nil, 31 January 2021: £nil), and utilised 3,841,275 (2 August 2020: 5,494,159, 31 January 2021: 5,494,159) trust shares at £9m (2 August 2020: £11m, 31 January 2021: £11m) to satisfy awards under the Group's employee share plans.

18. Share capital and share premium (continued)

Proceeds from exercise of share awards
During the period the Group issued 8,641,831 (2 August 2020: 3,218,515, 31 January 2021: 4,751,802) new shares to satisfy options exercised by employees during the period in respect of the Group's Sharesave schemes. Proceeds received on exercise of these shares amounted to £16m (2 August 2020: £7m, 31 January 2021: £10m) and these have been recognised as an addition to share capital and share premium in the period.

Settlement of share awards
In the 26 weeks ended 1 August 2021, the Group has settled 3,841,275 (2 August 2020: 5,494,159, 31 January 2021: 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 £6m (2 August 2020: £9m, 31 January 2021: £9m) charge to retained earnings in relation to the settlement of share awards, comprising £8m (2 August 2020: £10m, 31 January 2021: £10m) 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 share options, and £2m settlement credit (2 August 2020: £1m, 31 January 2021: £1m).

Hedging reserve
In the 26 weeks ended 1 August 2021, various energy forward contracts previously taken out were closed early, realising cash earlier than expected. This gain has been recognised through the hedging reserve and will be released to the income statement based on the initial maturity dates of the contacts, on the basis that new replacement forward contracts have been reopened and therefore hedge accounting is still applied. At 1 August 2021 a total of £30m of this reserve related to these contracts.

19. Commercial income

The types of commercial income recognised by the Group, and the recognition policies are:

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

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

	26 weeks ended 1 August 2021 (unaudited) £m	26 weeks ended 2 August 2020 (unaudited) £m	52 weeks ended 31 January 2021 £m
Marketing and advertising funding	**49**	31	88
Volume-based rebates	**72**	71	152
Total commercial income	**121**	102	240

19. Commercial income (continued)

The following table summarises the uncollected commercial income at the balance sheet date at the end of each period:

	1 August 2021 (unaudited) £m	2 August 2020 (unaudited) £m	31 January 2021 £m
Commercial income trade debtors	**5**	5	6
Accrued commercial income	**64**	49	47
Commercial income due, offset against amounts owed	**16**	10	32
	85	64	85

At 5 September 2021, £4m of the £5m commercial income trade debtors balance had been settled and £21m of the £64m accrued commercial income balance had been invoiced and settled. In addition, £16m of the £16m commercial income due had been offset against payments made.

At 5 September 2021, £85m of the £85m of commercial income held on the balance sheet at 31 January 2021 had been settled.

20. Guarantees, contingent liabilities and contingent assets

Guarantees
Following the disposal of the land and building of its customer fulfilment centre at Dordon to a third party in June 2017, the Group continues to guarantee the lease in respect of the site until 2038. If the lessee were to default during the period of guarantee, their lease obligations could revert back to the Group under the terms and become a liability of the Group. Should the lessee default, the additional future commitment is estimated at £30m (2 August 2020: £29m, 31 January 2021: £29m).

Equal Pay Claim
The Group has received claims from both current and former store colleagues alleging that their work is of equal value to certain colleagues working within logistics and that differences relating to pay are not justifiable. The claims are looking for equivalent pay terms and settlement for any historical differential in such pay terms. The Group does not accept these claims and is fully defending them within the court process.

Data Theft Claim
The Group 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 brought an end to the matter, other than for the recovery of legal costs from the claimants. Since 31 January 2021, the Group has received full and final settlement of outstanding legal costs following the Supreme Court ruling.

Interchange Fee Claim
The Group, along with other claimants, had an ongoing claim against Mastercard in respect of bank interchange fees. Consistent with the position at 31 January 2021, the Group is still unable to quantify the amount of the settlement which it will receive, and accordingly no asset has been recognised in the condensed consolidated interim financial statements at 1 August 2021. Legal costs associated with the substantive claim will be recovered. At 31 January 2021 the Group made an estimate of the amount of fees which would be recovered and this income receivable was included within 'other exceptional items.'

21. Related party transactions

The Group's related party transactions in the period include the remuneration of the senior managers, and the Directors' emoluments and pension entitlements, share awards and share options as disclosed in the audited section of the Directors' remuneration report, which forms part of the Group's 2020/21 Annual Report and Financial Statements.

In the 26 weeks ended 1 August 2021, the Group received a dividend of £nil (2 August 2020: £nil, 31 January 2021: £8m) from MHE JVCo Limited. The Group has a c.51% interest in MHE JVCo Limited.

22. Business combinations

On 27 February 2021, the Group acquired 100% of the share capital of Falfish (Holdings) Limited, a leading supplier of fresh seafood, for a total consideration of £9m. Of this consideration, £8m was paid in the period and £1m is deferred by up to two years. The fair value of the net assets acquired was £9m. Goodwill recognised in the transaction was negligible. Falfish (Holdings) Limited Group contributed revenues of £16m and net profit of £1m to the Group for the period from 27 February 2021 to 1 August 2021.

In the 52 weeks ended 31 January 2021, the Group acquired 100% of the ordinary share capital of Lowlands Nursery Limited (formerly known as Lansen Nursery Limited), a leading supplier of outdoor plants. This acquisition complemented the Group's existing Flowerworld business, providing more locally grown horticulture at a more competitive price for customers. Total consideration was £4m and goodwill recognised in the transaction was negligible.

There were no business combinations in the 26 weeks ended 2 August 2020.

23. Post balance sheet events

On 19 August 2021, the Directors of Wm Morrison Supermarkets PLC announced that they had reached an agreement on the terms of an offer from CD&R for the entire issued and to be issued share capital of the Company. On 6 August 2021, an offer of 272p per share was received from another party, Fortress, this offer is currently not recommended by the Directors. On the basis that neither Fortress nor CD&R have declared their offers final, such that either offer may be further increased or otherwise revised, a competitive situation continues to exist. The Board of Morrisons has engaged with the Takeover Panel Executive together with CD&R and Fortress in order to begin discussions around an orderly framework for the resolution of this competitive situation. The Company remains in an offer period pending completion of a transaction, any offer remains subject to shareholder approval and the sanction of the High Court.

There are professional adviser fees associated with the proposed transaction, for which the Group will be liable, the majority of which are contingent on the successful completion of a transaction. These costs are estimated at c.£58m excluding irrecoverable VAT based on the current offer price of 285p, of which £5m has been included within exceptional items as at 1 August 2021. If the offer price were to increase, or if a prolonged regulatory review was required, the resulting fees would increase.

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 the interim 2021/22 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.

A 2 year comparator has been included as a temporary measure given volatility in trading through the pandemic.</td><td><table><tr><th></th><th>26 weeks ended 1 August 2021 %</th></tr><tr><td>Group LFL (exc. fuel)</td><td>(0.3)</td></tr><tr><td>Group LFL (inc. fuel)</td><td>3.3</td></tr><tr><td>Net new space (inc. fuel)</td><td>0.4</td></tr><tr><td>Total revenue year-on-year</td><td>3.7</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 credit. This excludes exceptional items which are significant in size and/or nature and net retirement benefit credits.

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>£81m being profit before tax and exceptionals (£105m) less a normalised tax charge (£24m) (see note 4).</td></tr>
</table>

[1] Certain ratios referred to in the condensed consolidated interim 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 condensed consolidated interim financial statements are presented in round millions).

Glossary (continued)

Measures	Closest equivalent IFRS measure	Definition and purpose	Reconciliation for the interim 2021/22 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.	£157m being reported operating profit (£129m), less impairment and provisions for onerous contracts (£6m), plus restructuring costs (£16m), plus loss on disposal and closure (£9m), plus proposed takeover costs (£5m), plus pension administrative expenses (£1m), plus other exceptional costs (£3m).
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.	£439m being operating profit before exceptionals (£157m), plus depreciation (£244m) and amortisation (£38m).
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 exceptionals (£439m) divided by revenue (£9,054m).
Interest cover	No direct equivalent	Operating profit before exceptionals divided by net finance costs before exceptionals. Operating profit before exceptionals and net finance costs are both calculated on an annualised basis. This measure is used by the Directors as a measure of the Group's ability to meet its financing costs.	2.3x being annualised operating profit before exceptionals (£243m) divided by annualised net finance costs before exceptionals (£104m).
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 condensed consolidated interim 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 condensed consolidated interim 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 the interim 2021/22 Group measures[1]
Profit measures (continued)			
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 credit. This measure is used by the Directors as it provides a better reflection of the normalised tax charge for the Group.	The normalised tax rate is based on full year projections and as such a tax reconciliation will be provided in the Annual Report and Financial Statements for the 52 weeks ended 30 January 2022. Details of the normalised tax rate used in the 26 weeks ended 1 August 2021 is provided in note 6 of the condensed consolidated interim 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.	£266m inflow being the movement in net debt (£143m) before payment of dividends (£123m).
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 and liabilities; net of cash and cash equivalents.	A reconciliation of this measure is provided in note 16.
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.	72% being net debt (£3,026m) as a percentage of net assets (£4,204m).
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 15.
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 15.

[1] Certain ratios referred to in the condensed consolidated interim 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 condensed consolidated interim financial statements are presented in round millions).

Glossary (continued)

Measures	Closest equivalent IFRS measure	Definition and purpose	Reconciliation for the interim 2021/22 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 (3.1%) equals return divided by average capital employed: Return (£200m) = Profit before exceptionals after tax annualised (£96m) adjusted for annualised net finance costs before exceptionals (£104m). Average capital employed (£6,351m) = Average net assets excluding the net retirement benefit asset (£3,437m), and average net debt (£2,914m).
Onerous payments	No direct equivalent	Payments made to settle onerous contractual commitments, including amounts paid to exit 'pipeline' sites or sums paid to exit onerous contracts early (e.g. leases).	Onerous capital payments (£3m) plus payment to exit leases (£1m), included within repayment of lease obligations in the consolidated statement of cash flows.

[1] Certain ratios referred to in the condensed consolidated interim 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 condensed consolidated interim financial statements are presented in round millions).

Statement of Directors' responsibilities

The Directors confirm that these condensed consolidated interim financial statements have been prepared in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and that the interim management report includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

- an indication of important events that have occurred in the first 26 weeks and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining 26 weeks of the financial period; and
- material related-party transactions in the first 26 weeks and any material changes in the related party transactions described in the last annual report.

The Directors of the Wm Morrison Supermarkets PLC are listed in the Wm Morrison Supermarket PLC Annual Report and Financial Statements for 31 January 2021, with the exception of the following changes in the period: Paula Vennells resigned on 25 April 2021. A list of current Directors is maintained on the Wm Morrison Supermarkets PLC website: www.morrisons-corporate.com.

By order of the Board

Jonathan Burke
Company Secretary
8 September 2021

Independent review report to Wm Morrison Supermarkets PLC

Report on the condensed consolidated interim financial statements

Our conclusion

We have reviewed Wm Morrison Supermarkets PLC's condensed consolidated interim financial statements (the "interim financial statements") in the interim financial report of Wm Morrison Supermarkets PLC for the 26 week period ended 1 August 2021 (the "period").

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

What we have reviewed

The interim financial statements comprise:

- the consolidated statement of financial position as at 1 August 2021;
- the consolidated income statement and consolidated statement of comprehensive income for the period then ended;
- the consolidated statement of cash flows for the period then ended;
- the consolidated statement of changes in equity for the period then ended; and
- the explanatory notes to the interim financial statements.

The interim financial statements included in the interim financial report of Wm Morrison Supermarkets PLC have been prepared in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the Directors

The interim financial report, including the interim financial statements, is the responsibility of, and has been approved by the Directors. The Directors are responsible for preparing the interim financial report in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express a conclusion on the interim financial statements in the interim financial report based on our review. This report, including the conclusion, has been prepared for and only for the Company for the purpose of complying with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What a review of interim financial statements involves

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the interim financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants
Leeds
8 September 2021

Notes:

The maintenance and integrity of the Wm Morrison Supermarkets PLC website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the condensed consolidated interim financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.