Wm Morrison Supermarkets PLC for the 52 weeks ended 31 January 2021

CONSOLIDATED NON-STATUTORY FINANCIAL STATEMENTS

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

Consolidated income statement

52 weeks ended 31 January 2021

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

All of the results shown above relate to continuing operations.

Consolidated statement of comprehensive income

52 weeks ended 31 January 2021

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

Consolidated statement of financial position

As at 31 January 2021

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

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

Michael Gleeson, Chief Financial Officer

Consolidated statement of cash flows

52 weeks ended 31 January 2021

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

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

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

1 Net debt is defined in the Glossary on page 158.

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

Consolidated statement of changes in equity

52 weeks ended 31 January 2021

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

	Note	Share capital £m	Share premium £m	Capital redemption reserve £m	Merger reserve £m	Hedging reserve £m	Retained earnings £m	Total equity £m
		Attributable to the owners of the Company						
Prior period								
At 4 February 2019		237	178	39	2,578	10	1,283	4,325
Profit for the period		–	–	–	–	–	348	348
Other comprehensive (expense)/income:								
Cash flow hedging movement		–	–	–	–	(57)	–	(57)
Exchange differences on translation of foreign operations		–	–	–	–	–	(2)	(2)
Remeasurement of defined benefit schemes	8.2	–	–	–	–	–	231	231
Tax in relation to components of other comprehensive income	2.3	–	–	–	–	10	(38)	(28)
Total comprehensive (expense)/income for the period		–	–	–	–	(47)	539	492
Purchase of trust shares	6.6	–	–	–	–	–	(10)	(10)
Employee share option schemes:								
Share-based payments charge	1.7	–	–	–	–	–	26	26
Settlement of share awards	6.6	–	–	–	–	–	(2)	(2)
Share options exercised	6.6	3	14	–	–	–	(3)	14
Tax in relation to components of equity	2.3	–	–	–	–	–	(2)	(2)
Dividends	1.8	–	–	–	–	–	(302)	(302)
Total transactions with owners		3	14	–	–	–	(293)	(276)
At 2 February 2020		240	192	39	2,578	(37)	1,529	4,541

General information

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

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

The financial statements are presented in pounds sterling, rounded to the nearest million, except in some instances, where it is deemed relevant to disclose the amounts to one decimal place. They are drawn up on the historical cost basis of accounting, except as disclosed in the accounting policies set out within these financial statements.

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

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

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

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

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

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

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

Accounting reference date

The accounting period of the Group ends on the Sunday falling between 29 January and 4 February each year, as such, the reporting date for the current period is 31 January 2021.

New accounting standards, amendments and interpretations adopted by the Group

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

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

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

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

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

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

Basis of consolidation

Subsidiaries (including partnerships) are all entities over which the Group has control. The Group has control when it has power over that entity, is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date the control ceases. The financial statements of subsidiaries used in the consolidation are prepared for the same reporting period as the Group and where necessary, adjustments are made to bring the accounting policies in line with those used by the Group. Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions are eliminated on consolidation.

Foreign currencies

Transactions in foreign currencies are recorded at the rates of exchange at the dates of the transactions. At each reporting date, monetary assets and liabilities that are denominated in foreign currency are retranslated at the rates of exchange at the reporting date. Gains and losses arising on retranslation are included in the income statement for the period.

Fair value measurement

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation at the end of each reporting period.

Alternative Performance Measures

The Directors measure the performance of the Group based on a range of financial measures, including measures not recognised by IFRS. These Alternative Performance Measures may not be directly comparable with other companies' Alternative Performance Measures and the Directors do not intend these to be a substitute for, or superior to, IFRS measures. For definitions of the Alternative Performance Measures used, see the Glossary on pages 157 to 159.

General information continued

Critical accounting judgements and key sources of estimation uncertainty

In the process of applying its accounting policies the Group is required to make certain judgements, estimates and assumptions that it believes are reasonable based on the information available. These judgements, estimates and assumptions affect the carrying amounts of assets and liabilities at the date of the financial statements and the amounts of revenues and expenses recognised during the reporting periods presented. Changes to these could have a material effect on the financial statements.

The judgements, estimates and assumptions are evaluated on an ongoing basis and are based on historical experience, consultation with experts and other factors that the Directors believe to be reasonable. Actual results may differ significantly from the estimates and assumptions made, the effect of which is recognised in the period in which the facts become known.

Critical accounting judgements

The critical judgements made in the process of applying the Group's accounting policies are detailed below:

Profit before exceptionals

Profit before exceptionals is defined as 'Profit before exceptional items and net retirement benefit interest'. For further details, see the Glossary on page 157.

The Directors consider that this adjusted profit measure provides useful information for shareholders on ongoing trends and performance. This measure is consistent with how business performance is measured internally by the Directors.

Profit before exceptionals and earnings per share before exceptionals measures are not recognised measures under IFRS and may not be directly comparable with adjusted measures used by other companies.

The Group's definition of items excluded, together with details of adjustments made during the period, is provided in note 1.4.

The classification of items excluded from profit before exceptionals requires judgement including considering the nature, circumstances, scale and impact of a transaction. Reversals of previous exceptional items are assessed based on the same criteria.

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

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

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

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

Leases

In determining the value of lease liabilities and associated right-of-use assets, the Group must make an assessment of the lease term. This assessment requires judgement with regard to the likelihood that any extension or break options included in a lease will be exercised. The duration of the lease term can have a significant impact on the amounts recognised in the financial statements for the lease.

To assess whether the Group is reasonably certain to extend a lease, or to not exercise a break, all relevant facts and circumstances that create an incentive to continue that lease are considered.

Currently only the Group's leases of stores and depots contain major extension and break options. For these the main factors considered are the lease specific terms and the business forecasts for these stores.

Typically this has led to periods after breaks, which are exercisable in the short- to-medium term, being included in the lease term. The periods covered by extension options, which are normally exercisable in the longer-term, are generally excluded from the lease term.

These judgements are reassessed as required by the Group's accounting policies for lease liabilities. Further detail is provided in notes 6.1 and 6.4.

Retirement benefit schemes in surplus

Where a defined benefit scheme is in a surplus position, consideration is made as to whether the Group has the right to recognise a surplus or whether it is necessary to restrict the amount of surplus recognised.

This requires judgement as to the rights of the Group and Trustees under the terms of the Group's Schemes. The Directors have concluded that the Group has the right to recognise a surplus, following legal advice received. Further details are provided in note 8.5.

Sources of estimation uncertainty

The areas of estimation uncertainty the Group believes to have the most significant risk of causing a material adjustment to the carrying value of assets and liabilities within the next financial year are detailed below:

Impairment of property, plant and equipment, right-of-use assets and intangible assets

Property, plant and equipment, right-of-use assets and intangible assets are reviewed annually for impairment or where changes in circumstances indicate impairment (or impairment write back). This requires the carrying value of assets to be compared to the recoverable amount, where the recoverable amount is based on the higher of value-in-use and fair value less costs of disposal. The assessment of value-in-use in the calculation requires expected future cash flows discounted using an appropriate discount rate. Judgement is required in applying estimates to assess the level of provision needed, specifically in relation to discount rates and future growth rates.

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

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

Commercial income

Commercial income is accounted for as a deduction from the cost of purchase, and it is recognised in accordance with signed supplier agreements, with most income subject to little or no subjectivity or judgement. However, a certain level of estimation or judgement is required for certain agreements in assessing future sales or purchase volumes and whether performance obligations have been achieved. This is estimated based on historical trends and information on sales or purchase projections. The Group's recognition policy for commercial income along with areas of estimation is included in note 1.1.

Inventories

Certain estimates are required to assess the net realisable value of inventories, along with provisions for obsolete and slow moving inventories and inventory loss, where estimation is required. Estimating the level of loss between inventory counts is inherently judgemental and is based on past information of loss rates and other relevant information. The Group's accounting policy for inventories is provided in note 5.1.

Retirement benefit schemes

Accounting for defined benefit retirement schemes requires the application of a number of assumptions which have an impact on the valuation of the schemes' assets and obligations. The significant assumptions include discount rate, inflation, rate of salary increases and longevity. The Group uses an independent actuary to calculate defined benefit obligations. Details of these assumptions are provided in note 8.4.

1 Performance in the period

1.1 Accounting policies

Revenue recognition

Revenue is recognised when the Group has a contract with a customer and a performance obligation has been satisfied, at the transaction price allocated to that performance obligation.

The Group does not adjust any of the transaction prices for the time value of money due to the nature of the Group's transactions being completed shortly after the transaction is entered into with the customer.

Sale of goods in-store and online, and sale of fuel

For revenue from the sale of goods in-store, fuel and online (including doorstep delivery), the transaction price is the value of the goods net of returns, colleague discounts, coupons, vouchers and 'More' points earned in-store, and the free element of multi-save transactions. It comprises sales proceeds from customers and excludes VAT. Sale of fuel is recognised net of VAT and 'More' points earned on fuel. Revenue is recognised when the customer obtains control of the goods, which is when the transaction is completed in-store or at the filling station, or in the case of online, when goods are accepted by the customer on delivery.

Other sales

Other sales include wholesale sales made direct to third party customers, and income from concessions and commissions, and is net of returns and net of promotional funding to customers. Wholesale revenue is recognised when the goods are delivered to the customer. Revenue collected on behalf of others is not recognised as revenue, other than the related commission which is based on the terms of the contract. Sales are recorded net of VAT and intra-group transactions.

More points

For More points, the fair value of the points is the value to the customer of the points issued, adjusted for factors such as the expected redemption rate. The Group continues to assess the appropriateness of the expected redemption rates against history of actual redemptions.

The fair value of More points is recognised once the performance obligation has been satisfied. The fair value is treated as a deferral from revenue, and is deferred until the rewards are redeemed by the customer in a future sale. At the point of issue, the customer has a material right to acquire additional goods and services (but at a future date).

Cost of sales

Cost of sales consists of all costs of the goods being sold to the point of sale, net of promotional funding and commercial income, and includes property, manufacturing, warehouse and transportation costs. Store depreciation, store overheads and store-based employee costs are also allocated to cost of sales.

Promotional funding

Promotional funding refers to investment in the customer offer by suppliers by way of promotion. The calculation of funding is mechanical and system generated, based on a funding level agreed in advance with the supplier. Funding is recognised as units are sold and invoiced in accordance with the specific supplier agreement. Funding is recorded effectively as a direct adjustment to the cost price of the product in the period. Funding is invoiced and collected through the year, shortly after the promotions have ended.

Commercial income

Commercial income is recognised as a deduction from cost of sales, based on the expected entitlement that has been earned up to the reporting date, for each relevant supplier contract. The Group only recognises commercial income where there is documented evidence of an agreement with an individual supplier and when associated performance conditions are met. The types of commercial income recognised by the Group, and the recognition policies are:

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

1 Performance in the period continued

1.1 Accounting policies continued

Commercial income continued

Uncollected commercial income at the reporting date is classified within the financial statements as follows:

- Trade and other payables: A large proportion of the Group's trading terms state that income due from suppliers is netted against amounts owing to that supplier. Any outstanding invoiced commercial income relating to these suppliers at the reporting date is included within trade payables. Any amounts received in advance of income being recognised are included in accruals and deferred income.
- Trade and other receivables: Where the trading terms described above do not exist, the Group classifies outstanding commercial income within trade receivables. Where commercial income is earned and not invoiced to the supplier at the reporting date, this is classified within accrued commercial income.
- Inventories: The carrying value of inventories is adjusted to reflect unearned elements of commercial income when it relates to inventory which has not yet been sold. This income is subsequently recognised in cost of sales when the product is sold.

In order to provide users of the financial statements with greater understanding in this area, additional income statement and statement of financial position disclosure is provided in notes 1.6, 5.2, 5.3 and 5.4 to the financial statements.

Other operating income

Other operating income primarily consists of income not directly related to in-store and online grocery retailing and wholesale supply. It mainly comprises rental income from investment properties, income generated from the recycling of packaging and certain commissions.

Profit/loss on disposal and exit of properties

Profit/loss from the disposal and exit of properties includes gains and losses on disposal of property assets and other costs incurred by the Group following a decision to dispose, close or no longer purchase properties. Where the Group disposes of a property, this disposal transaction is accounted for upon unconditional exchange of contracts. Gains and losses are determined by comparing sale proceeds with the asset's carrying amount and are presented net of costs associated with disposal.

1.2 Revenue

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

All revenue is derived from contracts with customers.

1.3 Segmental reporting

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

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

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

Reconciliations of reportable segment revenues, profit or loss, assets and liabilities and other material items

Performance is measured by the CODM based on profit before tax and exceptionals as reported in the management accounts. Management believes that this adjusted profit measure is the most relevant in evaluating the results of the Group. This information and the reconciliation to the statutory position can be found in note 1.4. In addition, the management accounts present a Group statement of financial position containing assets and liabilities.

1 Performance in the period continued

1.4 Profit before exceptionals

'Profit before exceptionals' is defined as profit before exceptional items and net retirement benefit interest. Further detail on the definition of profit before tax and exceptionals, profit before exceptionals after tax and earnings per share before exceptionals is provided in the Glossary on pages 157 to 159.

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

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

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

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

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

1 Adjustments marked 1 increase post-tax adjusted earnings by £47m (2020: decrease of £34m), as shown in the reconciliation of earnings disclosed in note 1.5.2.

2 Normalised tax is defined in the Glossary, see page 158 for details.

Restructuring and store closure costs

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

1 Performance in the period continued

1.4 Profit before exceptionals continued

Online and home delivery expansion

Transformation costs

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

Impairment write back - store pick

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

Net impairment and provision for onerous contracts

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

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

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

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

Profit/loss arising on disposal and exit of properties

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

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

Other exceptional items

Other exceptional items include:

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

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

Taxation

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

1 Performance in the period continued

1.5 Earnings per share (EPS)

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

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

1.5.1 Basic and diluted EPS (unadjusted)

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

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

1.5.2 EPS before exceptionals

EPS before exceptionals is defined as earnings per share before exceptional items and net retirement benefit interest. Basic EPS is adjusted to more appropriately reflect ongoing business performance. The reconciliation of the earnings used in the calculations of EPS before exceptionals is set out below:

			2021			2020
	Earnings £m	Weighted average number of shares millions	EPS Pence	Earnings £m	Weighted average number of shares millions	EPS Pence
EPS before exceptionals						
Basic EPS before exceptionals						
Profit attributable to ordinary shareholders	**95.8**	**2,398.1**	**3.99**	347.9	2,382.5	14.60
Adjustments to determine profit before exceptionals (note 1.4)	**47.0**	**–**	**1.96**	(34.0)	–	(1.42)
	142.8	**2,398.1**	**5.95**	313.9	2,382.5	13.18
Effect of dilutive instruments						
Share options and LTIPs	**–**	**25.2**	**(0.06)**	–	26.3	(0.15)
Diluted EPS before exceptionals	**142.8**	**2,423.3**	**5.89**	313.9	2,408.8	13.03

1 Performance in the period continued

1.6 Operating profit

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

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

Commercial income

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

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

Auditor remuneration

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

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

The Board has a policy on the engagement of the external auditor to supply non-audit services, which is available in the Corporate governance compliance statement set out in the investor relations section of the Group's website at www.morrisons-corporate.com.

1 Performance in the period continued

1.7 Employees and Directors

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

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

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

Directors' remuneration

A detailed analysis of Directors' remuneration, including salaries, bonuses and long-term incentives, and the highest paid Director, is provided in the single total figure of remuneration table in the audited section of the Directors' remuneration report, which forms part of these financial statements (page 65). There are no Executive Directors (2020: none) who have retirement benefits accruing under any of the Group's defined benefit retirement schemes.

Senior management remuneration

The table below shows the remuneration of senior managers. It excludes employees already included in the Directors' remuneration report. Senior managers are considered to be key management personnel in accordance with the requirements of IAS 24 'Related party disclosures', and in the context of gender disclosures required by the Companies Act 2006.

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

1.8 Dividends

Amounts recognised as distributed to equity holders in the period:

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

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

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

2 Taxation

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

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

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

- The Netherlands: The Group has operations in the Netherlands as part of its produce supply chain. Local corporation taxes of £2.1m were paid during 2021 (2020: £0.7m);
- Hong Kong: Offices in Hong Kong were established in 2011 and source many of the Group's non-food products. Local corporation taxes of £nil were paid during 2021 (2020: £0.5m); and
- Isle of Man, Jersey and Guernsey: The Group's insurance company was based in the Isle of Man for regulatory reasons but is no longer active. Companies based in Jersey and Guernsey hold UK property assets with a net book value of £38m as a result of historical acquisitions. All profits arising in these companies are subject to UK tax.

2.1 Accounting policies

Current tax

The current income tax charge is calculated on the basis of the tax laws in effect during the period and any adjustments to tax payable in respect of previous periods. Taxable profit differs from the reported profit for the period as it is adjusted both for items that will never be taxable or deductible, and temporary differences. Current tax is charged to profit or loss for the period, except when it relates to items charged or credited directly in other comprehensive income or equity, in which case the current tax is reflected in other comprehensive income or equity as appropriate.

Deferred tax

Deferred tax is recognised using the balance sheet method. Provision is made for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. No deferred tax is recognised for temporary differences that arise on the initial recognition of goodwill or the initial recognition of assets and liabilities that are not a business combination and that affects neither accounting nor taxable profits.

Deferred tax is calculated based on tax law that is enacted or substantively enacted at the reporting date and provided at rates expected to apply when the temporary differences reverse. Deferred tax is charged or credited to profit for the period except when it relates to items charged or credited directly to other comprehensive income or equity, in which case the deferred tax is reflected in other comprehensive income or equity as appropriate.

Deferred tax assets are recognised to the extent that it is probable that the asset can be utilised. Deferred tax assets are reviewed at each reporting date as judgement is required to estimate the probability of recovery. Deferred tax assets and liabilities are offset where amounts will be settled on a net basis as there is a legally enforceable right to offset.

Uncertain tax positions

Uncertain tax positions are assessed in line with IFRIC 23 'Uncertainty over income tax treatments' which provides guidance on the determination of taxable profit and tax bases. The Group uses in-house tax specialists, professional advisers and relevant previous experience to assess tax risks.

The Group recognises a tax provision when it is considered probable that there will be a future outflow of funds to a tax authority. Provisions are measured based on the single most likely outcome for each item unless there is a range of possible outcomes for a particular item, where a weighted average measurement is more appropriate. Provisions are included in current liabilities.

2 Taxation continued

2.2 Taxation

2.2.1 Analysis of charge in the period

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

2.2.2 Tax on items charged in other comprehensive income and equity

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

2.2.3 Tax reconciliation

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

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

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

2 Taxation continued

2.2 Taxation continued

2.2.3 Tax reconciliation continued

Factors affecting current and future tax charges

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

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

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

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

2.3 Deferred tax liabilities

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

IAS 12 'Income taxes' requires the offsetting of balances within the same tax jurisdiction. All of the deferred tax assets are available for offset against deferred tax liabilities.

The movements in deferred tax liabilities/(assets) during the period are shown below:

	Property, plant and equipment £m	Retirement benefit obligation £m	Other short-term temporary differences £m	Total £m
Current period				
At 3 February 2020	352	159	(39)	**472**
(Credited)/charged to profit for the period	(6)	5	(24)	**(25)**
Charged/(credited) to profit for the period - impact of rate change	41	4	(4)	**41**
(Credited)/charged to other comprehensive income and equity	–	(47)	8	**(39)**
Charged/(credited) to other comprehensive income and equity - impact of rate change	–	15	(1)	**14**
At 31 January 2021	387	136	(60)	**463**
Prior period				
At 4 February 2019	349	117	(52)	414
Charged to profit for the period	3	4	21	28
Charged/(credited) to other comprehensive income and equity	–	38	(8)	30
At 2 February 2020	352	159	(39)	472

The analysis of deferred tax liabilities are as follows:

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

3 Operating assets

3.1 Accounting policies

Intangible assets

Goodwill

Goodwill arising on a business combination is not amortised, but is reviewed for impairment on an annual basis or more frequently if there are indicators that it may be impaired. Goodwill is allocated to cash generating units (CGUs) that will benefit from the synergies of the business combination for the purpose of impairment testing.

Other intangible assets (software development costs and licences)

Costs that are directly attributable to the creation of identifiable software, which meet the development asset recognition criteria, as stated in IAS 38 'Intangible assets', are recognised as intangible assets.

Direct costs include consultancy costs, the employment costs of internal software developers, and borrowing costs. All other software development and maintenance costs are recognised as an expense as incurred. Software development assets are held at historical cost less accumulated amortisation and impairment, and are amortised over their estimated useful lives (three to ten years) on a straight line basis. Amortisation is charged in cost of sales.

Separately acquired pharmaceutical licences and software licences are recognised at historical cost less accumulated amortisation and impairment. Those acquired in a business combination are recognised at fair value at the acquisition date. Pharmaceutical licences and software licences are amortised over their useful lives (three to ten years) on a straight-line basis or over the life of the licence if different. Amortisation is charged in cost of sales.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Costs include directly attributable costs such as borrowing costs and employment costs of those people directly working on the construction and installation of property, plant and equipment.

Depreciation is charged from when the asset is available to use. Depreciation rates used to write off cost less residual value on a straight line basis:

Freehold land	0%
Freehold buildings	2.5%
Leasehold property improvements	2.5% or the lease term if shorter
Plant, equipment, fixtures and vehicles	10% to 33%
Assets under construction	0%

Depreciation expense is primarily charged in cost of sales with an immaterial amount in administration expenses.

Right-of-use assets

Right-of-use assets are stated at cost less accumulated depreciation and accumulated impairment losses. Costs include the initial amount of the lease liability, any initial direct costs incurred, and an estimate of any applicable dilapidation costs. Also included are the costs of lease payments made, less any lease incentives received, at or before the commencement date.

Depreciation is charged from the commencement date which is when the underlying asset is made available for use. Depreciation rates used to write off cost on a straight line basis:

Leasehold land	The lease term
Leasehold buildings	2.5% or the lease term if shorter
Leased plant, equipment, fixtures and vehicles	10% to 33% or the lease term if shorter

Depreciation expense is primarily charged in cost of sales with an immaterial amount in administration expenses.

Subsequent to initial measurement, the right-of-use asset is also adjusted for certain remeasurements of the associated lease liability and provision for dilapidations, details of which are provided in note 6.1 and note 5.1 respectively.

Investment property

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

Non-current assets classified as held-for-sale

Non-current assets are classified as held-for-sale if their carrying amount is to be recovered principally through a sale transaction, rather than continuing use within the Group, and the sale is considered highly probable. The sale is expected to complete within one year from the date of classification and the assets are available for sale in their current condition. The classification of assets as non-current assets held-for-sale is re-assessed at the end of each reporting period. Non-current assets held-for-sale are stated at the lower of carrying amount and fair value less costs of disposal and are not depreciated.

3 Operating assets continued

3.1 Accounting policies continued

Impairment of non-financial assets

Intangible assets with indefinite lives, such as goodwill, and those in construction that are not yet being amortised, are tested for impairment annually. Group policy is to test other non-financial assets annually for impairment or if events or changes in circumstances indicate that the carrying amount may not be recoverable.

Testing is performed at the level of a CGU in order to compare the CGU's recoverable amount against its carrying value. An impaired CGU is written down to its recoverable amount, which is the higher of value-in-use or its fair value less costs to dispose. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

Impairment losses are reversed if there is evidence of an increase in the recoverable amount of a previously impaired asset, but only to the extent that the recoverable amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised. Impairment losses relating to goodwill are not reversed. Any write back of impairment losses is excluded from profit before exceptionals.

Trade and other receivables

Leases – Group is the lessor

Where the Group is a lessor, the Group classifies each lease at lease inception either as a finance lease or an operating lease. Leases in which substantially all the risks and rewards of ownership are retained by the Group are classified as operating leases; all other leases are classified as finance leases. Property leases are analysed into separate components for land and buildings and tested to establish whether the components are operating leases or finance leases. The risks and rewards of ownership considered for sub-leases are those granted by the underlying lessee agreement rather than the underlying assets.

Operating lease payments are recognised within other operating income on a straight-line basis over the term of the lease.

At the commencement date of finance leases the Group recognises a receivable equal to the discounted contractual lease payments receivable and any residual value of the asset. The discount rate uses the interest rate implicit in the lease or, if that rate cannot be readily determined for a sub-lease, a rate based on the head-lease discount rate. Each lease payment is allocated between the capital repayment of the receivable and the finance income element. The finance income is recognised over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the receivable for each period.

Other receivables

Other receivables that are financial assets are initially recognised at fair value and subsequently held at amortised cost. Provision for impairment of other receivables is based on expected credit losses (ECL) at each reporting date. Other receivables that are non-financial assets, such as deferred non-cash sale consideration, are recognised at fair value.

3.2 Goodwill and intangible assets

Current period	Goodwill £m	Other intangibles £m	Total £m
Cost			
At 3 February 2020	10	735	**745**
Additions	–	84	**84**
Interest capitalised	–	1	**1**
Disposals	–	(4)	**(4)**
Fully written down assets	–	(237)	**(237)**
At 31 January 2021	10	579	**589**
Accumulated amortisation and impairment			
At 3 February 2020	–	364	**364**
Amortisation charge for the period	–	71	**71**
Impairment	–	67	**67**
Disposals	–	(4)	**(4)**
Fully written down assets	–	(237)	**(237)**
At 31 January 2021	–	261	**261**
Net book amount at 31 January 2021	10	318	**328**

3 Operating assets continued

3.2 Goodwill and intangible assets continued

Other intangibles include software development costs and licences. Within this asset class, there are assets under construction of £14m (2020: £73m). The net book amount of licences at 31 January 2021 was £12m (2020: £15m).

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

As in previous years, fully amortised assets are retained in the Group's fixed asset register. In order to provide greater understanding of the Group's annual amortisation charge, assets which have become fully amortised in the year have been removed from both cost and accumulated amortisation. The monitoring of specific impairment triggers and the annual impairment review conducted by the Group, having applied the same methodology and key assumptions as for property, plant and equipment as set out in note 3.3, resulted in an impairment charge of £67m (2020: £15m) in relation to intangible assets. This impairment primarily relates to software assets impacted by a move to more cloud-based solutions during the 52 weeks ended 31 January 2021. This has been excluded from profit before exceptionals (see note 1.4).

Goodwill

The goodwill arose on the acquisition of Flower World Limited (£3m) and Farmers Boy (Deeside) Limited (£7m).

Impairment testing of goodwill

Goodwill of £10m is allocated to the grocery group of CGUs. This group of CGUs has been tested for impairment via the value-in-use calculation described in note 3.3.

Software development costs

The cumulative interest capitalised in respect of software development costs included within other intangibles is £44m (2020: £43m). The cost of internal labour capitalised during the year is £22m (2020: £15m).

Prior period	Goodwill £m	Other intangibles £m	Total £m
Cost			
At 4 February 2019	10	741	751
Additions	–	82	82
Interest capitalised	–	2	2
Disposals	–	(32)	(32)
Fully written down assets	–	(58)	(58)
At 2 February 2020	10	735	745
Accumulated amortisation and impairment			
At 4 February 2019	–	347	347
Amortisation charge for the period	–	91	91
Impairment	–	15	15
Disposals	–	(31)	(31)
Fully written down assets	–	(58)	(58)
At 2 February 2020	–	364	364
Net book amount at 2 February 2020	10	371	381

3 Operating assets continued

3.3 Property, plant and equipment

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

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

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

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

Impairment

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

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

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

3 Operating assets continued

3.3 Property, plant and equipment continued

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

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

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

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

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

Prior period	Freehold land £m	Freehold buildings £m	Leasehold property improvements £m	Plant, equipment, fixtures and vehicles £m	Total £m
Cost					
At 4 February 2019	3,846	4,153	629	1,947	10,575
Additions	2	56	17	323	398
Transfers to assets classified as held-for-sale	(2)	(4)	–	–	(6)
Disposals	(5)	(1)	(8)	(28)	(42)
Fully written down assets	—	(12)	(2)	(123)	(137)
At 2 February 2020	3,841	4,192	636	2,119	10,788
Accumulated depreciation and impairment					
At 4 February 2019	479	1,769	378	855	3,481
Depreciation charge for the period	–	107	16	248	371
Impairment	11	9	8	31	59
Impairment write back	(50)	(32)	(7)	(4)	(93)
Transfers to assets classified as held-for-sale	–	(3)	–	–	(3)
Disposals	(1)	–	(8)	(28)	(37)
Fully written down assets	–	(12)	(2)	(123)	(137)
At 2 February 2020	439	1,838	385	979	3,641
Net book amount at 2 February 2020	3,402	2,354	251	1,140	7,147
Assets under construction included above	3	6	–	19	28

3 Operating assets continued

3.4 Right-of-use assets

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

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

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

Impairment

Having applied the same methodology and key assumptions as for property, plant and equipment as set out in note 3.3, the Group has recognised a net impairment write back of £41m (£54m impairment write back offset by £13m impairment charge) during the year in respect of right-of-use assets (2020: net £1m impairment write back; £24m impairment write back offset by £23m impairment charge). This movement reflects fluctuations from store level trading performance and local market conditions.

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

3 Operating assets continued

3.4 Right-of-use assets continued

Prior period	Leasehold land and buildings £m	Leased plant, equipment, fixtures and vehicles £m	Total £m
Cost			
At 4 February 2019	1,739	78	1,817
Additions	39	36	75
Transfers from investment property	14	–	14
Disposals	(17)	(5)	(22)
Fully written down assets	(6)	(12)	(18)
At 2 February 2020	1,769	97	1,866
Accumulated depreciation and impairment			
At 4 February 2019	844	44	888
Depreciation charge for the period	44	16	60
Impairment	23	–	23
Impairment write back	(24)	–	(24)
Transfers from investment property	14	–	14
Disposals	(14)	(5)	(19)
Fully written down assets	(6)	(12)	(18)
At 2 February 2020	881	43	924
Net book amount at 2 February 2020	888	54	942

3.5 Assets classified as held-for-sale

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

During the 52 weeks ended 2 February 2020, assets with a cost of £6m and accumulated depreciation of £3m were transferred from property, plant and equipment to assets classified as held-for-sale.

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

3 Operating assets continued

3.6 Investment property

Current period	Freehold £m	Leasehold £m	Total £m
Cost			
At 3 February 2020	43	161	**204**
Additions	1	5	**6**
Transfers to right-of-use assets	–	(15)	**(15)**
Disposals	(1)	(27)	**(28)**
At 31 January 2021	43	124	**167**
Accumulated depreciation and impairment			
At 3 February 2020	20	126	**146**
Depreciation charge for the period	–	2	**2**
Impairment	2	1	**3**
Impairment write back	–	(1)	**(1)**
Transfers to right-of-use assets	–	(15)	**(15)**
Disposals	(1)	(26)	**(27)**
At 31 January 2021	21	87	**108**
Net book amount at end of period	22	37	**59**

Included in other operating income is £9m (2020: £15m) of rental income generated from investment properties. At the end of the period the fair value of freehold investment properties was £32m (2020: £37m), with leasehold investment properties supported by their value-in-use. Freehold investment properties are valued by independent surveyors on a vacant possession basis using observable inputs (fair value hierarchy level 2).

Prior period	Freehold £m	Leasehold £m	Total £m
Cost			
At 4 February 2019	45	172	217
Additions	–	7	7
Transfers to right-of-use assets	–	(14)	(14)
Disposals	(2)	(2)	(4)
Fully written down assets	–	(2)	(2)
At 2 February 2020	43	161	204
Accumulated depreciation and impairment			
At 4 February 2019	19	138	157
Depreciation charge for the period	1	2	3
Impairment	4	7	11
Impairment write back	(3)	(3)	(6)
Transfers to right-of-use assets	–	(14)	(14)
Disposals	(1)	(2)	(3)
Fully written down assets	–	(2)	(2)
At 2 February 2020	20	126	146
Net book amount at end of period	23	35	58

3 Operating assets continued

3.7 Trade and other receivables – non-current

	2021 £m	2020 £m
Finance leases – Group is lessor	**8**	8
Other receivables	**62**	63
	70	71

The Group is the lessor on a number of property leases, many of which contain rent review terms that require rents to be reassessed on a periodic basis. The rent reassessments are normally based on changes in market rents or capped increases in measures of inflation.

Finance leases

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

	2021 £m	2020 £m
Less than one year	**1**	1
After one year but not more than five years	**4**	4
More than five years	**6**	7
Total undiscounted lease payments	**11**	12
Unearned finance income	**(3)**	(4)
Net investment in the lease	**8**	8

Finance lease income of £nil (2020: £1m) has been recognised in the 52 weeks ended 31 January 2021.

Operating leases

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

	2021 £m	2020 £m
Less than one year	**10**	10
One to two years	**6**	9
Two to three years	**6**	6
Three to four years	**5**	5
Four to five years	**4**	4
More than five years	**22**	17
Total undiscounted lease payments receivable	**53**	51

Operating lease income of £13m (2020: £15m) has been recognised in the 52 weeks ended 31 January 2021. This includes £nil (2020: £1m) relating to variable lease payments that do not depend on an index or rate.

Other receivables

Other receivables of £62m (2020: £63m) comprise deferred consideration due after more than one year in relation to the disposal of the Camden site in the prior period. The amount includes £35m (2020: £33m) of deferred cash consideration on a discounted basis and £27m (2020: £30m) representing the fair value of a future lease of a newly constructed supermarket and convenience store on part of the site.

As at 31 January 2021, none of the other receivables were past due and have not been impaired. The carrying value of the deferred cash consideration approximates to its fair value. The fair value of the future lease is based on the net present value of observable market rentals for similar developments in the surrounding locality (fair value hierarchy level 2).

3.8 Capital commitments

	2021 £m	2020 £m
Contracts placed for future capital expenditure not provided in the financial statements (property, plant and equipment, right-of-use assets and intangible assets)	**55**	37
Contracts placed for future leases not provided in the financial statements	**31**	34

4 Interests in other entities

4.1 Accounting policies

Joint ventures

The Group applies IFRS 11 'Joint Arrangements' to all joint arrangements. Under IFRS 11, investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for under the equity method and are initially recognised at cost.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of the equity accounted investees, from the date that joint control commences until the date that joint control ceases.

Business combinations

The acquisition method is used to account for business combinations. Consideration is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group, including the fair value of any contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired, and liabilities and contingent liabilities assumed, are measured initially at their fair values at the acquisition date. On an acquisition by acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Goodwill is the excess of consideration transferred, plus any non-controlling interest and the fair value of any previous equity interest in the acquiree, over the fair value of the identifiable net assets acquired. In the event that this excess is negative the difference is recognised directly in profit for the period.

Disposal of subsidiaries

When the Group ceases to have control over a subsidiary, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

4.2 Investment in joint venture

The Group and Ocado Group plc are sole investors in a company (MHE JVCo Limited), which owns the plant and equipment at the Dordon customer fulfilment centre. The Group has a c.51% interest in MHE JVCo Limited. Decisions regarding MHE JVCo Limited require the unanimous consent of both parties. The Directors have considered the requirements of IFRS 11 and determined that the Group continues to jointly control MHE JVCo Limited.

MHE JVCo Limited	2021 £m	2020 £m
Non-current assets	**41**	55
Current assets	**21**	22
Current liabilities	**(1)**	(1)
Net assets	**61**	76
Group's share of net assets	**31**	39
Profit	**1**	2
Group's share of profit	**–**	1

The Group's share of profit amounted to £0.3m in the year (2020: £0.9m).

4.3 Business combinations

On 9 September 2020, the Group acquired 100% of the ordinary share capital of Lowlands Nursery Limited (formerly known as Lansen Nursery Limited), a leading supplier of outdoor plants. This acquisition complements the Group's existing Flowerworld business, providing more locally grown horticulture at a more competitive price for customers. Total consideration was £4m and goodwill recognised in the transaction was negligible.

In the 52 weeks ended 2 February 2020, the Group paid £1m deferred consideration relating to the acquisition of Chippindale Foods Limited in the 52 weeks ended 3 February 2019.

5 Working capital and provisions

5.1 Accounting policies

Inventories

Inventories represent goods for resale and is measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale. Cost is calculated on a weighted average basis and comprises purchase price, and other directly attributable costs, including import duties and other non-recoverable taxes, reduced by promotional funding and commercial income and a provision for estimated inventory losses relating to shrinkage and obsolescence. Losses relating to shrinkage in stores are based on historical losses, verified by physical inventory counts conducted by an independent third party. Provision is made for obsolete and slow moving items.

Trade and other receivables

Trade and other receivables are initially recognised at fair value, which is generally equal to face value, and subsequently held at amortised cost. Provision for impairment of trade receivables is recognised based on lifetime expected credit losses at each reporting date, with the charge being included in administrative expenses.

Cash and cash equivalents

Cash and cash equivalents for cash flow purposes includes cash-in-hand, cash-at-bank, bank overdrafts and deposits readily convertible to known amounts of cash and that have an original maturity of three months or less. In the statement of financial position, bank overdrafts that do not have right of offset are presented within current liabilities.

Cash and cash equivalents includes debit and credit card payments made by customers, which clear the bank shortly after the sale takes place.

Trade and other payables

Trade and other payables are initially recognised at fair value, which is generally equal to face value of the invoices received, and subsequently held at amortised cost. Trade payables are presented net of commercial income due when the Group's trading terms state that income from suppliers will be netted against amounts owing to that supplier.

Supply chain financing

The Group offers suppliers the option to access supply chain financing through certain third party providers. These facilities allow suppliers to receive payments earlier than the contractual payment terms. The Group does not receive any fees or rebates from the providers where the suppliers choose to utilise these facilities. Payment terms continue to be agreed directly between the Group and suppliers, and is independent of supply chain financing being available.

The Group makes an assessment of its supply chain finance arrangements to determine if the associated balance is appropriately presented as trade payables or as borrowings. This assessment considers factors such as the commercial purpose of the facility, the nature and specific terms of the arrangements and the credit terms in place with the banks and suppliers. Based on this assessment, the Group has determined that it is appropriate to present amounts outstanding through the supply chain financing arrangement as trade payables. Consistent with this classification, the reported cash flows are reported within cash generated from operations within the Consolidated statement of cash flows.

Provisions

Provisions are created where the Group has a present obligation as a result of a past event, where it is probable that it will result in an outflow of economic benefits to settle the obligation, and where it can be reliably measured. For petrol filling station decommissioning costs this is when the filling station is first constructed and for dilapidations on leased buildings, when a requirement for repairs or reinstatement is identified. Provisions for onerous contracts are recognised when the Group believes that the unavoidable costs of meeting the obligations exceed the economic benefits expected to be received under the contract. The Group assesses the appropriateness of each of these provisions each year. The amounts provided are based on the Group's best estimate of the least net cost of exit. Where material, these estimated outflows are discounted to net present value using a pre-tax rate that reflects current market assumptions. The unwinding of this discount is recognised as a financing cost in the income statement.

Contingent liabilities

Contingent liabilities are possible obligations whose existence will be confirmed only on the occurrence or non-occurrence of uncertain future events outside the Group's control, or present obligations that are not recognised because it is not probable that an outflow of economic benefits will be required to settle the obligation or the amount cannot be measured reliably. The Group does not recognise contingent liabilities but does disclose any such balances (see note 10.2). The disclosure includes an estimate of their potential financial effect and any uncertainties relating to the amount or timing of any outflow, unless the possibility of settlement is remote or the Group cannot measure reliably.

5.2 Inventories

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

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

5 Working capital and provisions continued

5.3 Trade and other receivables

	2021 £m	2020 £m
Commercial income trade receivables	**6**	7
Accrued commercial income	**47**	28
Other trade receivables	**142**	175
Less: provision for impairment of trade receivables	**(5)**	(4)
Trade receivables	**190**	206
Prepayments and accrued income	**128**	116
Other receivables	**18**	31
	336	353

The carrying amounts of trade and other receivables approximates to their fair value at 31 January 2021 and 2 February 2020.

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

Current period	Current %/£m	1 to 30 days past due %/£m	31 to 60 days past due %/£m	61 to 90 days past due %/£m	91 days plus past due %/£m	Total £m
Expected credit loss rate	0%	1%	11%	61%	100%	
Gross carrying amount – trade receivables	149	38	4	1	3	**195**
Provision for impairment of trade receivables	–	–	(1)	(1)	(3)	**(5)**

Prior period	Current %/£m	1 to 30 days past due %/£m	31 to 60 days past due %/£m	61 to 90 days past due %/£m	91 days plus past due %/£m	Total £m
Expected credit loss rate	0%	6%	22%	51%	100%	
Gross carrying amount – trade receivables	191	15	2	1	1	**210**
Provision for impairment of trade receivables	–	(1)	(1)	(1)	(1)	**(4)**

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

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

5.4 Trade and other payables

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

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

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

Trade payables include £556m (2020: £672m) where suppliers have chosen to receive early payment under the Group's supply chain finance facilities (see note 7.2).

Notes to the Group financial statements continued
52 weeks ended 31 January 2021

5 Working capital and provisions continued
5.5 Provisions

	Onerous contracts £m	Other provisions £m	Total £m
At 3 February 2020	48	28	**76**
Charged to profit for the period	7	1	**8**
Utilised during the period	(7)	(5)	**(12)**
Released during the period	(16)	(4)	**(20)**
Unwinding of discount	1	–	**1**
At 31 January 2021	33	20	**53**

Included within the above balance at 31 January 2021 is £7m (2020: £16m) relating to a balance due within one year. The provision is revised regularly in response to market conditions. During the period, a £9m credit has been recognised in respect of onerous contract provisions due to changes in circumstances or performance relating to certain contracts.

Other provisions include a petrol filling station decommissioning reserve for the cost of decommissioning petrol tanks and provisions for dilapidations on certain leased buildings, for the cost of restoring assets to their required condition.

5.6 Cash generated from operations

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

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

6 Capital and borrowings

6.1 Accounting policies

Borrowings

Interest-bearing loans and overdrafts are initially recorded at fair value, net of attributable transaction costs and fees. Subsequent to initial recognition they are measured at amortised cost, with any difference between the redemption value and the initial carrying amount is recognised in profit for the period over the term of the borrowings on an effective interest rate basis.

Borrowing costs

All borrowing costs are recognised in the Group's profit for the period on an effective interest rate basis except for interest costs that are directly attributable to the construction of buildings and other qualifying assets, which are capitalised and included within the initial cost of the asset. Capitalisation commences when both expenditure on the asset and borrowing costs are being incurred, and necessary activities to prepare the asset for use are in progress. In the case of new stores, this is generally once planning permission has been obtained. Capitalisation ceases when the asset is ready for use. Interest is capitalised at the effective rate incurred on borrowings before taxation of 4% (2020: 5%). Capitalised interest is included within interest paid in cash flow from operating activities.

Lease liabilities

For leases where the Group is a lessee, the Group recognises a right-of-use asset and a lease liability at the commencement date of the lease. Lease liabilities are initially measured at the present value of the lease payments due during the lease term but that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the lessee's incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise fixed payments and applicable variable lease payments (which depend on an index or a rate). The exercise price of purchase options are also included if reasonably certain to exercise the option.

The lease term includes periods covered by extension and break options if the Group is reasonably certain to extend the lease or to not exercise the break.

The discount rates applied in the measurement of the lease liabilities represent the Group's incremental borrowing rates. The incremental borrowing rates are determined through a build up approach, starting with a risk-free rate specific to the term and economic environment of the lease, adjusted for both the credit risk of the lessee and other characteristics of the lease (for example the quality of the underlying assets). The inputs used to determine the rates are regularly reassessed, based on historical experience and other factors which the Directors believe to be reasonable.

Each lease payment is allocated between the capital repayment of the liability and the finance cost element. The finance cost is charged to the consolidated income statement over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. In the Consolidated statement of cash flows the finance cost element is reported within interest paid and the capital repayment of the liability is reported within Repayment of lease obligations.

Lease liabilities are remeasured when there is a change in future lease payments arising from a change in an index, rate or a lease modification. When purchase, extension or break options are exercised, (or not exercised) in a way inconsistent with the prior assessments of those options, or if those assessments are changed, then lease liabilities will also be remeasured. The likelihood of options being exercised will only be reassessed on the occurrence of a significant event or change in circumstance within the control of the Group (for example when a final decision to close or vacate a site is made).

The Group has elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets'). Lease payments on short-term leases and leases of low-value assets are recognised as an expense in the consolidated income statement on a straight-line basis over the lease term.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Where any Group company purchases the Company's equity share capital, the consideration paid, including directly attributable incremental costs, is deducted from retained earnings until the shares are cancelled. On cancellation, the nominal value of the shares is deducted from share capital and the amount is transferred to the capital redemption reserve.

Own shares held

The Group has employee trusts for the granting of Group shares to executives and members of the employee share plans. Shares in the Group held by the employee share trusts are presented in the statement of financial position as a deduction from retained earnings. The shares are deducted for the purpose of calculating the Group's earnings per share.

Net debt

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

6 Capital and borrowings continued

6.2 Finance costs and income

	2021 £m	2020 £m
Interest payable on short-term loans and bank overdrafts	**(5)**	(4)
Interest payable on bonds	**(45)**	(43)
Interest on lease liabilities	**(60)**	(63)
Interest capitalised	**2**	2
Total interest payable	**(108)**	(108)
Provisions: unwinding of discount (note 5.5)	**(1)**	(2)
Other finance costs	**(2)**	(1)
Finance costs[1]	**(111)**	(111)
Bank interest and other finance income	**3**	4
Finance lease income	**–**	1
Other receivables: unwinding of discount	**3**	–
Finance income before exceptionals[1]	**6**	5
Net retirement benefit interest (notes 1.4 and 8.2)	**16**	19
Finance income	**22**	24
Net finance costs	**(89)**	(87)

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

6.3 Borrowings

The Group had the following current borrowings and other financial liabilities measured at amortised cost:

	2021 £m	2020 £m
Current		
€282m euro bond 2.25% June 2020	**–**	237
Other short-term borrowings	**54**	–
	54	237

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

	2021 £m	2020 £m
Non-current		
£250m sterling bonds 4.625% December 2023	**249**	249
£250m sterling bonds 3.50% July 2026	**267**	269
£250m sterling bonds 4.75% July 2029	**246**	245
£350m sterling bonds 2.50% October 2031	**347**	347
Revolving credit facility	**877**	(2)
	1,986	1,108

Borrowing facilities

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

6 Capital and borrowings continued

6.3 Borrowings continued

Maturity of borrowings

The table below summarises the maturity profile of the Group's borrowings based on contractual, undiscounted payments, which include future interest payments. As a result, amounts shown below do not agree to the amounts disclosed in the statement of financial position for borrowings, which exclude future interest payments. Trade and other payables (note 5.4) are also excluded from this analysis.

	2021 £m	2020 £m
Less than one year	**95**	280
One to two years	**41**	41
Two to three years	**290**	41
Three to four years	**29**	290
Four to five years	**909**	29
More than five years	**948**	978

Fair values

The fair value of bonds is measured using closing market prices (level 1). The fair values of borrowings included in level 2 are based on the net present value of the anticipated future cash flows associated with these instruments using rates currently available for debts on similar terms, credit risk and equivalent maturity dates.

These compare to carrying values as follows:

	2021		2020	
	Amortised cost £m	Fair value £m	Amortised cost £m	Fair value £m
Total borrowings: non-current and current	**2,040**	**2,199**	1,345	1,475

The fair value of other items within current and non-current borrowing equals their carrying amount, as the impact of discounting is not material.

6.4 Lease liabilities

	2021 £m	2020 £m
Current lease liabilities	**72**	72
Non-current lease liabilities	**1,299**	1,304
	1,371	1,376

Maturity of lease liabilities

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

	2021 £m	2020 £m
Less than one year	**129**	131
One to two years	**124**	125
Two to three years	**117**	120
Three to four years	**110**	113
Four to five years	**107**	106
More than five years	**1,557**	1,601

Lease liabilities include periods beyond extension and break option dates if the Group is reasonably certain to extend or continue the lease. As at 31 January 2021, the undiscounted future rentals payments relating to periods beyond what is considered reasonably certain total £58m for breaks and £912m for lease extensions (2020: £57m and £841m respectively). The lease extensions relate to leases where the initial term expires between 13 and 63 years after the year end, with some extensions available of up to 25 years.

The interest expense on lease liabilities during the periods ended 31 January 2021 and 2 February 2020 are shown in note 6.2. The value of contracts placed for future leases not provided in the financial statements is disclosed in note 3.8.

6 Capital and borrowings continued

6.4 Lease liabilities continued

Other information

The Group is the lessee on a diverse portfolio of leases for property and equipment, with the vast majority of lease liabilities relating to property (see note 3.4 and note 3.6). Property leases typically include rent review terms that require rents to be adjusted on a periodic basis, following market rent or capped increases in inflation measurements. A number of these property leases also contain clauses to extend, or exit leases early. These clauses are negotiated with the lessors to ensure appropriate options are available for the Group's operations in future years, for example to minimise the risk that a store, still profitable at the end of the initial lease term, will be forced to close.

The depreciation expense for leased assets during the periods ended 31 January 2021 and 2 February 2020 are shown in note 1.6. This note also includes the expense of variable lease payments incurred during the periods and expenses incurred on both low value leases and short-term leases longer than one month. The total cash outflow for leases was £163m (2020: £157m).

6.5 Analysis of net debt[1]

	Note	2021 £m	2020 £m
Fuel and energy price contracts	7.3	**9**	–
Non-current financial assets		**9**	–
Foreign exchange forward contracts	7.3	**1**	–
Fuel and energy price contracts	7.3	**12**	1
Current financial assets		**13**	1
Bonds[2]	6.3	**–**	(237)
Other short-term borrowings[2]	6.3	**(54)**	–
Cross-currency interest rate swaps[2]	7.3	**–**	(4)
Lease liabilities[2]	6.4	**(72)**	(72)
Foreign exchange forward contracts	7.3	**(17)**	(17)
Fuel and energy price contracts	7.3	**(1)**	(15)
Current financial liabilities		**(144)**	(345)
Bonds[2]	6.3	**(1,109)**	(1,110)
Revolving credit facility[2]	6.3	**(877)**	2
Lease liabilities[2]	6.4	**(1,299)**	(1,304)
Foreign exchange forward contract	7.3	**(1)**	–
Fuel and energy price contracts	7.3	**(1)**	(7)
Non-current financial liabilities		**(3,287)**	(2,419)
Cash and cash equivalents		**240**	305
Net debt[1]		**(3,169)**	(2,458)

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

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

6.6 Called-up share capital

	Number of shares millions	Share capital £m	Share premium £m	Total £m
At 3 February 2020	2,405	240	192	**432**
Share options exercised and shares issued under LTIP schemes[1]	5	1	9	**10**
At 31 January 2021	2,410	241	201	**442**

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

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

6 Capital and borrowings continued

6.6 Called-up share capital continued

Trust shares

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

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

Proceeds from exercise of share awards

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

Settlement of share awards

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

6.7 Reserves

	2021 £m	2020 £m
Capital redemption reserve	**39**	39
Merger reserve	**2,578**	2,578
Hedging reserve	**(3)**	(37)
Retained earnings	**1,160**	1,529
Total	**3,774**	4,109

Capital redemption reserve

The capital redemption reserve relates to 389,631,561 of the Company's own shares which it purchased on the open market for cancellation between 31 March 2008 and 8 March 2013 at a total cost of £1,081m.

Merger reserve

The merger reserve represents the reserve arising on the acquisition in 2004 of Safeway Limited.

Hedging reserve

This represents the gains and losses arising on derivatives used for cash flow hedging.

6.8 Capital management

The Group defines the capital that it manages as the Group's total equity and net debt balances.

The Group's capital management objectives are to safeguard its viability taking into consideration the risks that it faces whilst maintaining an investment grade credit rating and having adequate liquidity headroom. The Group manages its capital structure by managing the balance of debt and shares outstanding. During the 52 weeks ended 31 January 2021, net debt has increased by £711m. Throughout the period, the Group has comfortably complied with the gearing and fixed charge cover covenants attaching to its revolving credit facility (see note 7.2).

7 Financial risk and hedging

7.1 Accounting policies

Derivative financial instruments and hedge accounting

Derivatives are transacted to mitigate financial risks that arise as a result of the Group's operating activities and funding arrangements. At the inception of a hedge, the Group documents the economic relationship between the hedging instrument and the hedged item, the risk management objective and strategy for undertaking the hedge. This includes an assessment of whether changes in fair values or the cash flows of the hedging instruments are expected to offset changes in the fair values or cash flows of hedged items.

All derivatives are initially recognised at fair value and are also measured at fair value at each reporting date. Derivatives with positive fair values are recognised as assets and those with negative fair values as liabilities. They are also categorised as current or non-current according to the maturity of each derivative. All gains or losses arising due to changes in the fair value of derivatives are recognised in profit or loss except when the derivative qualifies for cash flow hedge accounting.

Cash flow hedges

The Group designates derivatives into a cash flow hedge where they have been transacted to hedge a highly probable forecast transaction or a particular risk associated with an asset or liability. The effective portion of the change in the fair value of the derivatives, that are designated into cash flow hedge relationships, are recognised in other comprehensive income. Cumulative gains or losses on derivatives are reclassified from other comprehensive income into profit or loss in the period when the transaction occurs. Any ineffective portion of the gain or loss on the derivative is immediately recognised in profit or loss.

When option contracts are used to hedge forecast transactions, both the intrinsic and time value of the options are designated as hedging instruments. Gains or losses relating to the effective portion of the change in fair value of the options are recognised in the cash flow hedge reserve within equity. Any changes in the fair value of the option premium is recognised in other comprehensive income.

When forward contracts are used to hedge forecast transactions, the Group designates the change in fair value of the forward contract as the hedging instrument. Gains or losses relating to the effective portion of the change in fair value of the entire forward contract are recognised in the cash flow hedge reserve within equity.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs, at which point the net cumulative gain or loss recognised in equity is transferred to profit or loss in the period.

7.2 Financial risk management

The Group has a centralised treasury function which manages funding, liquidity and other financial risk in accordance with the Board approved Treasury Policy. The objective of the policy and controls that are established is to mitigate the risk of an adverse impact on the performance of the Group as a result of its exposure to financial risks arising from the Group's operations and its sources of finance. It is the Group's policy not to engage in speculative trading of financial instruments.

The Board retains ultimate responsibility for treasury activity and is involved in key decision making. A Treasury Committee is established to provide governance and oversight to treasury activity within delegated authority limits and formally reports to the Audit Committee.

Liquidity risk

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

A central cash forecast is maintained by the treasury function who monitor the availability of liquidity to meet business requirements and any unexpected variances. The treasury function seek to centralise surplus cash balances to minimise the level of gross debt. Short-term cash balances, together with undrawn facilities, enable the Group to manage its day-to-day liquidity risk. Any short-term surplus is invested in accordance with Treasury Policy. Some suppliers have access to supply chain finance facilities, which allows these suppliers to benefit from the Group's credit profile. The total size of the facility at 31 January 2021 was £1,078m (2020: £1,078m) across a number of banks and platforms. The level of utilisation is dependent on the individual supplier requirements and varies significantly over time, dependent on suppliers' requirements (see note 5.4).

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

Cash and committed facilities

As at 31 January 2021, the Group has £240m (2020: £305m) of cash and cash equivalent and £2,850m (2020: £2,797m) of total committed facilities, comprising bond debt of £1,100m (2020: £1,347m) and £1,750m (2020: £1,450m) of committed bank facilities. As at 31 January 2021, the Group has £870m (2020: £1,450m) of undrawn committed bank facilities available.

The Group has a syndicated committed revolving credit facility of £1.35bn. During the 52 weeks ended 31 January 2021, the Group extended this facility by a further year, resetting its five-year term and resulting in a maturity date of June 2025. The revolving credit facility incurs committed fees and interest charges at a spread above LIBOR. The Group had £470m (2020: £1,350m) of undrawn committed headroom available on this facility as at 31 January 2021.

7 Financial risk and hedging continued

7.2 Financial risk management continued

Cash and committed facilities continued

In the 52 weeks ended 31 January 2021, the Group has obtained three new £100m 364 day committed revolving credit facilities, the maturity dates of which were extended following the year end, to September 2021 (£200m) and March 2022 (£100m). In addition, the Group has a further £100m revolving credit facility with an original maturity date of July 2020, which was extended to mature in July 2022 (see note 10.3). These committed facilities were undrawn as at 31 January 2021 (2020: undrawn).

All committed bank facilities have the same financial covenants. These financial covenants are set at a ratio of a maximum 3.5x 'net debt (excluding leases)/EBITDA' and a minimum 2.0x 'EBITDA/net interest expense' (ratios as defined in the lending agreements). As at 31 January 2021, the Group covenant basis net debt (excluding leases)/EBITDA ratio was 2.4x (2020: 1.1x) and the EBITDA/net interest expense ratio was 4.8x (2020: 6.0x). In the event of default of covenants, the principal amounts of borrowings and any interest accrued become repayable on demand.

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

Wm Morrisons Supermarkets PLC's senior unsecured debt obligations continue to be rated Baa2 with Moody's, on a stable outlook. Moody's reaffirmed its rating on the 9 June 2020, following the release of the results for the period ended 2 February 2020 and considering the impact of COVID-19.

Interest rate risk

The Group seeks to protect itself against adverse movements in interest rates by aiming to maintain at least 60% of its total borrowings at fixed interest rates. As at the reporting date, 54% (2020: 100%) of the Group's borrowings are at a fixed interest rate. The reduction in the proportion of borrowings at fixed interest rates is due to a temporary increase in net debt funded by committed bank facilities which are at a floating interest rate. The proportion of fixed rate borrowings is expected to return above 60% in the relatively short-term.

Whilst still applying the policy described above, from time-to-time the Group enters into fixed-to-floating interest rate swaps to achieve the appropriate proportion of fixed versus floating rate borrowings.

Credit risk

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

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

Foreign currency risk

The majority of purchases made by the Group are denominated in sterling, however some trade purchases are made in other currencies, primarily the euro and US dollar. The Group's objective is to reduce short-term profit volatility from exchange rate fluctuations. Group policy specifies the minimum percentage of committed and highly probable exposures that must be hedged.

Cross-currency interest rate swaps are used to mitigate the Group's currency exposure arising from payments of interest and principal in relation to foreign currency funding.

At the reporting date, the sensitivity to a reasonably possible change (+/-10%) in the US dollar and euro exchange rates would equate to a £8m post-tax profit or loss exposure in relation to the euro and £3m in relation to the US dollar, for the unhedged forecast foreign currency exposures over the next 12 months. A movement of the pound sterling by +/-10% against the euro and US dollar exchange rates would impact other comprehensive income by £34m for the hedged amount.

Commodity price risk

The Group manages the risks associated with the purchase of electricity, gas and diesel consumed by its activities (excluding fuel purchased for resale to customers) by entering into hedging contracts to fix prices for expected consumption.

The Group has adopted a capital at risk model for hedging its fuel and power consumption. The Treasury Committee reviews the Group's exposure to commodity prices and ensures it remains within policy limits.

A change of +/-10% in the market value of the commodity price at the reporting date would affect other comprehensive income by £15m (2020: £6m) for the hedged amount.

7 Financial risk and hedging continued

7.3 Derivative financial assets and liabilities

Derivative financial assets	2021 Fair Value £m	2021 Notional Value £m	2020 Fair Value £m	2020 Notional Value £m
Current				
Foreign exchange forward contracts	**1**	**46**	–	32
Fuel and energy price contracts	**12**	**49**	1	1
	13	**95**	1	33
Non-current				
Foreign exchange forward contracts	**–**	**1**	–	–
Fuel and energy price contracts	**9**	**67**	–	–
	9	**68**	–	–

All derivatives are categorised as level 2 instruments. Level 2 fair values for simple, over-the-counter derivatives are calculated by using benchmarked, observable market interest rates to discount future cash flows.

Derivative financial liabilities	2021 £m	2021 Notional Value £m	2020 Fair Value £m	2020 Notional Value £m
Current				
Cross-currency interest rate swaps	**–**	**–**	4	240
Foreign exchange forward contracts	**17**	**435**	17	411
Fuel and energy price contracts	**1**	**11**	15	53
	18	**446**	36	704
Non-current				
Foreign exchange forward contracts	**1**	**25**	–	–
Fuel and energy price contracts	**1**	**15**	7	35
	2	**40**	7	35

The amounts disclosed in the table below are the contractual undiscounted derivative cash flows and therefore differ to those in the statement of financial position.

	2021 £m		2020 £m	
Maturity analysis of derivatives	< 1 year £m	1-5 years £m	< 1 year £m	1-5 years £m
Derivatives settled on a gross basis				
Cross-currency swaps – cash flow hedges:				
Outflow	**–**	**–**	(247)	–
Inflow	**–**	**–**	242	–
Forward contracts – cash flow hedges:				
Outflow	**(462)**	**(23)**	(443)	–
Inflow	**445**	**23**	426	–
Derivatives settled on a net basis				
Energy price contracts – cash flow hedges:				
Inflow/(outflow)	**11**	**9**	(15)	(7)

Cash flow hedges

In the 52 weeks ended 31 January 2021, cross-currency swaps designated as cash flow hedges with a notional principal amount of €282m, settled on the maturity of the €282m euro bond.

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

8 Retirement benefits

8.1 Accounting policies

A defined contribution scheme is a retirement scheme under which the Group pays fixed contributions into a separate entity and provides no guarantee as to the quantum of retirement benefits that those contributions will ultimately purchase. A defined benefit scheme is one that is not a defined contribution scheme.

8.1.1 Defined benefit schemes

Retirement scheme assets are valued at fair market value as required by IAS 19. Retirement benefit obligations are an estimate of the amount required to pay the benefits that employees have earned in exchange for current and past service, assessed and discounted to present value using the assumptions shown in note 8.4.1. The net retirement benefit deficit or surplus recognised in the consolidated statement of financial position is the net of the schemes' assets and obligations, which are calculated separately for each scheme.

Current service cost is treated as an operating cost in the consolidated income statement and consolidated statement of cash flows and is part of profit before exceptionals. Net interest income/expense is calculated by applying the discount rate on liabilities to the net retirement benefit deficit or surplus (adjusted for cash flows over the accounting period) and is recognised in finance costs or income and excluded from profit before exceptionals.

Expenses incurred in respect of the management of scheme assets are included in the consolidated statement of comprehensive income as a reduction in the return on scheme assets. Other scheme expenses are recognised in the consolidated income statement as an operating expense.

Remeasurements comprise of actuarial gains and losses on the obligations and the return on scheme assets (excluding interest). They are recognised immediately in the consolidated statement of comprehensive income. Amounts shown within note 8 are before any adjustments for deferred taxation.

8.1.2 Defined contribution schemes

The cost of defined contribution schemes is recognised in the consolidated income statement as incurred. The Group has no further payment obligations once the contributions have been paid.

8.2 Defined benefit schemes: summary and description

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

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

	2021 £m	2020 £m
CARE Schemes	**754**	960
RSP	**(36)**	(16)
Net retirement benefit surplus	**718**	944

The disclosures below show the details of the schemes combined:

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

Income statement:	2021 CARE £m	2021 RSP £m	2020 CARE £m	2020 RSP £m
Past service cost	**–**	**–**	–	–
Administrative costs paid by the Schemes – recognised in administrative expenses	**2**	**1**	2	1
Settlement and curtailment gain	**(3)**	**–**	–	–
Net interest on net retirement benefit surplus/deficit – finance (income)/expense	**(16)**	**–**	(20)	1
Total expense (credited)/charged to income statement	**(17)**	**1**	(18)	2
Statement of other comprehensive income:				
Remeasurements in other comprehensive income – charge/(credit)[1]	**225**	**22**	(204)	(27)

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

8 Retirement benefits continued

8.2 Defined benefit schemes: summary and description continued

The Schemes are registered schemes under the provisions of Schedule 36 of the Finance Act 2004 and the assets are held in legally separate, trustee-administered funds. The Board of each scheme is required by law to act in the best interests of the scheme participants within the context of administering the scheme in accordance with the purpose for which the trust was created, and is responsible for setting the investment, funding and governance policies of the fund. A representative of the Group attends Trustee Investment Committee meetings in order to provide the Group's view on investment strategy, but the ultimate power lies with the Trustees. The Deed and Rules of the Morrison Scheme gives the Trustees the power to set contributions, while in the Safeway Scheme and the RSP this power is given to the Group, subject to regulatory override.

8.3 Scheme assets

Assets of the Schemes generate returns and ultimately cash that is used to satisfy the Schemes' obligations. They are not necessarily intended to be realised in the short term. The Trustees of each Scheme invest in different categories of asset and with different allocations amongst those categories, according to the investment principles of that Scheme.

Currently, the investment strategy of the CARE Schemes is to maintain a balance of growth assets (equities), income assets (comprising credit investments and corporate bonds) and protection assets (comprising a liability driven investment (LDI) portfolio and four buy-in annuity policies), with a weighting towards protection assets. There are no direct investments in the parent Company's own shares or property occupied by any member of the Group.

Fair value of Scheme assets:

	2021 CARE £m	2021 RSP £m	2020 CARE £m	2020 RSP £m
Equities (quoted)	**560**	**126**	574	158
Corporate bonds (quoted)	**519**	**–**	511	–
Diversified growth funds (quoted)	**–**	**31**	–	40
Credit funds (unquoted)	**441**	**–**	466	–
Liability driven investments (unquoted)	**2,628**	**249**	2,782	190
Annuity policies (unquoted)	**936**	**–**	649	–
Cash (quoted)	**27**	**1**	31	1
	5,111	**407**	5,013	389

Liability driven investments

Part of the investment objective of the Schemes is to minimise fluctuations in the Schemes' funding levels due to changes in the value of the liabilities. This is primarily achieved through the use of LDI, whose main goal is to align movements in the value of the Schemes' assets with movements in the Schemes' liabilities arising from changes in market conditions. The Schemes have hedging that broadly covers interest rate movements and inflation movements, as measured on the Trustees' funding assumptions which use a discount rate derived from gilt yields.

LDI primarily involves the use of government bonds (including re-purchase agreements). Derivatives such as interest rate and inflation swaps are also used. There are no annuities or longevity swaps.

The value of the LDI assets is determined based on the latest market bid price for the underlying investments, which are traded daily on liquid markets.

Annuity policies

During the 52 weeks ended 31 January 2021, the Morrisons and Safeway CARE Schemes entered into new buy-in policies that provide insurance for a proportion of the pensioner populations. These policies are in addition to the two buy-in policies previously entered into by the Safeway Scheme. The policies pay income to the Schemes that is exactly equal to the benefits paid to the insured populations. This has removed all investment, interest rate, inflation and longevity risks in respect of these members.

The value of the annuity is determined using the disclosed assumptions used for valuing the benefits of the Schemes and is equal to the accounting liabilities of the insured pensioner populations.

8 Retirement benefits continued

8.3 Scheme assets continued

Credit funds

The Schemes invest in credit funds in order to improve returns available from their bond assets. These funds typically lend directly to corporations on a senior secured basis, rather than purchasing debt issued in the public markets.

The credit funds invest in a portfolio of different debt instruments and their value is equal to the value of the component assets. For high yield debt, the value is based on the latest available market price. For senior debt and private credit, where no such market price exists, the value is taken either at par value or by determining a fair enterprise value using a variety of techniques. For real-estate related investments, the value is derived from market comparables or third party valuations.

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

	2021 CARE £m	2021 RSP £m	2020 CARE £m	2020 RSP £m
Fair value of scheme assets at start of period	**5,013**	**389**	4,471	349
Interest income	**84**	**7**	121	9
Return on scheme assets excluding interest	**126**	**17**	554	70
Employer contributions	**2**	**3**	8	1
Benefits paid	**(112)**	**(8)**	(139)	(39)
Administrative expenses	**(2)**	**(1)**	(2)	(1)
Fair value of scheme assets at end of period	**5,111**	**407**	5,013	389

Scottish Limited Partnership

The Group has previously entered into a pension funding partnership structure with the CARE Schemes whereby the partnership structure holds properties which are leased back to the Group in return for rental income payments. The Group retains control over these properties, including the flexibility to substitute alternative properties. The CARE schemes were entitled to receive fixed distributions of £6.6m per annum until 2033 subject to certain conditions.

During the 52 weeks ended 31 January 2021, the Group and the Schemes' Trustees have agreed to reorganise the limited partnership structure, so that future distributions will be made to the RSP. The pension funding partnership structure was amended to permanently cease fixed distributions to the CARE schemes. On the same day, Wm Morrison Supermarkets PLC and the RSP, entered into a new pension funding partnership. As a partner, the RSP is entitled to receive a fixed distribution of £6.8m p.a. from the profits of the partnership for 13 years from 2020, subject to certain conditions. The fixed distribution is comparable to the distributions that would have been made under the previous partnership structure.

The fixed distributions made to the RSP are reflected in the Group financial statements as employer retirement benefit contributions. The RSP's interest in the partnership structure reduces the scheme's deficit on a funding basis, although the agreement does not affect the position directly on an IAS 19 accounting basis, because the investment held by the RSP does not qualify as a scheme asset for IAS 19 purposes.

8 Retirement benefits continued

8.4 Present value of obligations

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

	2021 CARE £m	2021 RSP £m	2020 CARE £m	2020 RSP £m
Defined benefit obligation at start of period	**(4,053)**	**(405)**	(3,741)	(391)
Interest expense	**(68)**	**(7)**	(101)	(10)
Actuarial (loss)/gain – demographic assumptions	**(32)**	**–**	92	–
Actuarial loss – financial assumptions	**(371)**	**(49)**	(592)	(58)
Actuarial gain – experience	**52**	**10**	150	15
Settlement and curtailment gain	**3**	**–**	–	–
Benefits paid	**112**	**8**	139	39
Defined benefit obligation at end of period	**(4,357)**	**(443)**	(4,053)	(405)

The durations of the defined benefit obligations at the end of the 2021 reporting period are: RSP 20 years; Morrison CARE 23 years; Safeway CARE 20 years. The weighted average duration of all three Schemes is 21 years.

8.4.1 Significant actuarial assumptions

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

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

Life expectancies	2021 CARE	2021 RSP	2020 CARE	2020 RSP
Longevity in years from age 65 for current pensioners				
Male	**21.1**	**n/a**	20.9	n/a
Female	**22.5**	**n/a**	22.3	n/a
Longevity in years from age 65 for current members aged 45				
Male	**22.8**	**n/a**	22.6	n/a
Female	**24.4**	**n/a**	24.2	n/a

For deriving discount rates, the Group estimates these rates with reference to high quality corporate bonds. At very long durations, where there are no high quality corporate bonds, the yield curve is extrapolated based on available corporate bond yields of mid to long duration. The Group believes that this approach appropriately reflects expected yields on high quality corporate bonds over the duration of the Group's retirement schemes, as required by IAS 19.

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

8 Retirement benefits continued

8.4 Present value of obligations continued

8.4.1 Significant actuarial assumptions continued

Related actuarial assumptions (expressed as weighted averages)

	2021 CARE	2021 RSP	2020 CARE	2020 RSP
Rate of increase of retirement benefits in payment: RPI inflation capped at either 2.5% p.a. or 5% p.a. (% p.a.)	**2.0%/2.9%**	**–**	2.0%/2.8%	–
Rate of increase of retirement benefits in deferment: CPI inflation capped at either 2.5% p.a. or 5% p.a. (% p.a.)	**-/2.3%**	**2.3%/-**	-/2.0%	2.0%/-
CPI inflation (% p.a.)	**2.3%**	**2.3%**	2.0%	2.0%/-

8.4.2 Sensitivity analysis on significant actuarial assumptions

The following table summarises the impact on the defined benefit obligation at the end of the reporting period if each of the significant actuarial assumptions listed above were changed, in isolation, assuming no other changes in market conditions at the accounting date. In practice any movement in assumptions could be accompanied by a partially offsetting change in asset values, and the corresponding overall impact on the net asset/(liability) is therefore likely to be lower than the amounts below in a number of scenarios. Extrapolation of the sensitivities shown may not be appropriate.

		2021 CARE £m	2021 RSP £m	2020 CARE £m	2020 RSP £m
Discount rate applied to Scheme obligations	+/- 0.1% p.a.	**-/+90**	**-/+9**	-/+85	-/+8
Inflation assumption (RPI and associated assumptions)	+/- 0.1% p.a.	**+/-70**	**+/-9**	+/-65	+/-7
Longevity	+ one year	**+150**	**–**	+145	–

8 Retirement benefits continued

8.5 Funding

The Morrison Scheme is entirely funded by the parent Company and the Safeway Scheme is funded by Safeway Limited and its subsidiaries. The parent Company and its subsidiaries participated in the RSP until its closure. There is no contractual agreement or stated policy for charging the net defined benefit cost between the parent Company and its subsidiaries. The contribution of each participating subsidiary to the RSP was calculated in proportion to the number of employees that are members of the RSP.

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

The results of the 2019 actuarial valuations for the CARE Schemes have been used and updated for IAS 19 'Employee benefits' purposes for the period to 31 January 2021 by a qualified independent actuary. The Schemes expose the Group to inflation risk, interest rate risk and market investment risk. In addition, the CARE Schemes expose the Group to longevity risk.

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

The current best estimate of Group contributions to be paid to the defined benefit schemes for the accounting period commencing 1 February 2021 is £9m (2020: £9m). This estimate includes amounts payable from the SLP.

8.6 Defined contribution scheme

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

9 Share-based payments

9.1 Accounting policy

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

The fair value of share options is measured by use of the Black-Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for effects of non-transferability, exercise restrictions and behavioural considerations. The charge in the period for share-based payments was £20m (2020: £26m).

9.2 Sharesave schemes

All employees (including Executive Directors) are eligible for the Sharesave schemes once the necessary service requirements have been met. The scheme allows participants to save up to a maximum of £350 each month for a period of three years. Options are offered at a discount to the mid-market closing price on the day prior to the offer and are exercisable for a period of six months commencing after the end of the fixed period of the contract. The exercise of options under this scheme is subject only to service conditions.

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

Grant date	19 May 2020	17 May 2019	15 May 2018	16 May 2017
Share price at grant date	£1.88	£2.11	£2.55	£2.44
Fair value of options granted	£6.8m	£6.3m	£13.2m	£16.5m
Exercise price	£1.52m	£1.78	£1.87	£1.84
Dividend yield	5.59%	4.6%	3.96%	2.08%
Annual risk free interest rate	0.40%	0.71%	0.56%	0.30%
Expected volatility[1]	19.35%	20.61%	24.9%	28.1%

1 The volatility measured at the standard deviation of expected share price returns is based on statistical analysis on weekly share prices over the past 3.37 years prior to the date of grant.

The requirement that the employee has to save in order to purchase shares under the Sharesave plan is a non-vesting condition. This feature has been incorporated into the fair value at grant date by applying a discount to the valuation obtained from the Black-Scholes option pricing model. The discount is determined by estimating the probability that the employee will stop saving based on expected future trends in the share price and employee behaviour.

	2021		2020	
	Weighted average exercise price in £ per share	Options thousands	Weighted average exercise price in £ per share	Options thousands
Movement in outstanding options				
Outstanding at start of period	**1.83**	**51,306**	1.83	47,570
Granted	**1.52**	**28,060**	1.78	20,905
Exercised	**1.84**	**(4,752)**	1.70	(8,532)
Forfeited	**1.79**	**(20,088)**	1.82	(8,637)
Outstanding at end of period	**1.68**	**54,526**	1.83	51,306
Exercisable at end of period	**1.84**	**199**	1.70	19

	2021			2020		
	Weighted average share price at date of exercise £	Weighted average option price at date of exercise £	Number of shares thousands	Weighted average share price at date of exercise £	Weighted average option price at date of exercise £	Number of shares thousands
Share options exercised in the financial period	**1.90**	**1.84**	**4,752**	2.03	1.70	8,532

	2021	2020
Share options outstanding at the end of the period		
Range of exercise prices	**£1.52 to £1.87**	£1.70 to £1.87
Weighted average remaining contractual life	**1.62 years**	1.44 years

9 Share-based payments continued

9.3 Long Term Incentive Plans (LTIPs)

The LTIP awards have no exercise price and accrue the value of dividends over the vesting period with the exception of senior employees within the schemes granted in 2020. The schemes granted in 2020 vest in 2023 and 2024.

All LTIP schemes granted have service and performance conditions for all employees. The performance conditions associated with all awards are measured through adjusted free cash flow, sales and earnings per share performance.

Awards normally vest three years after the original grant date, provided the relevant service and performance criteria have been met. The fair value of awards granted and the inputs used to determine it are as follows:

Grant date	6 Oct 2020	31 March 2020	14 Oct 2019	19 April 2019	18 Sept 2018	22 March 2018	24 Oct 2017	22 March 2017	25 Oct 2016
Option fair value at grant date	**£1.71**	**£1.79**	£1.96	£2.23	£2.62	£2.09	£2.34	£2.37	£2.28
Fair value of share awards	**£3.2m**	**£29.3m**	£1.0m	£27.2m	£0.9m	£27.3m	£2.0m	£29.4m	£9.2m

	2021 Share awards thousands	2020 Share awards thousands
Movement in outstanding share awards		
Outstanding at start of period	**33,985**	54,168
Granted	**18,273**	12,714
Exercised	**(8,920)**	(28,167)
Forfeited	**(5,752)**	(4,730)
Outstanding at end of period	**37,586**	33,985
Exercisable at end of period	**–**	–

The weighted average remaining contractual life of the share awards is 1.3 years (2020: 1.2 years).

9.4 Deferred share bonus plan

Certain members of senior management participate in the deferred share bonus plan under which 50% of any bonus payable is deferred in shares from the date the deferred share award is made. Dividend equivalents accrue over the vesting period, to be paid when the shares vest. Vesting of these share awards is subject only to service conditions.

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

Grant date	2020/21 scheme	2019/20 scheme
Share price at grant date	**£1.80**	£2.25
Exercise price	**£nil**	£nil
Fair value of share awards granted	**£1.3m**	£1.7m

	2021 Share awards thousands	2020 Share awards thousands
Movement in outstanding share awards		
Outstanding at start of period	**3,373**	3,549
Granted	**695**	771
Exercised	**(1,247)**	(947)
Outstanding at end of period	**2,821**	3,373

The weighted average remaining contractual life of the share awards is 0.9 years (2020: 1.0 year).

10 Other

10.1 Related party transactions

The Group's related party transactions in the period include the remuneration of the senior managers (see note 1.7), and the Directors' emoluments and retirement benefit entitlements, share awards and share options as disclosed in the audited section of the Directors' remuneration report, which forms part of these financial statements.

During the 52 weeks ended 31 January 2021, the Group received a dividend of £8m (2020: £9m) from MHE JVCo Limited. The Group has a c.51% interest in MHE JVCo Limited (see note 4.2).

10.2 Guarantees, contingent liabilities and contingent assets

Guarantees

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

Data theft claim

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

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

Interchange fee claim

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

10.3 Post balance sheet events

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

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