

News Release

Release date: 18 March 2020

PRELIMINARY RESULTS FOR THE 52 WEEKS ENDED 2 FEBRUARY 2020

Working for customers, colleagues, suppliers and shareholders

COVID-19 update – Immediate actions include:

- Pay guarantee for colleagues
- Expanding online delivery capability to pick from more than 100 stores
- Immediate payments for small suppliers, funded by Morrisons strong cash flow

2019/20 financial summary

- Group like-for-like (LFL) sales⁽¹⁾ ex-fuel/ex-VAT down 0.8% (2018/19: up 4.8%)
- Total revenue down 1.1% to £17.5bn (2018/19: £17.7bn)
- Profit before tax and exceptionals⁽²⁾ up 3.0% to £408m (2018/19: £396m)
- EPS before exceptionals⁽²⁾ up 2.6% to 13.18p (2018/19: 12.85p)
- Statutory profit before tax up 43.6% to £435m (2018/19: £303m)
- Free cash flow⁽³⁾ £238m (2018/19: £281m)
- Free cash flow excluding £57m other non-cash movements, £295m (2018/19: £271m)
- Net debt £2,458m (2018/19: £2,394m)
- Net pension accounting surplus £944m (2018/19: £688m). Triennial pension valuation complete, with funding surplus of £682m (2016/17: £111m)
- ROCE increased to 7.0% (2018/19: 6.9%)
- Final ordinary dividend of 4.84p, taking the full-year ordinary dividend to 6.77p, and full-year total dividend to 8.77p (2018/19: 12.60p). Decision on further special dividend deferred, maximising flexibility around how we prioritise uses of our strong cash flow

Strategic and operating highlights

- EBITDA margin before exceptionals up 22 basis points to 5.9%, as cost control and productivity initiatives offset some of the impact of the tougher sales environment
- Significant investments in price, service, and Market Street improving the shopping trip
- Sales in the first ten McColl's to Morrisons Daily conversions have been strong and customer feedback has been positive. Further 20 converted since year end
- £1.1bn disposal proceeds target exceeded, after c.£120m consideration for Camden
- Morrisons store on Amazon Prime Now extended to eight cities across the UK
- A further 44 Fresh Look store improvements complete, bringing the total to almost 350
- New overseas export wholesale supply partner, CP Lotus in China

Current trading and targets update

- Retail contribution to LFL improved to flat for the first four weeks of 2020/21, and 5.0% for the first six weeks, after considerable stocking up and sales pull-forward recently
- Over 240 McColl's stores to transition to Morrisons wholesale supply during 2020, and we remain on track for our £1bn annualised wholesale supply sales target
- Further £14m incremental profit from wholesale, services, interest and online, taking the total so far to £68m. On track for our £75m–£125m target
- Five new stores to open during 2020/21

Note: 2018/19 has been restated for the new lease accounting standard, IFRS 16 Leases

COVID-19 update

COVID-19 is a severe threat to Britain and worldwide. Morrisons primary focus is the health and safety of our colleagues and customers, and we are doing all we can to mitigate that threat. We are liaising and co-operating with all the relevant authorities to plan for different scenarios. Our colleagues in stores, offices, manufacturing and distribution are working to ensure the supply chain operates as smoothly as possible and we keep stock on the shelves. We are putting in place some immediate initiatives to help our key stakeholders, including:

- **Colleagues.** A pay guarantee for sick and affected colleagues, and more flexibility around shifts and annual leave
- **Customers.** Expanding our online Morrisons.com and Morrisons store on Amazon Prime Now store-pick capacity to more than 100 stores over coming weeks
- **Suppliers.** Immediate payments for small suppliers, funded by our strong cash flow

Outlook

Sales have been on an improving trend since the start of 2020, and improved again recently with retail contribution to LFL flat for the first four weeks of 2020/21. This is despite the significant deflationary impact of our continued investment in becoming more competitive for customers. During the last two weeks, there has been considerable stocking up and sales pull-forward as customers plan for the impact of COVID-19. Overall, for the first six weeks of 2020/21, retail contribution to LFL was 5.0%.

With sales on an improving trend, profit growing for a fourth consecutive year, and free cash flow continuing to be strong, we had anticipated announcing another special dividend today. Instead, during the usual process of reviewing capital allocation, we determined it would be prudent to defer the decision given current unprecedented events around COVID-19. This gives us maximum future flexibility around how we prioritise uses of our strong cash flow, and we will keep our capital allocation options under review.

Morrisons is operating from a very robust financial position. We have a strong balance sheet, with low debt and a strong maturity profile. Cash flows and liquidity are also very strong. As at the end of 2019/20, we had cash and cash-equivalents of £305m and access to undrawn revolving credit facilities (RCFs) of £1.45bn. Our store portfolio is overwhelmingly freehold (87%), and our pensions are in surplus.

For wholesale, over 240 additional McColl's stores will convert to Morrisons wholesale supply during 2020, which we expect will more than offset the impact of any further store closures already announced by McColl's. Our plan for £1bn of wholesale supply sales in due course remains unchanged.

Net incremental profit from wholesale, services, interest and online was £14m during the period, bringing the cumulative total so far to £68m. We remain on track for our £75m–£125m medium-term target.

Andrew Higginson, Chair, and David Potts, Chief Executive, said:

“We are currently facing unprecedented challenges and uncertainty dealing with COVID-19. Looking after our colleagues and customers is our priority, ensuring that we have a clean, safe place to shop and work.”

At Morrisons, we have a strong, experienced, and above all, determined team of the best food makers and shopkeepers in Britain. We promise to work as hard as we can for customers, suppliers, and all stakeholders to keep our shops operating as smoothly as possible. Thank you to all our colleagues for your incredible efforts so far.”

Figure 1 – 2019/20 profit reconciliation

£m	FY 18/19	H1 19/20	H2 19/20	FY 19/20	Y-on-Y
Statutory operating profit	432	246	275	521	20.6%
Statutory profit before tax	303	202	233	435	43.6%
Exceptional items:					
– Net impairment and provision for onerous contracts	10	-	(2)	(2)	
– (Profit)/loss on disposal and exit of properties	-	-	(66)	(66)	
– Costs associated with repayment of borrowings*	33	-	-	-	
– Retirement benefit exceptional items	26	-	-	-	
– Store restructuring and closure costs	-	-	51	51	
– Net retirement benefit interest income*	(18)	(10)	(9)	(19)	
– Other exceptional items	42	6	3	9	
Operating profit before exceptionals	510	252	261	513	0.6%
Profit before tax and exceptionals	396	198	210	408	3.0%

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

Figure 2 – LFL sales performance (ex-VAT)

	2018/19	2019/20						
	FY	Q1	Q2	H1	Q3	Q4	H2	FY
Retail contribution to LFL	1.5%	0.2%	(2.4)%	(1.1)%	(1.1)%	(2.2)%	(1.7)%	(1.4)%
Wholesale contribution to LFL	3.3%	2.1%	0.5%	1.3%	(0.1)%	0.1%	0.0%	0.6%
Group LFL ex-fuel	4.8%	2.3%	(1.9)%	0.2%	(1.2)%	(2.1)%	(1.7)%	(0.8)%
Group LFL inc-fuel	4.3%	2.7%	(2.2)%	0.2%	(2.5)%	(2.4)%	(2.5)%	(1.1)%

Reported in accordance with IFRS 15

This announcement includes inside information.

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 EU-adopted IFRS, and consider these to be important measures in evaluating the Group's results and financial position.

Definitions and additional requirements:

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

- (1) **Like-for-like (LFL) sales:** percentage change in year-on-year sales (excluding VAT), removing the impact of new store openings and closures in the current or previous financial year. A reconciliation between LFL sales and total revenue is provided in the glossary at the end of this announcement.
- (2) **Profit before tax and exceptionals:** defined as profit before tax, exceptional items and net retirement benefit interest. **Earnings per share (EPS) before exceptionals:** defined as profit before exceptional items and net retirement benefit interest, adjusted for a normalised tax charge.

A reconciliation between 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 £238m (2018/19: £281m), being the movement in net debt of £(64)m (2018/19: £(8)m) adjusted for dividends paid of £302m (2018/19: £289m).

– ENDS –

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

Financial overview

2019/20 was another year of growth in profit, free cash flow (before other non-cash movements), and the ordinary dividend, despite a tougher sales environment.

Total revenue for 2019/20 was £17.5bn, down 1.1% year on year, with net new space contribution flat. Total revenue excluding fuel was down 0.8%.

Fuel sales were down 2.5% to £3.7bn, impacted by a highly promotional market.

Group LFL ex-fuel was down 0.8%, comprising retail down 1.4% and wholesale up 0.6%. In Q4, Group LFL ex-fuel was down 2.1%, with retail down 2.2% and wholesale up 0.1%.

For retail, as expected, the very favourable summer weather and events such as the football World Cup in 2018 meant tougher year-on-year sales comparatives in 2019. There were also added challenges, such as prolonged and unprecedented political debate over Brexit, and a mid-December general election during our peak trading period. This led to heightened levels of customer uncertainty throughout the year which weighed on shoppers' confidence. In addition the food retail market, always very competitive, became collectively more so during the year, with much higher levels of promotional activity.

Sales have improved so far during 2020. For the first six weeks of 2020/21, the retail contribution to LFL was 5.0%.

For wholesale, we were pleased to grow sales with all of our customers during the year, although LFL was impacted during the second half by the lower sales at McColl's as reported by McColl's for the period.

We managed our costs well, which offset some of the operating leverage impact of the lower sales. Operating profit before exceptionals was up 0.6% to £513m (2018/19: £510m), with margin up 5 basis points year on year to 2.9%. EBITDA margin before exceptionals was up 22 basis points, to 5.9%.

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

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

Profit before tax and exceptionals was up 3.0%, to £408m (2018/19: £396m).

Exceptional items recognised outside profit before tax and exceptionals were a net credit of £27m as listed in Figure 1 (2018/19: net debit of £93m).

Of these, property disposal profits were £66m, the majority of which relates to our Camden store. Following a tender process, we sold Camden and our eight-acre surrounding site to Berkeley Group for a total consideration of c.£120m. Berkeley will pay £85m in stages over the years of the project, and will build a new Morrisons supermarket and convenience store on the site with a value of £34m. The consideration will be received over a number of

years, and the property disposal proceeds have been discounted resulting in a profit of £64m.

Restructuring costs were £51m, of which £46m relates to the announcement in January that we are investing in creating more frontline jobs and reducing some team manager roles within stores. Other exceptional items were £9m, of which £3m were in the second half. Net retirement benefit interest income was £19m (2018/19: £18m).

Statutory profit before tax after exceptionals was up 43.6% to £435m (2018/19: £303m, after £93m of net exceptional costs).

Basic EPS before exceptionals was up 2.6% to 13.18p (2018/19: 12.85p).

Cash capital expenditure was £511m (2018/19: £461m).

Free cash flow was £238m (2018/19: £281m). Free cash flow excluding £57m other non-cash movements (ex-leases) was up £24m, to £295m (2018/19: £271m).

Group net debt was £2,458m, compared to £2,394m at the end of 2018/19. Of the £64m increase, £57m was other non-cash movements. On a pre-IFRS 16 basis, net debt was £1,082m (2018/19: £997m).

The proposed final ordinary dividend is 4.84p per share, taking the full-year ordinary dividend up 2.6% to 6.77p (2018/19: 6.60p). This is in line with our policy to pay a sustainable ordinary dividend covered around two times by EPS before exceptionals. In addition, with the interim special dividend of 2.00p announced with the 2019/20 interim results, the full-year total dividend is 8.77p (2018/19: 12.60p).

Four new stores were opened (including two replacements), and four stores were closed during the period, with an overall net reduction, including extensions, of c.4,000 square feet.

Return on capital employed (ROCE) was 7.0%, up from 6.9% for 2018/19.

Strategy update

Morrisons is primarily currently focused on combating the impact of COVID-19 for all our stakeholders. Our broader strategy continues in parallel with these efforts.

Alongside Fix, Rebuild, and Grow, we have recently introduced a fourth concurrent phase of our strategy – ‘Sustain’ – encompassing both the critical importance of our broader societal and environmental responsibilities, and our initiatives to sustain the strong momentum of the turnaround so far. In addition, as we progress across many fronts, digitalising all aspects of our business is becoming increasingly important, and ‘Naturally Digital’ has now become our seventh priority.

These priorities remain the drivers of our growth and all other aspects of our strategy are unchanged. Our five ways of working (customers first, teamwork, freedom in our framework, listening and responding, and improving our operations) inform all our actions and behaviour, while our ambitions for our four stakeholders (for customers, colleagues,

suppliers and shareholders) ensure that progress is balanced and broad, and allow us to measure success. This process is underpinned by our long-held convictions: that we still have a relative catch-up opportunity, that we can always keep improving for customers, and that execution is key.

2019/20 was another year of growth: in profit, free cash flow (before non-cash movements), and the ordinary dividend. Momentum in building a broader, stronger business was also positive, with wholesale again expanding, further development of different Morrisons brands, store format innovations and, most importantly, a stronger Morrisons team coming through. While LFL sales were negative, this was largely due to the difficult trading conditions and consumer uncertainty of last year.

We are taking some learnings and opportunities into 2020/21 and beyond around price, service, Market Street, availability, shrink, marketing, costs and own brand. These are complemented by our new store pipeline, further opportunities towards achieving our £75m–£125m incremental profit target, and our continued focus on controlling costs, improving productivity, and cost of goods (COGS). If executed well, we expect to drive operating leverage and continue to generate significant levels of free cash flow.

Priorities update

1. To be more competitive

We continue to invest in the shopping trip and improve our relative competitiveness for customers. During the year, we cut prices and improved product specification, packaging, and merchandising across hundreds of our customers' favourite items.

Alongside these investments, we still have substantial cost saving, productivity, and COGS opportunities which we continue to access in partnership with our suppliers. These include supply chain and distribution costs, mix, volume-related discounts, replenishment, packaging, and digitalisation.

We also continue to make good progress in becoming a product business and developing our brands. *'Morrisons Makes It'*, *'Naturally Wonky, Naturally Wonderful'*, and *'Best'*, are all going from strength to strength. *'Free From'* and our vegan range, *'V Taste'*, grew by 56% and 117% respectively. We are also adding many new items from our own unique fresh food businesses, with brands such as International Seafoods Ltd (based in the port town of Grimsby) and Woodhead Bros (our fresh meat business). In non-food *'Nutmeg'* is growing rapidly across clothing and baby, as is our Home and Leisure range.

We again achieved recognition for our own-brand quality. As well as the many awards we noted in our interim results, we were widely recognised during the second half too. At Christmas we won Best Fizz for our Best Prosecco in the Good Housekeeping Christmas Taste Test; and our Best All Butter Mince Pies, Best Classic Panettone and vegan Best Layered Tart all won their categories at the BBC Good Food Christmas Taste Test. We also won 97 awards at the International Wine Challenge 2020 and Supermarket of the Year at the Drinks Retailing Industry Awards.

2. To serve customers better

We recently announced that we would be investing to create 4,000 net new frontline jobs in our stores. We are removing over 3,000 managerial roles and creating 7,000 new customer-facing roles. This new colleague structure is aligned with our food maker and shopkeeper credentials. It will put more colleagues and more colleague hours on the shop floor, to serve customers better.

In addition, we are investing in continuing to improve availability and shrink, with more dedicated colleague hours on the shop floor, plus some IT and security initiatives, which means our teams can focus more on selling as well as controlling stock.

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

Since year end we have launched our 'Nutmeg' clothing offer online. It is available nationwide for home delivery, or click & collect from any Morrisons store.

3. Find local solutions

We have made further good progress in finding local solutions. Since the start of the local food maker programme three years ago, we have sourced over 1,000 new items from more than 200 suppliers at 37 local food maker events across Britain. Sales of these items were up more than 30% last year.

For example, we started selling Rora Dairy yogurts in our Peterhead store after they attended our local food maker event. Rora Dairy has been a family-run business for over 300 years, and is located five miles from our Peterhead store. It produces yoghurts which are gluten free, free from artificial colours, flavours, sweeteners and preservatives, suitable for vegetarians, and only uses non-homogenised milk direct from the dairy on the day of production, as well as local fruits for the different flavours. Rora has very quickly moved from delivering to one local store to 16 across Scotland.

'Local' has wider societal importance for Morrisons. We are working at becoming truly integrated locally and more and more part of local communities, helping them thrive in a sustainable way. This includes supporting the most local food makers in delivering direct to our stores, thereby reducing food miles, supporting the local economy, and ensuring the freshest food for our customers. We are also providing support for the local communities we serve in many different ways: through a dedicated in-store Community Champion; community rooms where local groups can meet; and a range of education and support programmes to both help customers enjoy eating well, and to address local issues.

4. Develop popular and useful services

Plans to install electric vehicle chargers progressed well during the year. We now have 50–100 kW rapid chargers at over 100 Morrisons stores, which is Britain's biggest supermarket network. These are the highest specification available and allow customers to fully recharge their electric vehicle in just 20 to 60 minutes.

We also made good progress with our plans for gift cards, successfully launching both Morrisons and 'Nutmeg' cards, introducing new third-party gift card fixtures and digital screens, and expanding the range of gift card services available for customers.

We added over 40 Travel Money currency exchange kiosks during the year, taking the total to 50. Timpsons continues to grow, adding more than 30 sites in the year and now in 245 stores. We made good progress with rolling out various car care, tyre change and car connect services with partners such as Car Care Valeting, Black Circles and We Buy Any Car. We also continue to introduce the cash-for-clothes service, Smart Recycling, and are progressing our plans for popular services such as barbers and beauty bars.

In addition, we now have 55 Morrisons Daily convenience stores on our forecourts.

During the period, Doodle announced it would no longer operate a collection service from Morrisons stores. We are currently reviewing our options to restore a parcel pick-up service.

5. To simplify and speed up the organisation

Many components of our Fix, Rebuild, Grow, and Sustain strategy aim at simplifying and speeding up Morrisons, demonstrating how our priorities are all interconnected. For example, our plans to serve customers better by creating 4,000 net new roles, and our initiatives to improve availability and reduce shrink, are resulting in productivity and cost saving benefits. Our work around COGS and suppliers has the dual benefit of making Morrisons more competitive for customers and encouraging simpler, more collaborative relationships. In addition, our new priority, Naturally Digital, will further improve the shopping trip by making processes simpler, quicker, and easier to execute.

6. To make core supermarkets strong again

During the year we completed 44 further Fresh Look store improvements, bringing the total to almost 350 since the start of the programme.

These refits continue to drive our modular roll-out of new learnings and innovation across the estate. During the year, we introduced almost 70 new Garden Centres and improved 50 Home & Leisure departments in our stores. 'Nutmeg' womenswear is now in around 300 stores, and we have plans to launch menswear too.

Innovation is also coming from our new stores. Four new stores opened during the year, including Canning Town, which is our first store with a 'Market Kitchen' food-to-go offer, and Bolsover, which is our first smaller, community store (at 15,000 square feet).

7. Naturally Digital

We have set up a team to identify opportunities and act at pace to create value for all stakeholders by building digital solutions which will help us organise our colleagues and processes to: simplify all aspects of Morrisons, eliminate wasted effort, improve the shopping trip, and become more popular and accessible for customers. It will involve working with existing teams and infrastructure to improve or accelerate what we have, rather than invest significant new capital.

Wholesale supply

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

During the first half, ten trial stores were converted from McColl's to Morrisons Daily. The stores offer a full Morrisons convenience range and are branded Morrisons Daily, but continue to be owned and operated by McColl's. Sales in these first ten conversions have been strong and customer feedback has been positive. Since year end, we have converted another 20 stores together and are further tailoring and testing the proposition.

McColl's has over 240 remaining ex-Co-op stores, which will transition to Morrisons wholesale supply during 2020. McColl's has also announced a medium-term plan for an estate of around 1,100 larger, more convenience-focused stores. This represents an accelerated optimisation plan that will reduce McColl's store numbers from the current level of over 1,400. During 2020/21, we expect our sales to the McColl's stores that transition to Morrisons wholesale supply to more than offset the impact of any stores closed by McColl's.

We signed a new overseas export partnership in the second half, with CP Lotus in China. From later this year, we will start supplying around 100 CP Lotus stores in eleven Chinese provinces with a small range of Morrisons own-brand items.

In our interim results, we announced a further extension of our relationship with Amazon: a multi-year partnership to explore new opportunities together to improve the shopping experience for both Morrisons and Amazon customers.

In addition, the Morrisons store on Amazon Prime Now, the ultra-fast, same-day online grocery home delivery service, is now available for customers in eight cities, with Liverpool, Glasgow, Newcastle and Sheffield all added since the end of the first half. As announced at our interim results, Morrisons has recently become a retailer on Amazon's Prime Now website and app, selling directly to customers. The Morrisons store on Prime Now sales are now reported within retail LFL; all other Morrisons wholesale sales to Amazon continue to be reported within wholesale LFL.

Financial strategy and update

Capital allocation framework

Our strong balance sheet is the foundation of Morrisons continued turnaround. Debt is low, the property estate is predominantly freehold, and the pension is in a net surplus position. Capital expenditure has halved since its peak and is at a sustainably lower level. We generate significant and sustainable levels of free cash flow, and manage the business with consistent capital discipline and capital allocation principles.

Shareholder returns

Our capital allocation framework has guided us in building a track record of capital discipline over recent years. Our first priority is to invest in the stores and infrastructure and reduce costs. Second, we will seek to maintain debt ratios that support our target of

an investment-grade credit rating. Third, we will invest in profitable growth opportunities. Fourth, we will pay dividends in line with our stated policy, and then any surplus capital will be returned to shareholders.

Consistent with the principles of our capital allocation framework, we announced both ordinary and special dividends during the year.

Our policy is for the ordinary dividend to be sustainable and covered around two times by EPS before exceptionals. The final ordinary dividend will be 4.84p per share, bringing the total ordinary dividend for the full year to 6.77p (up 2.6%). In addition, we announced a special dividend of 2.00p per share at the interim results.

In total, the full-year ordinary plus special dividend for 2019/20 are 8.77p per share (2018/19: 12.60p).

With sales on an improving trend, profit growing for a fourth consecutive year, and free cash flow continuing to be strong, we had anticipated announcing another special dividend today. Instead, during the usual process of reviewing capital allocation, we determined it would be prudent to defer the decision given current unprecedented events around COVID-19. This gives us maximum future flexibility around how we prioritise uses of our strong cash flow, and we will keep our capital allocation options under review.

Subject to shareholder approval at our 2020 AGM, the final ordinary dividend of 4.84p per share will be payable on 29 June 2020 to shareholders on the share register at the close of business on 22 May 2020.

Cost savings

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

Cash flow and working capital

Free cash flow was £238m (2018/19: £281m). Free cash flow excluding £57m other non-cash movements (ex-leases) was up £24m, to £295m (2018/19: £271m).

Operating working capital was an £18m inflow (2018/19: £10m outflow), with the usual second-half outflow and some of the first-half operational improvements sustained.

Property disposal proceeds were £34m (2018/19: £22m), the majority of which relates to the sale of our Camden store to Berkeley Group. Total consideration for Camden was c.£120m, comprising £85m in cash for our store and eight-acre site which Berkeley will pay in stages over the years of the project, and a new Morrisons supermarket and convenience store which Berkeley will build with a value of £34m. Overall, the c.£120m total consideration will mean we have exceeded our £1.1bn disposal proceeds target.

Cash capital expenditure, depreciation and amortisation

Cash capital expenditure was £511m (2018/19: £461m), below our guidance of c.£550m due to fewer capital projects in the second half. We expect 2020/21 cash capital expenditure to be around £525m. In addition, we incurred £58m of onerous cash payments, including a payment relating to an onerous lease. This was in line with our guidance of c.£60m for 2019/20, and we expect less than £10m in 2020/21.

For accounting periods starting on or after April 2019, there is a change in the rules for UK corporation tax quarterly instalments, meaning companies now pay tax in the year to which it relates. For Morrisons during 2020/21, this will mean two instalments for 2019/20 and four instalments for 2020/21, resulting in additional cash tax payments of around £50m. From 2021/22, tax paid will revert to four annual instalments as before.

Depreciation and amortisation was up £24m to £525m (2018/19: £501m), lower than guided as cash capital expenditure was also lower. During 2020/21, we expect another increase in depreciation and amortisation, to around £550m.

Debt and interest

Group net debt was £2,458m (2018/19: £2,394m). Of the £64m increase, £57m related to other non-cash movements (ex-leases). On a pre-IFRS 16 basis, net debt was £1,082m (2018/19: £997m).

The maturity profile of our remaining debt facilities is strong. In September 2019, ahead of the upcoming maturity of our euro bond, the Group issued a £350m sterling bond at a low fixed interest rate of 2.5% which expires in October 2031. In addition, during the year we extended our RCF by a further year, resetting its five-year term and resulting in a maturity date of June 2024, and also put in place an additional £100m RCF maturing in July 2020.

Net finance costs before exceptionals were £106m, down £9m from last year (2018/19: £115m). This is in line with our guidance of £105m–£110m, and is equivalent to our previous guidance of c.£55m on a non-IFRS 16 basis. We expect 2020/21 net finance costs before exceptionals to be c.£105m.

Impairment review

We perform an annual store-by-store review of impairment and onerous property contracts. The net credit was £2m, recognised outside profit before tax and exceptionals.

Pension

We recently completed the triennial pension valuation, with a funding surplus of £682m across the three schemes, up from £111m at the last triennial review. At year end, the net pension accounting surplus on the balance sheet was £944m, up from £688m at the end of 2018/19. Net retirement benefit interest income was £19m for the year, reported outside profit before tax and exceptionals.

Net new space

During the year, we opened four new stores of which two were replacements. As previously announced, we also closed four stores. As guided, these offset so net new space sales contribution was zero. During 2020/21, we plan to open five new stores and expect net new space sales contribution to be around 0.3%.

Future reporting

As the first May bank holiday in 2020/21 has moved from the Monday to the Friday of our fourteenth week, we will extend Q1 by an extra week. The first 14 weeks of 2020/21 will be compared to the corresponding 14 weeks in 2019/20, with both years including the trading period in the run-up to the first May bank holiday. Q1 trading will be reported on 12 May.

As a result of this change, Q2 will be 12 weeks, and will be reported within the first-half results as usual in September. To ensure no year-on-year calendar effect, we will again report a 14-week Q1 and 12-week Q2 in 2021/22, before reverting back to 13 weeks for the years thereafter.

People update

Our dedicated team of food makers and shopkeepers are our most important asset. We are increasing colleague pay, to £9.20 per hour from April 2020, and continue to invest in colleague bonus which is directly linked to customer service. We will also create more frontline customer-facing roles to serve customers better.

Over half of our store managers and people managers have now completed our behavioural skills programme 'Leading With Purpose'. We are planning a 'Working With Purpose' programme for our colleagues, designed to support business improvements.

We won the 'All About School Leavers Top Retail Employer' award for the second year running and were ranked in the top 30 UK companies in the 'Social Mobility Employer Index' award.

We continue to see internal talent coming up through the organisation, with significantly more promotions being made from within the business.

Complementing the best colleagues in our shops and sites is a talented senior team. We strengthened the Board further with the appointment of a third Executive Director, Michael Gleeson, as Chief Financial Officer, and promoted Trevor Strain to the new role of Chief Operating Officer, with responsibilities including commercial, manufacturing, supply chain, logistics, operations development, online and wholesale. We have also made some changes to the Executive Committee, with Andy Atkinson now Group Commercial Director and David Lepley promoted to the role of Group Retail Director.

Corporate responsibility and community

Our corporate responsibility programme ensures we operate in a way that is right for our customers, colleagues, suppliers and shareholders, while making a positive contribution to society and taking good care of the environment.

Reducing our emissions

Working with the Carbon Trust, we have ambitious science-based carbon reduction targets to reduce scope 1 and 2 (direct) emissions by 33% by 2025, 53% by 2030, and to be at zero net emissions by 2040 against a 2017 baseline. In our first year we achieved a 28% reduction in emissions against our target. We have also set a stretching target of net zero emissions in our UK agriculture chain by 2030. This will be achieved through working with farmers and supporting the increase of on-farm productivity, farmland carbon storage and renewable energy utilisation.

Plastic packaging

Reducing the impact plastic is having on the environment is important to our customers and society more generally. We are committed to reducing the plastic we use in our packaging and have introduced a wide-range of initiatives such as increasing our offering of loose fruit and veg, a reusable paper carrier bag, and an unbleached and untreated recycled cotton string produce bag. To date we have removed over 6,000 tonnes of plastic packaging and over 1.5 billion plastic items, such as straws, cotton buds and stirrers. We were awarded the Business in the Community Environmental Sustainability Award for our plastic reduction programme.

Improving recyclability

By 2025, all of our plastic packaging will be recyclable, reusable or compostable. We have made progress against our commitment through a number of initiatives including removing both hard-to-recycle black plastic, and expanded polystyrene from all Morrisons packaging, and featuring front-of-pack 'recycle me' and 'recycle in store' logos on popular Morrisons products. By focusing on these hard-to-recycle items, 5,500 tonnes of non-recyclable plastic packaging has been replaced by recyclable alternatives.

Deforestation

Every year, millions of acres of natural forest are destroyed due to illegal logging, poor forest management practices and an increasing growing global demand for forest and agricultural products. We have a new commitment in place to ensure zero deforestation by the end of 2025. This strengthens our position on the sourcing of key commodities including soy, palm, timber and beef.

'Nutmeg' environmental plan

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

Food waste

We have a target to reduce our operational food waste by 50% by 2030. Working with third party data analysts, we have developed a methodology to accurately record food waste in our stores by weight. Our Too Good to Go initiative is available in all our stores, allowing customers to purchase discounted goods at risk of being wasted. Customers log on to the app and pay for a 'magic box' of Market Street products that are just past their best before date but perfectly good to eat. We also work with charities in our stores, manufacturing and distribution centres to redistribute edible surplus food.

Eggs

We have moved away from caged eggs after doubling the number of free-range farmers that supply our egg packing business. This means that all our fresh shell eggs will come from hens that have outdoor access for at least eight hours each day, as well as nest boxes with wide perches and spaces for scratching and dust bathing. We are also working to ensure that 100% of eggs used as ingredients in our own-brand products are cage free by 2025.

We were also awarded the 'Sustainable Food and Farming Award' from Compassion in World Farming for our bee-friendly eggs range. This award recognises businesses that are taking steps to produce meat, dairy and eggs in ways that protect, improve and restore wildlife and the environment. Following a partnership with the Bumblebee Conservation Trust, farmers supplying our egg manufacturing site Chippindale Foods with eggs need to plant an acre of wildflower meadow for every laying hen range.

CLIC Sargent

Our charity partnership with CLIC Sargent continues to go from strength to strength, with a total of £11m raised since the partnership was launched in February 2017. Our aim this year is to raise vital funds to enable CLIC Sargent to open a new Home from Home in Manchester.

Morrisons Foundation

The Morrisons Foundation provides funding for local charities and has donated £3.6m through grants and colleague match-funding providing support to both national and local communities in 2019/20.

Consolidated income statement

52 weeks ended 2 February 2020

	Note	2020			2019 restated ¹		
		Before exceptionals £m	Exceptionals (note 3) £m	Total £m	Before exceptionals £m	Exceptionals (note 3) £m	Total £m
Revenue	4	17,536	-	17,536	17,735	-	17,735
Cost of sales		(16,855)	(52)	(16,907)	(17,039)	(44)	(17,083)
Gross profit		681	(52)	629	696	(44)	652
Other operating income		94	-	94	88	-	88
Profit/loss on disposal and exit of properties		-	66	66	-	-	-
Administrative expenses		(262)	(6)	(268)	(274)	(34)	(308)
Operating profit		513	8	521	510	(78)	432
Finance costs	5	(111)	-	(111)	(120)	(33)	(153)
Finance income	5	5	19	24	5	18	23
Share of profit of joint venture (net of taxation)		1	-	1	1	-	1
Profit before taxation		408	27	435	396	(93)	303
Taxation	6	(94)	7	(87)	(93)	23	(70)
Profit for the period attributable to the owners of the Company		314	34	348	303	(70)	233
Earnings per share (pence)							
- Basic	8			14.60			9.89
- Diluted	8			14.44			9.67

¹For further details on the restatement of the reported results for the 52 weeks ended 3 February 2019 from adopting IFRS 16 'Leases', see note 25.

Consolidated statement of comprehensive income

52 weeks ended 2 February 2020

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

¹For further details on the restatement of the reported results for the 52 weeks ended 3 February 2019 from adopting IFRS 16 'Leases', see note 25.

Consolidated statement of financial position

As at 2 February 2020

	Note	2020 £m	2019 restated ¹ £m	2018 restated ¹ £m
Assets				
Non-current assets				
Goodwill and intangible assets	9	381	404	428
Property, plant and equipment	10	7,147	7,094	7,027
Right-of-use assets	11	942	929	970
Investment property	12	58	60	69
Retirement benefit surplus	17	960	730	612
Investment in joint venture		39	47	53
Trade and other receivables	15	71	8	8
Derivative financial assets	20	-	15	16
		9,598	9,287	9,183
Current assets				
Inventories	14	660	713	686
Trade and other receivables	15	353	344	247
Derivative financial assets	20	1	19	15
Cash and cash equivalents	19	305	264	327
		1,319	1,340	1,275
Assets classified as held-for-sale	13	3	39	4
		1,322	1,379	1,279
Total assets		10,920	10,666	10,462
Liabilities				
Current liabilities				
Trade and other payables	16	(3,051)	(3,070)	(2,921)
Borrowings	20	(237)	(178)	(72)
Lease liabilities	19	(72)	(69)	(59)
Derivative financial liabilities	20	(36)	(5)	(13)
Current tax liabilities		-	(27)	(15)
		(3,396)	(3,349)	(3,080)
Non-current liabilities				
Borrowings	20	(1,108)	(1,110)	(1,245)
Lease liabilities	19	(1,304)	(1,328)	(1,354)
Derivative financial liabilities	20	(7)	(2)	(1)
Retirement benefit deficit	17	(16)	(42)	(18)
Deferred tax liabilities		(472)	(414)	(415)
Provisions		(76)	(96)	(99)
		(2,983)	(2,992)	(3,132)
Total liabilities		(6,379)	(6,341)	(6,212)
Net assets		4,541	4,325	4,250
Shareholders' equity				
Share capital	21	240	237	236
Share premium	21	192	178	159
Capital redemption reserve		39	39	39
Merger reserve		2,578	2,578	2,578
Retained earnings and other reserves		1,492	1,293	1,238
Total equity attributable to the owners of the Company		4,541	4,325	4,250

¹For further details on the restatement of the reported results for the 52 weeks ended 3 February 2019 and 53 weeks ended 4 February 2018 from adopting IFRS 16 'Leases', see note 25.

Consolidated statement of cash flows

52 weeks ended 2 February 2020

	Note	2020 £m	2019 restated ¹ £m
Cash flows from operating activities			
Cash generated from operations	18	1,017	977
Interest paid		(104)	(120)
Taxation paid		(87)	(76)
Net cash inflow from operating activities		826	781
Cash flows from investing activities			
Interest received		1	1
Dividends received from joint venture	23	9	7
Proceeds from the disposal of property, plant and equipment, investment property, right-of-use assets and assets held for sale		34	22
Purchase of property, plant and equipment, investment property and right-of-use assets		(429)	(381)
Purchase of intangible assets		(81)	(77)
Acquisition of business (net of cash received)		(1)	(3)
Net cash outflow from investing activities		(467)	(431)
Cash flows from financing activities			
Purchase of trust shares	21	(10)	(9)
Settlement of share awards	21	(2)	(5)
Proceeds from exercise of employee share options	21	14	20
New borrowings		347	275
Repayment of borrowings		(278)	(306)
Costs incurred on repayment of borrowings		-	(30)
Repayment of lease obligations		(87)	(69)
Dividends paid	7	(302)	(289)
Net cash outflow from financing activities		(318)	(413)
Net increase/(decrease) in cash and cash equivalents		41	(63)
Cash and cash equivalents at start of period		264	327
Cash and cash equivalents at end of period	19	305	264

¹For further details on the restatement of the reported results for the 52 weeks ended 3 February 2019 from adopting IFRS 16 'Leases', see note 25.

Reconciliation of net cash flow to movement in net debt² in the period

	Note	2020 £m	2019 restated ¹ £m
Net increase/(decrease) in cash and cash equivalents		41	(63)
Cash inflow from increase in borrowings		(347)	(275)
Debt acquired on acquisition of business		-	(2)
Cash outflow from repayment of borrowings		278	306
Cash outflow from repayment of lease liabilities		87	69
Non-cash movements on lease liabilities		(66)	(53)
Other non-cash movements		(57)	10
Opening net debt ²		(2,394)	(2,386)
Closing net debt²	19	(2,458)	(2,394)

¹For further details on the restatement of the reported results for the 52 weeks ended 3 February 2019 from adopting IFRS 16 'Leases', see note 25.

²Net debt is defined in the Glossary.

Consolidated statement of changes in equity

52 weeks ended 2 February 2020		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 4 February 2019 (reported)		237	178	39	2,578	10	1,589	4,631
Adjustment on the adoption of IFRS 16	25	-	-	-	-	-	(306)	(306)
At 4 February 2019 (restated ¹)		237	178	39	2,578	10	1,283	4,325
Profit for the period		-	-	-	-	-	348	348
Other comprehensive (expense)/income:								
Cash flow hedging movement		-	-	-	-	(57)	-	(57)
Exchange differences on translation of foreign operations		-	-	-	-	-	(2)	(2)
Remeasurement of defined benefit schemes	17	-	-	-	-	-	231	231
Tax in relation to components of other comprehensive income		-	-	-	-	10	(38)	(28)
Total comprehensive (expense)/income for the period		-	-	-	-	(47)	539	492
Purchase of trust shares	21	-	-	-	-	-	(10)	(10)
Employee share option schemes:								
Share-based payments charge		-	-	-	-	-	26	26
Settlement of share awards	21	-	-	-	-	-	(2)	(2)
Share options exercised	21	3	14	-	-	-	(3)	14
Tax in relation to components of equity		-	-	-	-	-	(2)	(2)
Dividends	7	-	-	-	-	-	(302)	(302)
Total transactions with owners		3	14	-	-	-	(293)	(276)
At 2 February 2020		240	192	39	2,578	(37)	1,529	4,541

52 weeks ended 3 February 2019		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 5 February 2018 (reported)		236	159	39	2,578	2	1,531	4,545
Adjustment on the adoption of IFRS 16	25	-	-	-	-	-	(295)	(295)
At 5 February 2018 (restated ¹)		236	159	39	2,578	2	1,236	4,250
Profit for the period (restated ¹)		-	-	-	-	-	233	233
Other comprehensive income/(expense):								
Cash flow hedging movement		-	-	-	-	9	-	9
Remeasurement of defined benefit pension schemes	17	-	-	-	-	-	100	100
Tax in relation to components of other comprehensive income		-	-	-	-	(1)	(17)	(18)
Total comprehensive income for the period		-	-	-	-	8	316	324
Purchase of trust shares	21	-	-	-	-	-	(9)	(9)
Employee share option schemes:								
Share-based payments charge		-	-	-	-	-	34	34
Settlement of share awards	21	-	-	-	-	-	(5)	(5)
Share options exercised	21	1	19	-	-	-	-	20
Dividends	7	-	-	-	-	-	(289)	(289)
Total transactions with owners		1	19	-	-	-	(269)	(249)
At 3 February 2019 (restated¹)		237	178	39	2,578	10	1,283	4,325

¹For further details on the restatement of the reported results for the 52 weeks ended 3 February 2019 from adopting IFRS 16 'Leases', see note 25.

1. General information and basis of preparation

The financial information, which comprises the consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of cash flows, consolidated statement of changes in equity, and related notes, is derived from the full Group financial statements for the 52 week period ended 2 February 2020, which have been prepared under International Financial Reporting Standards (IFRS) and International Financial Reporting Standards Interpretation Committee (IFRS IC) interpretations as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

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

The Annual Report and Financial Statements for the 52 week period ended 2 February 2020 on which the auditor has given an unqualified report and which does not contain a statement under section 498 of the Companies Act 2006, will be delivered to the Registrar of Companies in due course.

The accounting policies used in completing this financial information have, unless otherwise stated, been consistently applied in all periods shown. These accounting policies are detailed in the Group's financial statements for the 52 week period ended 2 February 2020 which can be found on the Group's website <https://www.morrisons-corporate.com/investor-centre/financial-reports/>

New accounting standards, amendments and interpretations adopted by the Group

The following new standards, interpretations and amendments to standards are mandatory for the Group for the first time for the 52 weeks ended 2 February 2020:

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

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

IFRS 16 'Leases'

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

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

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

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

The transition to IFRS 16 for the Group took place on 4 February 2019 and the Group has adopted the fully retrospective transition approach. In accordance with this transition method, the Group has applied IFRS 16 at the date of initial application as if it had been effective at the commencement date of the existing lease contracts. Accordingly, the comparative information in these financial statements has been restated, unless otherwise stated. The nature and effect of these changes are disclosed in note 25.

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

1. General information and basis of preparation (continued)

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

IFRIC 23 'Uncertainty over income tax treatments'

IFRIC 23 'Uncertainty over income tax treatments' was issued in June 2017 and has become effective for the Group from the period beginning 4 February 2019. The interpretation covers how the Group accounts for taxation, where there is some uncertainty over whether treatments in the tax return will be accepted by HM Revenue and Customs or the relevant overseas jurisdictions.

Each uncertain treatment (or combination of treatments) is considered for whether it will be accepted, and if probable taxable profits/losses, tax bases, unused tax losses, unused tax credits and tax rates are accounted for consistently with the tax return. The Group accounts for each treatment using whichever of the two allowed measurement methods is expected to best predict the final outcome – the single most likely outcome or a probability weighted-average value of a range of possible outcomes.

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

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

Amendment to IAS 19 'Employee Benefits'

An amendment to IAS 19 'Employee Benefits' was published in February 2018 and has become effective for the Group from the period beginning 4 February 2019. The amendment applies prospectively in connection with accounting for plan amendments, curtailments and settlements.

The amendment requires entities to use updated assumptions to determine current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement. The impact of this amendment has had an immaterial impact on the consolidated financial statements.

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

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

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

1. General information and basis of preparation (continued)

Principal risks

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

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

RISKS	DESCRIPTION	MITIGATION
UK - EU Trade	<p>Brexit and continued trade negotiations with the EU and other countries, presents ongoing uncertainty to the UK economy and continues to impact consumer confidence.</p> <p>Failure to adequately prepare for a range of outcomes could have significant implications on business performance, including; supply chain disruption; availability of product; changes to taxes and tariffs; impact of pronounced currency fluctuations; and the ability to secure labour.</p>	<ul style="list-style-type: none"> • A business-wide Stability Group is monitoring developments through the transition period and coordinating operational responses. We have focussed action plans in place, ready to implement as the political and economic environment evolves; • We continue to actively engage with key suppliers to assess specific impacts to our business and maintain a strong focus on UK sourcing; • We have achieved Authorised Economic Operator status to enable more straight forward border checks; • We have also been working with our suppliers and freight providers to identify alternative supply routes avoiding the busiest ports; • The Group has a treasury policy in place for hedging to mitigate risks on currency fluctuations. We have assessed, and continue to plan for, potential changes to taxes and tariffs; and • We continue to monitor any changes which may impact the availability of labour across the Group. Our manufacturing and logistics sites have specific people plans in place.
Business Interruption	<p>There is a risk that a major incident, such as a significant failure of technology or a strategic third party, a natural disaster, a global pandemic such as COVID-19, disruption in the supply chain or strike action, could cause significant disruption to business operations. The Group's response must be appropriate to minimise disruption and reputational damage.</p>	<ul style="list-style-type: none"> • We have recovery plans in place covering our stores, depots, sites and offices; • These plans include, where appropriate, secondary locations which would be used as backup in case of an incident; • Business continuity resilience and disaster recovery exercises are undertaken to test processes and management's ability to respond effectively; • A Crisis Management Group is in place to oversee these plans and to manage and respond to any major incidents; • We conduct supplier risk assessments and have contingency plans in place, where possible, to manage the risk of loss of supply; • There has been continued investment in cloud technologies to provide further resilience to the Technology systems; and • We work alongside our strategic third party partners ensuring both parties' continuity plans are robust and aligned.
Competitiveness	<p>The grocery sector continues to be highly competitive with considerable promotional activity. If we do not engage with our suppliers or effectively manage our trade plan to remain competitive there is a risk this will adversely impact like-for-like sales and financial performance.</p>	<ul style="list-style-type: none"> • Our pricing, trade plan and promotional and marketing campaigns are actively managed; • Our strong balance sheet and strong cash flow allow us to continue to invest in our proposition; • Long-term agreements are established with suppliers, ensuring a competitive customer offer to help maintain security of supply; • We continue to work closely with British growers and farmers; and • We continually review our range, category plan and quality and respond to customer feedback.

1. General information and basis of preparation (continued)

Principal risks (continued)

RISKS	DESCRIPTION	MITIGATION
Customer	<p>There is a risk that we do not meet the needs of our customers in respect of price, range, quality, service, responding to changes in eating habits and sustainability concerns.</p> <p>If we do not provide the shopping trip that customers want, both in store and online, we could lose sales and market share particularly in an environment of weaker customer sentiment.</p>	<ul style="list-style-type: none"> • One of our seven priorities is 'to serve customers better' and we have a range of activities to support that; • The ongoing programme of customer listening helps us to gain a deep understanding of what our customers want and has informed key activities such as our store Fresh Look programme as well as changes to range and the introduction of more locally sourced products; • We closely monitor research on customer perceptions and respond quickly wherever possible, such as, plastics, palm oil, red meat and changes to eating habits; • We have reduced plastic in the products we supply and launched our 2025 own-brand plastic commitment; and • We have worked to make Morrisons products accessible to more customers by working with new wholesale partners and continuing to expand the geography covered by our online offering.
Data	<p>A security breach leading to a loss of customer, colleague or Group confidential data is a key aspect of this principal risk. A major data security breach could lead to significant reputational damage and fines.</p> <p>The risk environment is challenging, with increased levels of cyber-crime and regulatory requirements.</p>	<ul style="list-style-type: none"> • The Data Steering Group has the responsibility for overseeing data management practices, policies, regulatory awareness and training; • Information security policies and procedures are in place, including encryption, network security, systems access and data protection; • This is supported by ongoing monitoring, reporting and rectification of vulnerabilities; and • Focussed working groups are in place – looking at the management of data across the business including colleague data, customer data, commercial data and financial data. This considers data transfer to third parties.
Financial and treasury	<p>The main areas of this principal risk are the availability of funding and management of cash flow, including liquidity requirements and debt maturity profiles, to meet business needs. There is a risk of a working capital outflow if there was a significant reduction in payment terms to suppliers. Some suppliers benefit from access to supply chain finance facilities. The withdrawal of these facilities could lead to some terms being reviewed.</p> <p>In addition, exposure to movement in foreign exchange rates continues to require management.</p> <p>The growth of wholesale supply contracts introduces credit risk which requires policies and monitoring to manage.</p>	<ul style="list-style-type: none"> • The Group's Treasury function is responsible for the forward-planning and management of funding, interest rate, foreign currency exchange rates and certain commodity price risks. They report to the Treasury Committee and operate within clear policies and procedures which are approved by the Board. The appropriateness of policies are reviewed on a regular basis; • The Group's treasury policy is to maintain an appropriate borrowing maturity profile and a sufficient level of headroom in committed facilities. This includes an assumption that supply chain finance facilities are not available for the benefit of suppliers; • There are governance processes in place to control purchases in foreign currency and management of commodity prices; • For livestock and produce, we track prices and forecasts and enter into long-term contracts where appropriate to ensure stability of price and supply; and • We have policies to control and monitor the credit risk across our increasing number of Wholesale customers.

1. General information and basis of preparation (continued)

Principal risks (continued)

RISKS	DESCRIPTION	MITIGATION
Food safety and product integrity	There is a risk that the products we sell are unsafe or not of the integrity that our customers expect. It is of utmost importance to us, and to the confidence that customers have in our business, that we meet the required standards. If we do not do this it could impact business reputation and financial performance.	<ul style="list-style-type: none"> Monitoring processes are in place to manage food safety and product integrity throughout the Group and supply chain; Regular assessments of our suppliers and own manufacturing and store production facilities are undertaken to ensure adherence to standards; Our vertical integration model gives us control over the integrity of a significant proportion of our fresh food; Management regularly monitors food safety and product integrity performance and compliance as well as conducting horizon scanning to anticipate emerging issues, such as the new allergen regulation which comes into force in 2021; The process is supported by external accreditation and internal training programmes; and We work closely with our supply chain to understand food provenance, sustainable and ethical practices.
Health and safety	The main aspect of this principal risk is of injury or harm to customers or colleagues. Failure to prevent incidents could impact business reputation and customer confidence and lead to financial penalties.	<ul style="list-style-type: none"> We have clear policies and procedures detailing the controls required to manage health and safety risks across the business; An ongoing training programme is in place for front-line operators and management; A programme of health and safety audits is in place across the Group with resource dedicated to manage this risk effectively; and Management regularly monitors health and safety performance and compliance.
People	Our colleagues are key to the achievement of our plan, particularly as we improve the business. There is a risk that if we fail to attract, retain or motivate talented colleagues, we will not provide the quality of service that our customers expect.	<ul style="list-style-type: none"> We have fair employment policies, and competitive remuneration and benefits packages; A Group-wide reward framework is in place and roles are evaluated against an external framework, driving stronger consistency of rewards; Our training and development programmes are designed to give colleagues the skills they need to do their job and support their career aspirations; Line managers conduct regular talent reviews and processes are in place to identify and actively manage talent; We have worked to give colleagues increased visibility and flexibility of their hours and rotas with the introduction of a new People System and modernised working patterns; and Colleague engagement surveys, listening sessions and networking forums are used to understand and respond to our colleagues.
Regulation	The Group operates in an environment governed by numerous regulations including GSCOP (Groceries Supply Code of Practice), competition, employment, health and safety and regulations over the Group's products. The Board takes its responsibilities very seriously and recognises that breach of regulation can lead to reputational damage and financial damages to the Group. Consideration is also given to any potential changes to regulations.	<ul style="list-style-type: none"> We have a GSCOP compliance framework in place including training for relevant colleagues and processes to monitor compliance; We have a senior level working group in place to review and improve GSCOP compliance activity; We have an independent whistleblowing line for suppliers to provide feedback to the Group and a Code Compliance Officer so that action can be taken as necessary; The Group monitors for potential regulatory change and the impact on contractual arrangements; We have training, policies and legal guidance in place to support compliance with Competition Law and other regulations; and We actively engage with government and regulatory bodies on policy changes which could impact our colleagues and our customers.

1. General information and basis of preparation (continued)

Principal risks (continued)

UK - EU Trade

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

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

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

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

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

COVID-19

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

The key risks to our operations include:

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

Responsibility statement

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

To the best of each Director's knowledge:

- a) The consolidated financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and its subsidiaries included in the consolidation as a whole; and
- b) the strategic report includes a fair review of the development of the business and the position of the Group and its subsidiaries included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

2. Segmental Reporting

The Group's principal activity is that of retailing, derived from the UK.

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

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

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

3. Profit before exceptionals

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

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

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

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

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

	2020	2019 restated ¹
	£m	£m
Profit after tax	348	233
Add back: tax charge for the period ²	87	70
Profit before tax	435	303
Adjustments for:		
Impairment and provision for onerous contracts ²	(2)	10
Profit/loss arising on disposal and exit of properties ²	(66)	-
Store restructuring and closure costs ²	51	-
Other exceptional items ²	9	42
Costs associated with the repayment of borrowings ²	-	33
Retirement benefit exceptional items ²	-	26
Net retirement benefit interest ²	(19)	(18)
Profit before tax and exceptionals	408	396
Normalised tax charge at 23.1% (2019: 23.5%) ^{2,3}	(94)	(93)
Profit before exceptionals after tax	314	303
Earnings per share before exceptionals (pence)		
- Basic (note 8)	13.18	12.85
- Diluted (note 8)	13.03	12.57

¹For further details on the restatement of the reported results for the 52 weeks ended 3 February 2019 from adopting IFRS 16 'Leases', see note 25.

²Adjustments marked 2 decrease post-tax adjusted earnings by £34m (2019: increase of £70m) as shown in the reconciliation of earnings disclosed in note 8.

³Normalised tax is defined in the Glossary.

3. Profit before exceptionals (continued)

Impairment and provision for onerous contracts

Following the Group's annual impairment and onerous contract review a net credit of £2m has been recognised. This includes a net impairment reversal of £15m (£123m impairment reversal offset by £108m impairment charge). The £108m impairment charge includes £59m in relation to property, plant and equipment, £23m in relation to right-of-use assets, £11m in relation to investment property and £15m in relation to intangible assets (see notes 9, 10, 11 and 12). The £123m impairment reversal includes £93m in relation to property, plant and equipment, £24m in relation to right-of-use assets and £6m in relation to investment property (see note 10, 11 and 12). A net £2m charge has been recognised in relation to provisions for onerous contracts. A £10m credit has been recognised following changes to estimates in respect of lease terms. In addition, there has been a charge in respect of amounts provided for onerous commitments and receivables in respect of contract payments of £21m.

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

Profits/loss arising on disposal and exit of properties

Profits/loss arising on disposal and exit of properties, net of fees incurred, amounted to £66m (2019: £nil). Of this amount, £64m was realised following the sale of land and buildings in respect of the Camden store (see note 13).

Store restructuring and closure costs

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

Other exceptional items

Other exceptional items include:

- a £6m charge, relating to one-off costs associated with improvements to the Group's distribution network. These costs were incurred as part of a programme to increase network capacity and support the accelerated roll out of wholesale supply (2019: £12m).
- a net charge of £3m relating to costs incurred in relation to legal cases in respect of historic events and costs associated with other restructuring activity (2019: £2m).

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

Costs associated with the repayment of borrowings

The costs incurred in the 52 weeks ended 3 February 2019 comprised £30m relating to financing charges on redemption of financial instruments (primarily premiums) and £3m of fees and premiums written off on the repayment of bonds. There were no amounts relating to gains or losses reclassified to the income statement on termination of hedging arrangements, which had previously been recognised in reserves.

Retirement benefit exceptional items

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

4. Revenue

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

All revenue is derived from contracts with customers.

5. Finance costs and income

	2020 £m	2019 restated ¹ £m
Interest payable on short-term loans and bank overdrafts	(4)	(3)
Interest payable on bonds	(43)	(48)
Interest on lease liabilities	(63)	(66)
Interest capitalised	2	1
Total interest payable	(108)	(116)
Provisions: unwinding of discount	(2)	(3)
Other finance costs	(1)	(1)
Finance costs before exceptionals²	(111)	(120)
Costs associated with the repayment of borrowings (note 3)	-	(33)
Finance costs	(111)	(153)
Bank interest and other finance income	4	4
Finance lease income	1	1
Finance income before exceptionals²	5	5
Net retirement benefit interest (notes 3 and 17)	19	18
Finance income	24	23
Net finance costs	(87)	(130)

¹For further details on the restatement of the reported results for the 52 weeks ended 3 February 2019 from adopting IFRS 16 'Leases', see note 25.

²Net finance costs before exceptionals marked 2 amount to £106m (2019: £115m).

6. Taxation

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

¹For further details on the restatement of the reported results for the 52 weeks ended 3 February 2019 from adopting IFRS 16 'Leases', see note 25.

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

The normalised tax rate was 4.1% above the UK statutory tax rate of 19%. The main factor increasing the normalised tax rate is disallowed depreciation on UK properties which reflects the Group's strategy to maintain a predominantly freehold estate.

Legislation to reduce the standard rate of corporation tax to 17% from 1 April 2020 was included in Finance Act 2016 and was enacted in a previous period. Accordingly, deferred tax has been provided at 19% or 17% depending upon when the temporary difference is expected to reverse (2019: 19% or 17%).

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

7. Dividends

Amounts recognised as distributed to equity holders in the period:

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

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

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

8. Earnings per share (EPS)

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

The Company has two (2019: two) classes of instrument that are potentially dilutive: those share options granted to employees where the exercise price together with the future IFRS 2 charge of the option is less than the average market price of the Company's ordinary shares during the period and contingently issuable shares under the Group's Long Term Incentive Plans (LTIPs).

a) Basic and diluted EPS (unadjusted)

Reconciliations of the earnings and weighted average number of shares used in the calculations are set out below:

	2020			2019 restated ¹		
	Earnings £m	Weighted average number of shares millions	EPS pence	Earnings £m	Weighted average number of shares millions	EPS pence
Unadjusted EPS						
Basic EPS						
Profit attributable to ordinary shareholders	347.9	2,382.5	14.60	233.1	2,356.8	9.89
Effect of dilutive instruments						
Share options and LTIPs	-	26.3	(0.16)	-	53.2	(0.22)
Diluted EPS	347.9	2,408.8	14.44	233.1	2,410.0	9.67

¹For further details on the restatement of the reported results for the 52 weeks ended 3 February 2019 from adopting IFRS 16 'Leases', see note 25.

8. Earnings per share (continued)

b) EPS before exceptionals

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

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

	2020			2019 restated ¹		
	Earnings £m	Weighted average number of shares millions	EPS pence	Earnings £m	Weighted average number of shares millions	EPS pence
EPS before exceptional						
Basic EPS before exceptionals						
Profit attributable to ordinary shareholders	347.9	2,382.5	14.60	233.1	2,356.8	9.89
Adjustments to determine profit before exceptionals (note 3)	(34.0)	-	(1.42)	69.8	-	2.96
	313.9	2,382.5	13.18	302.9	2,356.8	12.85
Effect of dilutive instruments						
Share options and LTIPs	-	26.3	(0.15)	-	53.2	(0.28)
Diluted EPS before exceptionals	313.9	2,408.8	13.03	302.9	2,410.0	12.57

¹For further details on the restatement of the reported results for the 52 weeks ended 3 February 2019 from adopting IFRS 16 'Leases', see note 25.

9. Goodwill and intangible assets

	2020 £m	2019 £m
Net book value		
At start of period	404	428
Additions	82	79
Interest capitalised	2	1
Disposals	(1)	-
Impairment	(15)	(11)
Amortisation charge for the period	(91)	(93)
At end of period	381	404

The Group has performed its annual assessment of its amortisation policies and asset lives and deemed them to be appropriate. Following the annual impairment review conducted by the Group, an impairment charge of £15m (2019: £11m) has been recognised in relation to intangible assets.

10. Property, plant and equipment

	2020 £m	2019 restated ¹ £m
Net book value		
At start of period	7,094	7,027
Additions	398	397
Acquisition of business	-	5
Disposals	(5)	(15)
Transfers from investment property	-	6
Transfers to assets classified as held-for-sale	(3)	(41)
Depreciation charge	(371)	(348)
Net impairment reversal	34	63
At end of period	7,147	7,094

¹For further details on the restatement of the reported results for the 52 weeks ended 3 February 2019 from adopting IFRS 16 'Leases', see note 25.

10. Property, plant and equipment (continued)

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

The cost of financing property developments prior to their opening date has been included in the cost of the asset. The cumulative amount of interest capitalised in the total cost above amounts to £199m (2019: £199m).

Impairment

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

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

- use the actual cash flows for each store in the current year;
- allocate a proportion of the Group's central costs to each store on an appropriate basis;
- project store cash flows over the next three years by applying forecast sales and cost growth assumptions;
- project cash flows beyond year three, for the life of each store by applying a long-term growth rate;
- discount the cash flows using a pre-tax rate of 9.0% (2019: 9.0%). The Group takes into account a number of factors when assessing the discount rate, including the Group's WACC and other wider market factors. The Group has evaluated its discount rate following application of IFRS 16 and has concluded that the discount rate applied is appropriate. The Group will continue to assess this as market practice as this area develops; and
- consideration is given to any significant one-off factors impacting the stores during the current year and any strategic or market factors which may impact future store performance.

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

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

Having applied the above methodology and assumptions, the Group has recognised a net impairment reversal of £34m (£93m impairment reversal offset by £59m impairment charge) during the year in respect of property, plant and equipment (2019: net £63m impairment reversal; £155m impairment reversal offset by £92m impairment charge). This movement reflects fluctuations from store level trading performance and local market conditions.

At 2 February 2020, the assumptions to which the value in use calculation is most sensitive are the discount and growth rates. The Group has estimated a change of +/- 1% in either would result in a change in impairment of c.£60m.

11. Right-of-use assets

	2020 £m	2019 restated ¹ £m
Net book value		
At start of period	929	970
Additions	75	66
Disposals	(3)	-
Depreciation charge	(60)	(58)
Net impairment reversal/(charge)	1	(49)
At end of period	942	929

¹For further details on the restatement of the reported results for the 52 weeks ended 3 February 2019 from adopting IFRS 16 'Leases', see note 25.

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

11. Right-of-use assets (continued)

Impairment

Having applied the same methodology and key assumptions as for property, plant and equipment as set out in note 10, the Group has recognised a net impairment reversal of £1m (£24m impairment reversal offset by £23m impairment charge) during the year in respect of right-of-use assets (2019: net £49m impairment; £69m impairment charge offset by £20m reversal of impairment). This movement reflects fluctuations from store level trading performance and local market conditions.

At 2 February 2020, the assumptions to which the value in use calculation is most sensitive are the discount and growth rates. The Group has estimated a reasonably possible change of +/- 1% in either would result in a change in impairment of c.£15m.

12. Investment property

	2020 £m	2019 restated ¹ £m
Net book value		
At start of period	60	69
Additions	7	1
Transfer to property, plant and equipment	-	(6)
Disposals	(1)	(1)
Depreciation charge	(3)	(2)
Net impairment	(5)	(1)
At end of period	58	60

¹For further details on the restatement of the reported results for the 52 weeks ended 3 February 2019 from adopting IFRS 16 'Leases', see note 25.

13. Assets classified as held-for-sale

	2020 £m	2019 £m
Net book value		
At start of period	39	4
Transfer from property, plant and equipment	3	41
Disposals	(39)	(6)
At end of period	3	39

On 13 December 2019, the Group disposed of £38m of assets previously classified as held-for-sale in relation to its Camden site. The consideration includes £85m in cash (£25m received in the period, with a further £20m due in 2020 and the remaining £40m due in 2025) together with £34m in non-cash consideration due by 2024 (representing the undiscounted value of the future lease of a new store on part of the same site). The total consideration has been discounted, resulting in a profit on disposal of £64m after disposal costs in the 52 week period ended 2 February 2020. Consideration receivable as at the period end is included within both current and non-current trade and other receivables, on a discounted basis.

14. Inventories

	2020 £m	2019 £m
Finished goods	660	713

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

15. Trade and other receivables

	2020 £m	2019 restated ¹ £m
Finance leases – Group is lessor	8	8
Other receivables	63	-
Total non-current	71	8
Commercial income trade receivables	7	4
Accrued commercial income	28	28
Other trade receivables	175	167
Less: provision for impairment of trade receivables	(4)	(4)
Trade receivables	206	195
Prepayments and accrued income	116	132
Other receivables	31	17
Total current	353	344

¹For further details on the restatement of the reported results for the 52 weeks ended 3 February 2019 from adopting IFRS 16 'Leases', see note 25.

Non-current other receivables comprise deferred consideration in relation to the disposal of the Camden site (note 13) due after more than one year. The amount includes £33m of deferred cash consideration on a discounted basis and £30m representing the fair value of a future lease of a newly constructed supermarket and convenience store on part of the site.

As at 2 February 2020 and 3 February 2019, trade receivables that were neither past due nor impaired, related to a number of debtors for whom there is no recent history of default. The other classes of receivables do not contain impaired assets.

As at 15 March 2020, £6m of the £7m commercial income trade receivables balance had been settled and £20m of the £28m accrued commercial income balance had been invoiced and settled.

16. Trade and other payables

	2020 £m	2019 restated ¹ £m
Trade payables	2,467	2,449
Less: commercial income due, offset against amounts owed	(21)	(27)
	2,446	2,422
Other taxes and social security payable	131	113
Other payables	58	109
Accruals and deferred income	416	426
	3,051	3,070

¹For further details on the restatement of the reported results for the 52 weeks ended 3 February 2019 from adopting IFRS 16 'Leases', see note 25.

Included within accruals and deferred income is £1m (2019: £1m) in respect of deferred commercial income. Amounts accrued in relation to store restructuring activity are included within accruals and deferred income at 2 February 2020.

As at 15 March 2020, £17m of the £21m commercial income due above had been offset against payments made.

17. Retirement benefits

Defined benefit schemes

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

The position of each scheme at 2 February 2020 is as follows:

	2020 CARE	2020 RSP	2019 CARE	2019 RSP
	£m	£m	£m	£m
Statement of financial position				
Fair value of scheme assets	5,013	389	4,471	349
Present value of obligations	(4,053)	(405)	(3,741)	(391)
Net retirement benefit surplus/(deficit)	960	(16)	730	(42)

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

	2020	2019
	£m	£m
Net retirement benefit surplus at start of the period	688	594
Net interest income	19	18
Settlement and curtailment gain	-	2
Curtailment loss from closure of the retirement benefit scheme	-	(19)
Remeasurement in other comprehensive income	231	100
Employer contributions	9	56
Current service cost	-	(53)
Past service cost	-	(7)
Administrative expenses	(3)	(3)
Net retirement benefit surplus at end of the period	944	688

At 2 February 2020, schemes in surplus have been disclosed within the assets in the Consolidated statement of financial position. The Group obtained legal advice with regard to the recognition of a retirement benefit surplus and also recognition of a minimum funding requirement under IFRIC 14 'IAS 19 – The limit on a defined benefit asset, minimum funding requirement and their interaction'. This advice concluded that recognition of a surplus is appropriate on the basis that the Group has an unconditional right to a refund of a surplus. In respect of the RSP this is on the basis that paragraph 11(a) of IFRIC 14 applies, enabling a refund of surplus during the life of the RSP. In respect of the Morrison Scheme, it is on the basis that paragraph 11(b) or 11(c) of IFRIC 14 applies enabling a refund of surplus assuming the gradual settlement of the scheme liabilities over time until all members have left the scheme or the full settlement of the Scheme's liabilities in a single event (i.e. as a scheme wind up). In respect of the Safeway Scheme, a refund is available on the basis that paragraph 11(b) of IFRIC 14 applies. Amendments to the current version of IFRIC 14 are currently being considered. The legal advice received by the Group has concluded that the above accounting treatment should not be materially affected by the 2015 exposure draft of the revised wording to IFRIC 14.

Settlement and curtailment losses in the 52 weeks ended 3 February 2019 include a £19m exceptional charge as a result of the closure of the RSP to future accrual in September 2018.

The Group recognised a past service cost of £7m in the 52 weeks ended 3 February 2019 in relation to the estimated cost of the equalisation of guaranteed minimum retirement benefits for men and women, following a ruling by the High Court in October 2018.

Assumptions

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

	2020 CARE	2020 RSP	2019 CARE	2019 RSP
Discount rate applied to scheme liability (% p.a.)	1.8%	1.8%	2.8%	2.7%
Inflation assumption (RPI) (%p.a.)	2.9%	2.9%	3.2%	3.2%

17. Retirement benefits (continued)

Assumptions (continued)

Assumptions regarding future mortality experience are set based on actuarial advice and in accordance with published statistics. The mortality tables used for the 52 weeks ended 2 February 2020 are the S2PMA/S2PFA-Heavy mortality tables (males/females) based on year of birth with a scaling factor of 110% applied to the mortality rates in both the Morrison and Safeway Schemes, with CMI 2018 core projections and a long-term rate of improvement of 1.5% p.a. For the 52 weeks ended 3 February 2019, the Group used the S2PMA/S2PFA-Heavy mortality tables (males/females) based on year of birth with a scaling factor of 110%/100% applied to the mortality rates in the Morrison/Safeway Scheme respectively, with CMI 2017 projections and a long-term rate of improvement of 1.5% p.a.

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

Defined contribution scheme

The Group opened a defined contribution retirement benefit scheme called the Morrisons Personal Retirement Scheme ('MPRS') for colleagues during the 53 weeks ended 4 February 2018. The MPRS became the auto enrolment scheme for the Group. As the MPRS is a defined contribution scheme, the Group is not subject to the same investment, interest rate, inflation or longevity risks as it is for the defined benefit schemes. The benefits that employees receive are dependent on the contributions paid, investment returns and the form of benefit chosen at retirement. During the 52 weeks ended 2 February 2020, the Group paid contributions of £78m to the MPRS (2019: £28m), and expects to contribute £80m for the following period (2019: £79m).

18. Cash generated from operations

	2020 £m	2019 restated ¹ £m
Profit for the period	348	233
Net finance costs	87	130
Taxation charge	87	70
Share of profit of joint venture (net of tax)	(1)	(1)
Operating profit	521	432
Adjustments for:		
Depreciation and amortisation	525	501
Impairment	108	173
Impairment reversal	(123)	(175)
Profit/loss arising on disposal and exit of properties	(66)	-
Gain arising on reduction of lease terms	(10)	-
Defined benefit scheme contributions paid less operating expenses	(5)	21
Share-based payments charge	26	34
Decrease/(Increase) in inventories ²	53	(27)
Increase in Trade and other receivables ²	(14)	(89)
Increase in Trade and other payables ²	29	114
Decrease in provisions ²	(27)	(7)
Cash generated from operations	1,017	977

¹For further details on the restatement of the reported results for the 52 weeks ended 3 February 2019 from adopting IFRS 16 'Leases', see note 25.

Total working capital inflow (the sum of items marked ² in the table) is £41m in the 52 weeks ended 2 February 2020 (2019: £9m outflow). This includes £2m (2019: £12m) as a result of the current year charges in respect of onerous contracts and accruals of onerous commitments and £63m of non-cash exceptional charges (2019: £nil), net of £41m (2019: £6m) of onerous payments and other non-operating payments of £1m (2019: £5m). When adjusted to exclude these items, the working capital inflow is £18m (2019: £10m outflow).

19. Analysis of net debt¹

	2020	2019 restated ²
	£m	£m
Cross-currency interest rate swaps ³	-	9
Fuel and energy price contracts	-	6
Non-current financial assets	-	15
Foreign exchange forward contracts	-	3
Fuel and energy price contracts	1	16
Current financial assets	1	19
Bonds ³	(237)	-
Other short-term borrowings ³	-	(178)
Cross-currency interest rate swaps ³	(4)	-
Lease liabilities ³	(72)	(69)
Foreign exchange forward contracts	(17)	(4)
Fuel and energy price contracts	(15)	(1)
Current financial liabilities	(345)	(252)
Bonds ³	(1,110)	(1,013)
Revolving credit facility ³	2	(97)
Lease liabilities ³	(1,304)	(1,328)
Fuel and energy price contracts	(7)	(2)
Non-current financial liabilities	(2,419)	(2,440)
Cash and cash equivalents	305	264
Net debt¹	(2,458)	(2,394)

¹Net debt is defined in the Glossary.

²For further details on the restatement of the reported results for the 52 weeks ended 3 February 2019 from adopting IFRS 16 'Leases', see note 25.

Total net liabilities from financing activities (the sum of items marked ³ in the table) is £2,725m in the 52 weeks ended 2 February 2020 (2019: £2,676m). Of the £49m increase (2019: £42m decrease) in net liabilities from financing activities, £67m (2019: £56m) relates to non-cash movements offset by £18m (2019: £98m) related to cash movements.

Cash and cash equivalents include restricted balances of £nil (2019: £3m) which is held by Farock Insurance Company Limited, a subsidiary of Wm Morrison Supermarkets PLC.

20. Financial instruments

	2020	2020	2019	2019
	Carrying amount	Fair Value	Carrying amount	Fair Value
	£m	£m	£m	£m
Derivative financial assets	-	-	15	15
Total non-current financial assets	-	-	15	15
Derivative financial assets	1	1	19	19
Total current financial assets	1	1	19	19
Borrowings	(237)	(237)	(178)	(178)
Derivative financial liabilities	(36)	(36)	(5)	(5)
Total current financial liabilities	(273)	(273)	(183)	(183)
Borrowings	(1,108)	(1,238)	(1,110)	(1,182)
Derivative financial liabilities	(7)	(7)	(2)	(2)
Total non-current financial liabilities	(1,115)	(1,245)	(1,112)	(1,184)

The fair value of the sterling and euro denominated bonds are measured using closing market prices (level 1) (3 February 2019: Level 1). The fair value of all derivative financial instruments are calculated by using benchmark observable market interest rates and discounted future cash flows (level 2) (3 February 2019: Level 2).

21. Share capital and share premium

	Number of shares millions	Share capital £m	Share premium £m	Total £m
At 4 February 2019	2,368.3	237	178	415
Share options exercised and shares issued under LTIP schemes ¹	36.7	3	14	17
At 2 February 2020	2,405.0	240	192	432

¹The £3m movement in share capital has been rounded down to ensure that the total movement and total share capital positions, are correctly stated.

All issued shares are fully paid and have a par value of 10p per share (2019: 10p per share). The Group did not acquire any of its own shares for cancellation in the 52 weeks ended 2 February 2020 or the 52 weeks ended 3 February 2019. The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at the meetings of the Company.

Trust shares

Included in retained earnings is a deduction of £30m (2019: £21m) in respect of own shares held at the reporting date. This represents the cost of 14,215,041 (2019: 9,885,248) of the Group's ordinary shares (nominal value of £1.4m (2019: £1.0m)). These shares are held in a trust and were acquired by the business to meet obligations under the Group's employee share plans using funds provided by the Group. The market value of the shares at 2 February 2020 was £26m (2019: £23m). The trust has waived its right to dividends. These shares are not treasury shares as defined by the London Stock Exchange.

During the period, the Group acquired 4,881,284 (2019: 3,945,258) of its own shares to hold in trust for consideration of £10m (2019: £9m), and utilised 551,491 (2019: 1,721,480) trust shares to satisfy awards under the Group's employee share plans.

Proceeds from exercise of share awards

The Group issued 8,532,407 (2019: 12,440,132) new shares to satisfy options exercised by employees during the period in respect of the Group's Share save schemes. Proceeds received on exercise of these shares amounted to £14m (2019: £20m) and these have been recognised as an addition to share capital and share premium in the period. In addition, the Group issued 28,166,736 (2019: nil) shares under the Group's Long Term Incentive Plan ('LTIP') scheme for nominal value.

Settlement of share awards

During the 52 weeks ended 2 February 2020, the Group has settled 551,491 of share options out of trust shares which have vested during the period net of tax. The Group paid the £2m (2019: £5m) in cash on behalf of the employees, rather than selling shares on the employees' behalf to settle the employee's tax liability on vesting of share options.

22. Commercial income

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

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

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

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

23. Related party transactions

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

During the 52 weeks ended 2 February 2020, the Group received a dividend of £9m (2019: £7m) from MHE JVCo Limited. The Group has a 51.1% interest in MHE JVCo Limited.

24. Guarantees and contingent liabilities

Following the disposal of the land and building of its customer fulfilment centre at Dordon to a third party, the Group continues to guarantee the lease in respect of this site through until 2038. If the lessee were to default during the period of guarantee, their lease obligations could revert back to the Group under the terms of the guarantee and become a liability of the Group. Should the lessee default, the additional future commitment is estimated at up to £30m (2019: £31m).

The Group has an ongoing legal case brought by a number of current and former colleagues relating to employee data theft in the 52 weeks ended 1 February 2015. In December 2017, the High Court concluded that the Group was liable for the actions of the former employee who conducted the data theft. The Group launched an appeal to this judgement and the High Court has confirmed that there will be no hearings on the level of compensation until the appeal has been concluded. During the 52 weeks ended 3 February 2019 the High Court rejected this appeal and the Group is now appealing to the Supreme Court. The Supreme Court hearing took place in November 2019 and the Group is waiting for the decision. It is the Directors' view that at this stage of the process the Group cannot reliably assess the outcome of the case nor reasonably estimate the quantum of any loss and as such no provision has been recognised in these consolidated financial statements.

25. Changes in accounting policies

The Group has adopted the fully retrospective approach to transition for IFRS 16 'Leases' and under this approach, the opening consolidated statement of financial position as at 5 February 2018 and the comparative consolidated statement of financial position as at 3 February 2019 have been restated.

Impact on the consolidated income statement

The adoption of IFRS 16 resulted in changes to the consolidated income statement, as previously recognised straight-line rental costs were removed and replaced with a depreciation charge on the right-of-use assets and a finance cost on the lease liabilities. The impact of IFRS 16 in the 52 weeks ended 3 February 2019 was to change each line as follows:

	Before exceptionals	Exceptionals	2019
	£m	£m	Total £m
Cost of sales	45		45
Gross profit	45		45
Profit/loss on disposal and exit of properties	-	(2)	(2)
Administrative expenses	-	(5)	(5)
Operating profit	45	(7)	38
Finance costs	(56)	-	(56)
Finance income	1	-	1
Profit before taxation	(10)	(7)	(17)
Taxation	2	4	6
Profit for the period attributable to the owners of the Company	(8)	(3)	(11)
Earnings per share (pence)			
- Basic			(0.45)
- Diluted			(0.44)

During the 52 weeks ended 3 February 2019, the following lines in the consolidated income statement were principally impacted by IFRS 16:

Impact on profit before exceptionals after tax:

- Cost of sales – a net credit of £45m was recognised, being the reversal of previously recognised rent payments (£103m) offset by the depreciation charge on the right-of-use assets and leased assets in investment property (£58m).
- Net finance costs – additional finance costs of £55m were recognised on IFRS 16 lease liabilities.
- The net impact of all of the adjustments in the table above reduced reported profit before tax and exceptionals by £10m and profit before exceptionals after tax by £8m.

25. Changes in accounting policies (continued)

Impact on exceptional items:

- Profit/loss on disposal and exit of properties – an additional £2m of lease disposal costs were recognised.
- Administrative expenses – an additional £5m net charge was recognised being the net impact of additional impairment from applying IFRS 16 of £53m (being £49m charge for right-of-use assets, £3m charge for property, plant and equipment and £1m charge for investment property) offsetting the reversal of previously recognised onerous lease provisions and amounts provided for onerous commitments (£48m).
- The net impact of all of the adjustments in the table above reduced exceptionals after tax by £3m.
- All of the above items were classified as exceptional items in line with the Group's policy.

Impact on the consolidated statement of financial position

Upon adoption of IFRS 16, the Group recognised right-of-use assets (representing the right to use the underlying assets) and lease liabilities for lease payments on the discounted future obligations.

The impact of IFRS 16 as at 5 February 2018 and at 3 February 2019 was to change each line as follows:

	2019 £m	2018 £m
Assets		
Property, plant and equipment	(218)	(216)
Right-of-use assets	929	970
Investment property	34	36
Trade and other receivables	8	8
Non-current assets	753	798
Trade and other receivables	(3)	(3)
Current assets	(3)	(3)
Liabilities		
Trade and other payables	15	60
Lease liabilities	(69)	(59)
Current liabilities	(54)	1
Lease liabilities	(1,328)	(1,354)
Deferred tax liabilities	69	63
Provisions	257	200
Non-current liabilities	(1,002)	(1,091)
Net assets	(306)	(295)
Shareholders' equity		
Retained earnings and other reserves	(306)	(295)
Total equity attributable to the owners of the Company	(306)	(295)

As at 3 February 2019, IFRS 16 principally impacted the following lines in the consolidated statement of financial position:

Right-of-use assets of £929m (2018: £970m) were recognised and presented separately in the consolidated statement of financial position. Included within this balance were assets reclassified from property, plant and equipment of £218m (2018: £216m) and additional accumulated impairment of £386m (2018: £352m).

Investment property right-of-use assets of £34m (2018: £36m), have been recognised in respect of leasehold investment property. Included within this balance was additional accumulated impairment of £75m (2018: £96m).

Lease liabilities of £1,397m (2018: £1,413m) were recognised and split between current and non-current on the face of the consolidated statement of financial position.

Deferred tax liabilities decreased by £69m (2018: £63m) in relation to the tax relief available for the transition adjustment that will be realised over the remaining life of the leases.

Provisions reduced by £257m (2018: £200m) as onerous lease provisions are derecognised on application of IFRS 16.

The net impact of all of the adjustments in the table above has decreased retained earnings and other reserves by £306m (2018: £295m).

25. Changes in accounting policies (continued)

Impact on the consolidated statement of cash flows

The net cash movement has not changed following the adoption of IFRS 16. However, the presentation in the consolidated cash flow statement has changed, with lease payments, which were previously recognised within cash flows from operating activities, being split between the interest element (which remains within cash flows from operating activities) and the capital element (now disclosed within cash flows from financing activities). This is detailed below:

	2019
	£m
Cash flows from operating activities	
Cash generated from operations	135
Interest paid	(66)
Net cash inflow from operating activities	69
Cash flows from financing activities	
Repayment of lease obligations	(69)
Net cash outflow from financing activities	(69)
Net movement in cash and cash equivalents	-

During the 52 weeks ended 3 February 2019, the following lines in the consolidated cash flow statement were principally impacted by IFRS 16:

- Cash generated from operations – increased by £135m as straight-line rent payments are no longer recognised.
- Interest paid – £66m of interest payments were recognised relating to the finance element of lease payments.
- Repayment of lease obligations – £69m of payments were recognised relating to the capital element of lease payments.
- There was no net impact of these adjustments on cash flow in the period.

Glossary

Alternative Performance Measures

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

On transition to IFRS 16, the definitions of net debt and return on capital employed (ROCE) changed. Net debt now includes current and non-current lease liabilities. Previously, ROCE took into account the operating lease rentals charge (on land and buildings) as part of the return and a lease adjustment (10 times rent charged) for the capital employed element. Following adoption of IFRS 16 and the recognition of lease liabilities and assets, these adjustments are no longer necessary in the ROCE calculation. Amounts relating to these measures included within this statement have been restated unless detailed otherwise.

Measures	Closest equivalent IFRS Measure	Definition and purpose	Reconciliation for 2019/20 Group measures ¹										
Profit Measures													
Like-for-like (LFL) sales growth	Revenue	<p>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.</p> <p>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.</p>	<table border="1"> <tr> <td></td> <td>52 weeks ended 2 February 2020 %</td> </tr> <tr> <td>Group LFL (exc. fuel)</td> <td>(0.8)%</td> </tr> <tr> <td>Group LFL (inc. fuel)</td> <td>(1.1)%</td> </tr> <tr> <td>Net new space (inc. fuel)</td> <td>(0.0)%</td> </tr> <tr> <td>Total revenue year-on-year</td> <td>(1.1)%</td> </tr> </table>		52 weeks ended 2 February 2020 %	Group LFL (exc. fuel)	(0.8)%	Group LFL (inc. fuel)	(1.1)%	Net new space (inc. fuel)	(0.0)%	Total revenue year-on-year	(1.1)%
	52 weeks ended 2 February 2020 %												
Group LFL (exc. fuel)	(0.8)%												
Group LFL (inc. fuel)	(1.1)%												
Net new space (inc. fuel)	(0.0)%												
Total revenue year-on-year	(1.1)%												
Total sales growth	Revenue	<p>Including fuel: Percentage change in year-on-year total reported revenue.</p> <p>Excluding fuel: Percentage change in year-on-year total sales excluding fuel.</p> <p>This measure illustrates the total year-on-year sales growth.</p> <p>This measure is a key measure for Director and management remuneration.</p>	A reconciliation of total sales including and excluding fuel is provided in note 4.										
Profit before tax and exceptionals	Profit before tax	<p>Profit before tax and exceptionals is defined as profit before tax, exceptional items and net retirement benefit interest. This excludes exceptional items which are significant in size and/or nature and net retirement benefit interest.</p> <p>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.</p>	A reconciliation of this measure is provided in note 3.										
Profit before exceptionals after tax	Profit after tax	<p>Profit before tax and exceptionals after a normalised tax charge.</p> <p>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.</p>	£314m being profit before tax and exceptionals (£408m) less a normalised tax charge (£94m) (see note 3).										

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

Glossary (continued)

Measures	Closest equivalent IFRS measure	Definition and purpose	Reconciliation for 2019/20 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.	£513m being reported operating profit (£521m) less profit/loss on disposal and exit of properties (£66m), and impairment and provisions for onerous contracts (£2m) plus store restructuring and closure costs (£51m) and other exceptional items (£9m).
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.	£1,039m being operating profit before exceptionals (£513m), plus share of profit from joint venture (£1m), plus depreciation (£434m) and amortisation (£91m).
EBITDA margin before exceptionals	No direct equivalent	EBITDA before exceptional items, as a percentage of revenue. This measure is used by the Directors as it provides key information on ongoing trends and the performance of the Group before capital investment and financing costs.	5.9% being EBITDA before exceptional items (£1,039m) divided by revenue (£17,536m).
Interest cover	No direct equivalent	Operating profit before exceptionals divided by net finance costs before exceptionals. This measure is used by the Directors as a measure of the Group's ability to meet its financing costs.	4.8x being operating profit before exceptionals (£513m) divided by net finance costs before exceptionals (£106m).
Basic earnings per share before exceptionals	Basic earnings per share	Basic earnings per share based on profit before exceptionals after tax rather than reported profit after tax as described above. This measure is a key measure used by the Directors. It provides key information on ongoing trends and performance of the Group and is used for Director and management remuneration, and in setting the dividend policy.	A reconciliation of this measure is included in note 8.
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.

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

² Operating profit is not defined under IFRS. However, it is a generally accepted profit measure.

Glossary (continued)

Measures	Closest equivalent IFRS measure	Definition and purpose	Reconciliation for 2019/20 Group measures ¹
Tax measures			
Normalised tax	Effective tax	<p>Normalised tax is the tax rate applied to the Group's principal activities on an ongoing basis. This is calculated by adjusting the effective tax rate for the period to exclude the impact of exceptional items and net retirement benefit interest.</p> <p>This measure is used by the Directors as it provides a better reflection of the normalised tax charge for the Group.</p>	A reconciliation of the tax charge is found in note 2.2.3 of the Group financial statements.
Cash flows and net debt measures			
Free cash flow	No direct equivalent	<p>Movement in net debt before dividends.</p> <p>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.</p>	£238m being the movement in net debt (£64m) before payment of dividend (£302m).
Adjusted free cash flow	No direct equivalent	This measure is a key measure used by the Directors. It provides key information on the level of cash generated by the Group and is used for Director and management remuneration.	See page 58 in the Directors' remuneration report within the Group's annual report.
Net debt	No direct equivalent	Net debt is current and non-current: borrowings, lease liabilities and derivative financial assets & liabilities; net of cash and cash equivalents.	A reconciliation of this measure is provided in note 19.
Gearing	No direct equivalent	<p>Net debt as a percentage of net assets.</p> <p>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.</p>	54% being net debt (£2,458m) as a percentage of net assets (£4,541m).
Working capital movement	No direct equivalent	Movement in inventories, trade and other receivables, trade and other payables and provisions.	A reconciliation of this measure is provided in note 18.
Operating working capital movement	No direct equivalent	<p>Working capital movement adjusted for onerous contract charges, onerous payments and other non-operating payments.</p> <p>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 relating to property balances.</p>	A reconciliation of this measure is provided in note 18.

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

Glossary (continued)

Measures	Closest equivalent IFRS measure	Definition and purpose	Reconciliation for 2019/20 Group measures ¹
Other measures			
Return on capital Employed (ROCE)	No direct equivalent	<p>ROCE is calculated as return divided by average capital employed. Return is defined as annualised profit before exceptionals after tax adjusted for net finance costs before exceptionals and operating lease rentals (on land and buildings). Capital employed is defined as average net assets excluding net retirement benefit surplus and deficit, less average net debt.</p> <p>This measure is used by the Directors as it is a key ratio in understanding the performance of the Group.</p>	<p>ROCE (7%) equals return divided by average capital employed:</p> <p>Return (£420m) = profit before exceptionals after tax annualised (£314m) adjusted for annualised net finance costs before exceptionals (£106m).</p> <p>Average capital employed (£6,043m) = Average net assets excluding the net retirement benefit surplus (£3,617m) and average net debt (£2,426m).</p>
Onerous payments	No direct equivalent	<p>Payments made to settle onerous contractual commitments, includes amounts paid to exit 'pipeline' sites or sums paid to exit onerous contracts early (e.g. leases).</p>	<p>Onerous capital payments (£41m) plus £17m payment to exit leases (£17m), included within repayment of lease obligations in the consolidated cash flow statement.</p>