Company registration number: 00358949

Wm Morrison Supermarkets Limited

(formerly Wm Morrison Supermarkets PLC)

Annual Report and Financial Statements

for the

39 weeks ended 31 October 2021

Contents

Company information

Company registration number
00358949

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Strategic report

Our principal activities and our business model

Principal activities

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

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

The takeover of the Group by Market Bidco Limited (a newly incorporated entity formed by Clayton, Dubilier & Rice, LLP in its capacity as adviser to Clayton, Dubilier & Rice, LLC as CD&R Fund XI) ('CD&R') for the entire issued and to be issued share capital of Wm Morrison Supermarkets Limited (formerly known as Wm Morrison Supermarkets PLC) was approved by Morrisons shareholders on 19 October 2021, and sanctioned by the High Court on 25 October 2021. Accordingly, the scheme of arrangement became effective on 27 October 2021 and the Group subsequently de-listed and became privately owned. See further detail on the change in ownership and the Competition and Markets Authority Initial Enforcement Order on page 11.

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

Business model

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

We are guided by our 'Fix, Rebuild, Grow, Sustain strategy', and aim to build a brand that is popular and accessible, broader and stronger. We believe that this will contribute to the delivery of profitable and capital-light growth, particularly through leveraging further our vertically integrated assets.

We have seven priorities underpinning our strategy and six ways of working to deliver it.

Our seven priorities are;

1. **To be more competitive:** we help customers make every penny go further, saving them money on the everyday items they want and need.
2. **To serve customers better:** we continually improve our offer with helpful and friendly colleagues available whenever and wherever they are needed.
3. **Local integration and serving the community**: we contribute to the communities we are part of by providing local jobs, products, services and facilities, supporting food banks, getting food to the vulnerable and going the extra mile.
4. **To simplify and speed up the organisation**: we continue to simplify and speed up, building a culture based on teamwork. We are cost conscious, always finding ways to be a more efficient business that is responsive to customers.
5. **Naturally digital**: we use digital technology to provide easy, accessible and convenient services for customers.
6. **Pride in hygiene**: as food makers and shopkeepers, we have very high standards of hygiene and since the start of the pandemic, have been striving for even higher hygiene standards in stores, depots, manufacturing sites and offices.
7. **Creating and scaling for profitable growth**: we pursue opportunities with an owner's spirit and entrepreneurial hunger, acting fast to swiftly scale the ideas that work.

These priorities are supported by our six ways of working:

1. **Customers first**: we care about our customers and do everything we can to meet their needs.
2. **Teamwork**: all of our colleagues play their part in the team and recognise that we go further together. The importance of supportive managers, helping each other, and open and honest communication is recognised.
3. **Listening hard, responding quickly wherever possible**: taking the time to talk with and listen to colleagues and customers and to always do the right thing for them is at the heart of our plans.
4. **Freedom in the framework**: colleagues are trusted to make their own decisions within the Morrisons plan, and are encouraged to improve things for customers and for themselves. Colleagues are adventurous, curious, remove barriers and embrace new ideas and ways of working.
5. **Driving sales, tough on costs**: it is recognised that every bit of effort and every penny matters. Colleagues should spend every penny as if it were their own.
6. **We care**: everyone is welcome and celebrated at Morrisons. We care more and try harder – for customers, for each other and for everyone around Morrisons. We celebrate, attract and nurture great talent and we care for our communities and our environmental impact.

Strategic report (continued)

Our principal activity and our business model (continued)

Business model (continued)

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

By controlling the whole supply chain, we know where our food comes from and can provide our customers with what they want, when they want it. Our stores are serviced by eight regional distribution centres and one national distribution centre, which supports our growth across all channels. Through our 497 stores, our manufacturing sites, our online business and our wholesale partners, we can leverage our brand to achieve meaningful and sustainable capital-light growth, supported by a strong balance sheet, including a nationwide freehold estate and a well-funded pension scheme.

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

In addition, we sell products through our 'Morrisons on Amazon' home delivery channel. The same-day delivery service is available to Prime members on the Amazon.co.uk website and app and has expanded to more than 60 British towns and cities, covering 60% of the British population and accounting for more than 10% of sales in the majority of stores offering the service. We have also started supplying all Amazon Fresh UK stores with a range of items for customers to purchase. These stores are powered by Amazon's 'Just Walk Out' technology.

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

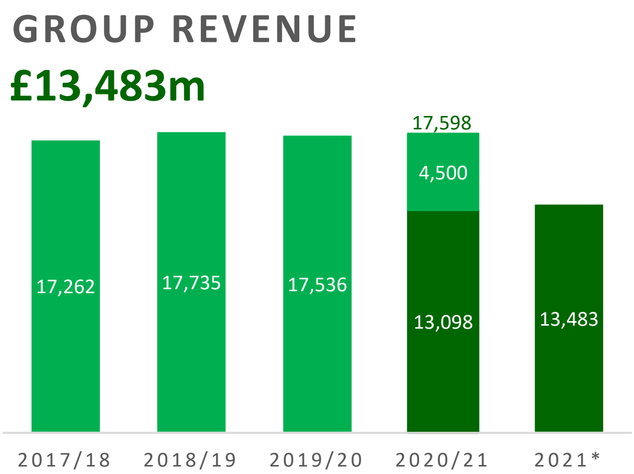
Our wholesale business supplies products to the convenience channel via Morrisons Daily convenience stores and supply agreements with wholesale partners. This presents an opportunity for us to leverage our brand strength and integrated supply chain to achieve incremental, profitable and sustainable growth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

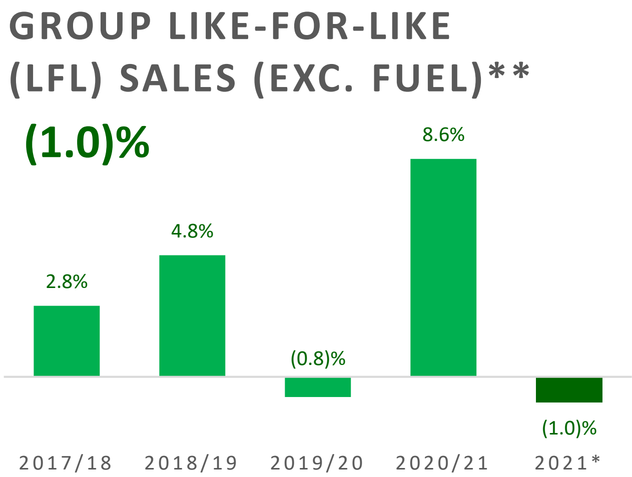
Strategic report (continued)

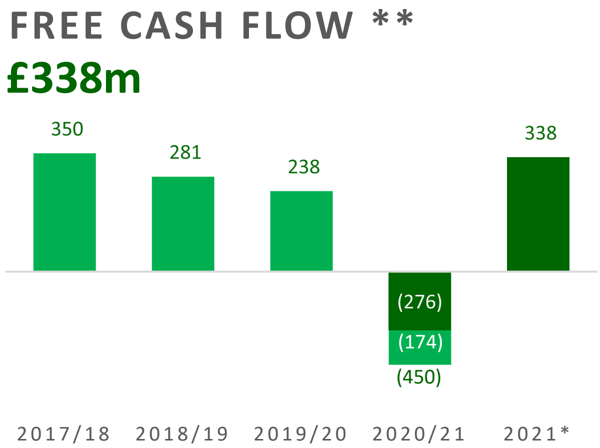
Financial results

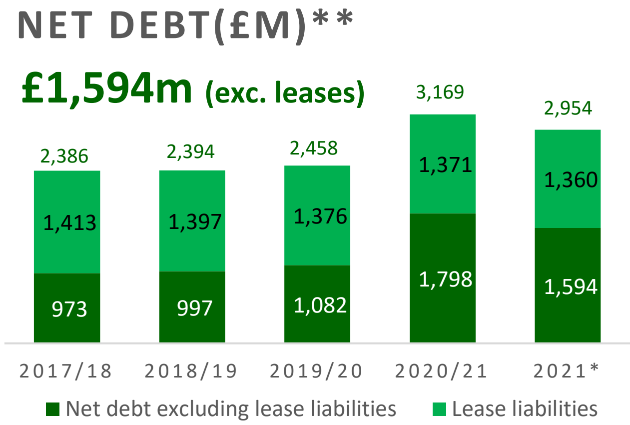
Our trading was robust despite the challenges from the ongoing COVID-19 pandemic and supply chain disruption, with a Group like-for-like ('LFL') including fuel of 2.9% (LFL excluding fuel down 1.0%). The balance sheet remains strong with an 87% freehold estate and a well-funded pension scheme.

The Company has changed its accounting reference date from 31 January to 31 October. Consequently, this Annual Report and consolidated financial statements of the Group represents the 39 week period to 31 October 2021 (2021), whereas the comparative period covers the 52 weeks to 31 January 2021 (2020/21). The shorter accounting period, and the seasonality of the Group's business, which tends to achieve significant trade volumes over the Christmas trading period, means that the current financial period results are not directly comparable to those of the comparative period. Where appropriate, pro-forma unaudited comparative information has been included for the 39 weeks ended 1 November 2020 to aid the understanding of performance.









- Amount relating to 39 weeks ended 1 November 2020.
- Additional amount to show total for 52 weeks ended 31 January 2021.

* 39 weeks ended 31 October 2021.

****** Alternative Performance Measures as defined in the Glossary on pages 135 to 137.

Financial results (continued)

	39 weeks ended 31 October 2021 £m	39 weeks ended 1 November 2020 (proforma)** (unaudited) £m	52 weeks ended 31 January 2021 £m
Revenue	**13,483**	13,098	17,598
Operating profit/(loss)	**(51)**	179	254
Adjustments:			
Net impairment and provision for onerous contracts	**110**	(5)	(83)
Online and home delivery transformation costs	**–**	55	66
(Profit)/loss on disposal, exit of properties and closure of businesses	**28**	(1)	(2)
Restructuring and store closure costs	**19**	30	56
Other exceptional items	**3**	10	15
Retirement benefit administrative costs (note 8.2)***	**4**	–	–
Transaction fees and other takeover related costs	**98**	–	–
Operating profit before exceptionals*	**211**	268	306
Supply chain disruption	**30**	–	–
Operating profit before exceptionals and supply chain disruption*	**241**	268	306

* Alternative Performance Measures as defined in the Glossary on pages 135 to 137.
** Proforma unaudited information has been provided for the 39 weeks ended 1 November 2020.
*** Retirement benefit administrative costs were not disclosed as exceptional in the comparative period.

	39 weeks ended 31 October 2021 £m	39 weeks ended 1 November 2020 (proforma)** (unaudited) £m	52 weeks ended 31 January 2021 £m
Operating profit/(loss)	**(51)**	179	254
Adjustments:			
Depreciation	**369**	352	470
Amortisation	**60**	64	71
Statutory EBITDA*	**378**	595	795
Adjustments for exceptional items (as above)	**262**	89	52
EBITDA before exceptionals*	**640**	684	847
Supply chain disruption	**30**	–	–
EBITDA before exceptionals and supply chain disruption*	**670**	684	847

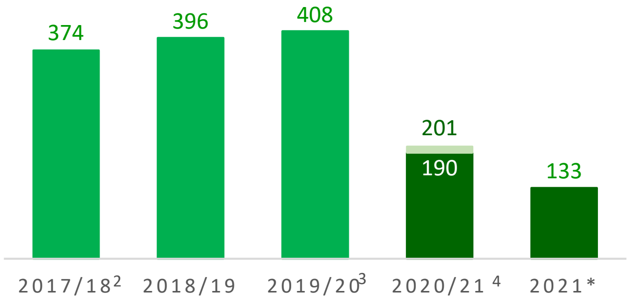
* Alternative Performance Measures as defined in the Glossary on pages 135 to 137.

Revenue

Total revenue during the period was £13,483m for the 39 weeks ended 31 October 2021, with net new space contribution of 0.2%. Total revenue excluding fuel was down 0.7% to £11,099m compared to the 39 weeks ended 1 November 2020, with fuel sales up 24.4% to £2,384m compared to the same period, as a result of lockdowns during 2020. Group LFL excluding fuel and VAT was down 1.0%. Group LFL excluding fuel was up on a 2-year basis by 7.4%.

Our online offer continues to provide an important service to customers through Ocado's customer fulfilment centres, store pick and Click & Collect, and with the same-day delivery service 'Morrisons on Amazon'. We continue to expand the wholesale customer base with new supply arrangements.

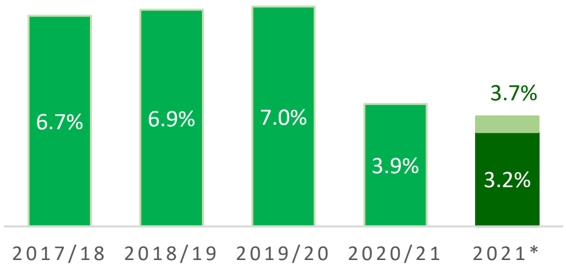
PROFIT BEFORE TAX, EXCEPTIONAL ITEMS AND NET RETIREMENT BENEFIT CREDIT (£M)[1]**



- Amount relating to 39 weeks ended 1 November 2020.
- Additional amount to show total for 52 weeks ended 31 January 2021.

1 Referred to as 'profit before tax and exceptionals'
2 £369m 52 week equivalent
3 Restated following the application of IFRS 16.
* 39 weeks ended 31 October 2021
**Alternative Performance Measures as defined in the Glossary on pages 135 to 137.

RETURN ON CAPITAL EMPLOYED ('ROCE')**



- ROCE for 39 weeks ended 31 October 2021
- ROCE before supply chain disruption for 39 weeks ended 31 October 2021

* 39 weeks ended 31 October 2021.
****** Alternative Performance Measures as defined in the Glossary on pages 135 to 137.

Profit

Operating profit before exceptionals and supply chain disruption costs for the period was down 10% to £241m compared to the 39 weeks to 1 November 2020.

EBITDA before exceptionals and supply chain disruption was down 2%, versus the comparative 39 weeks ended 1 November 2020.

Profitability continued to be impacted by lost profit in material areas of the business - café and food to go - as a result of the continued COVID-19 impact. The comparative period benefited from £161m of relief from the rates waiver which was subsequently repaid in January 2021. These impacts were partially offset by a reduction in direct COVID-19 costs which reduced from £230m in the comparative period to £48m in the 39 weeks ended 31 October 2021.

Exceptional items recognised outside of operating profit before tax and exceptionals (as fully detailed in note 1.4) were a net charge of £262m (39 weeks to 1 November 2020: £89m charge). Of the £262m costs, £98m was associated with the transaction which occurred in the period, £70m was the net impairment charge reflecting the continuing fluctuation of store-level trading performance and local market conditions, £37m in respect of onerous contractual commitments and associated assets as well as £19m for restructuring and £33m for costs associated with the closure of some operations along with costs relating to the consolidation of certain store pick sites.

Supply chain disruption costs of £30m have also been recognised in the period (39 weeks to 1 November 2020: £nil) which are associated with the cost of mitigating actions and the impact on the Group's operations arising from the unprecedented nationwide disruption in the supply chain.

Debt, cash flow and working capital summary cash flow

	39 weeks ended 31 October 2021 £m	39 weeks ended 1 November 2020 (proforma)** (unaudited) £m	52 weeks ended 31 January 2021 £m
Cash generated from operations	**621**	289	286
Proceeds from sale of property, plant and equipment and investment property	**10**	5	27
Capital expenditure (including investment in subsidiaries)	**(368)**	(364)	(539)
Dividends paid	**(123)**	(165)	(261)
Dividends received	**–**	–	8
Tax and interest	**(93)**	(181)	(197)
Purchase of trust shares	**(3)**	–	–
Proceeds from exercise of share options	**55**	9	9
Settlement of share awards	**(8)**	(10)	(10)
Proceeds from settlement of derivative contracts	**118**	–	–
Non-cash movements on lease liabilities	**(48)**	(59)	(80)
Other non-cash movements	**54**	35	46
Movement in net debt*	**215**	(441)	(711)
Opening net debt*	**(3,169)**	(2,458)	(2,458)
Closing net debt*	**(2,954)**	(2,899)	(3,169)

* Alternative Performance Measures as defined in the Glossary on pages 135 to 137.
** Proforma unaudited information has been provided for the 39 weeks ended 1 November 2020.

Group net debt was £2,954m (1 November 2020: £2,899m; 31 January 2021: £3,169m). Excluding lease liabilities, net debt was £1,594m (1 November 2020: £1,522m; 31 January 2021: £1,798m). Working capital improvements in the period included the unwind of the temporary working capital impact seen through the pandemic with the reduced demand for fuel, commitment to pay small suppliers early and investment in stock holding. Stock availability has continued to be protected due to the disruption in the supply chain during the period.

Free cash inflow was £338m for the period (1 November 2020: £276m outflow; 31 January 2021: £450m outflow). The cash outflow from ordinary and special dividends was £123m, a £42m decrease from the 39 weeks ended 1 November 2020 (1 November 2020: £165m; 31 January 2021: £261m).

Tax

We understand the importance of the tax contribution we make and we take our responsibility towards the communities in which we operate and towards our colleagues, customers, investors and suppliers seriously. We have a tax management framework which ensures the needs of all of our stakeholders are considered. The Group is committed to paying all of its taxes in full and on time. The Group consistently ranks as one of the largest contributors across a range of UK taxes.

Strategic report (continued)
Financial results (continued)

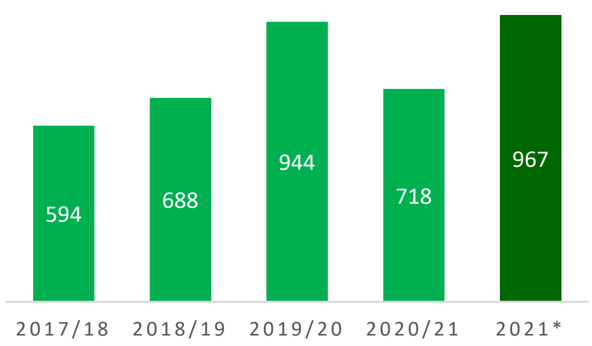
Summary balance sheet

The balance sheet is strong, with 87% of our sites being freehold and the pension schemes in a net £967m surplus position.

	31 October 2021 £m	31 January 2021 £m
Fixed assets and investments	**8,760**	8,843
Working capital[1]	**(1,858)**	(1,687)
Provisions and tax	**(732)**	(489)
Net retirement benefit surplus	**967**	718
Assets held for sale	**1**	–
Net debt*	**(2,954)**	(3,169)
Net assets	**4,184**	4,216

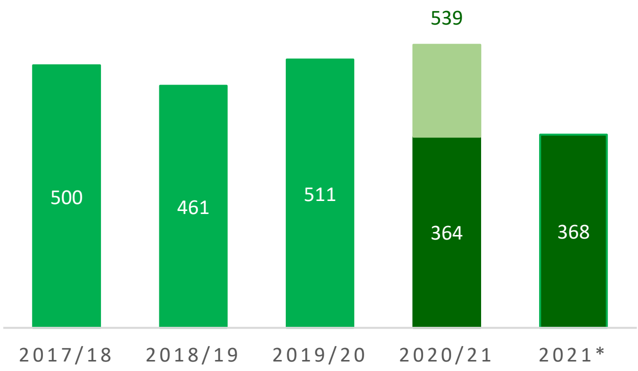
1 Excluding provisions.
* Alternative Performance Measures as defined in the Glossary on pages 135 to 137.

NET RETIREMENT BENEFIT SURPLUS (£M)



* 39 weeks ended 31 October 2021.

CAPITAL EXPENDITURE (£M)



* 39 weeks ended 31 October 2021.

Pensions

As at 31 October 2021, the net pension accounting surplus on the balance sheet was £967m (52 weeks ended 31 January 2021: £718m). In June 2021, the Trustees completed a further £207m buy-in of part of the Safeway Scheme liabilities. Net retirement benefit interest income was £8m for the period (52 weeks ended 31 January 2021: £16m), reported outside of profit before tax and exceptionals net of the pension administrative costs of £4m.

Capital expenditure

Cash capital expenditure was £368m for the 39 weeks ended 31 October 2021 (39 weeks ended 1 November 2020: £364m, 52 weeks ended 31 January 2021: £539m). In the period a further 12 stores went through our Fresh Look programme. We also continued to develop our new food-to-go Market Kitchen concept, which has been rolled out in eight stores. One new store opened and one store was closed during the period.

Borrowings

Net debt decreased during the period from £3,169m to £2,954m. Liquidity remained strong in the period with significant headroom on available facilities at 31 October 2021 with £838m drawn on the total revolving credit facilities of £1,550m. On 8 November 2021, following the takeover by CD&R, all revolving credit facilities were cancelled by the Group and were subsequently replaced with intercompany funding provided by parent companies.

A bond repurchase process was held on 2 December 2021, where bondholders were given the opportunity to sell their bonds and receive accrued interest, along with an incentive premium. £805m of bonds were repaid early, in addition to £9m of accrued interest and a further £3m of premium. On 8 December 2021 there was a further bond repurchase. £31m of bonds were repaid early, in addition to £1m accrued interest. There was no additional premium awarded on this repurchase.

Strategic Report (continued)

Financial results (continued)

Return on Capital Employed (ROCE)

ROCE was 3.2%, down from 3.9% at 31 January 2021. After adjusting for supply chain disruption, ROCE was at 3.7%, a 0.2% reduction compared to 31 January 2021.

Change in ownership

The takeover of the Group by CD&R of the entire issued and to be issued share capital of Wm Morrison Supermarkets Limited was approved by Morrisons shareholders on 19 October 2021, and sanctioned by the High Court on 25 October 2021. Accordingly, the scheme of arrangement became effective on 27 October 2021 and the Group subsequently delisted and became privately owned.

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

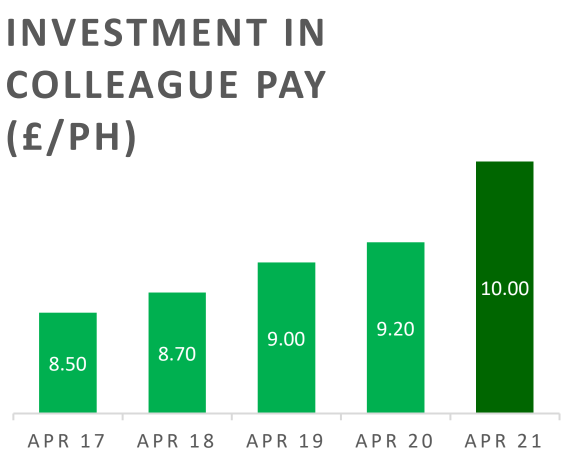
CD&R has, in particular, been very supportive of our Fix, Rebuild, Grow, Sustain strategy. That strategy has continued to prove flexible and adaptable in the most unprecedented and extreme times during COVID-19. In doing what has always been most important to us – listening and responding – we have embraced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

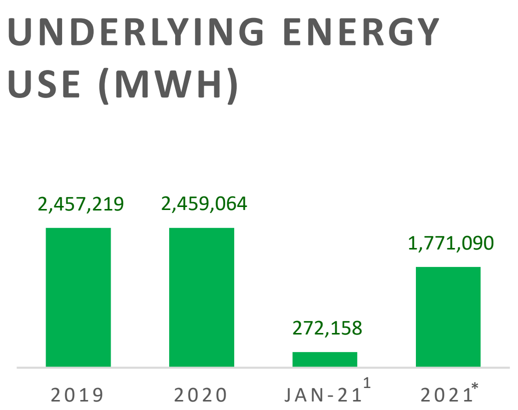
On 26 October 2021, the Competition and Markets Authority ('CMA') imposed an Initial Enforcement Order ('IEO') on Morrisons and CD&R. The IEO is, effectively, a 'hold separate' requirement, which among other things prohibits the two companies from integrating or exchanging confidential or commercially sensitive information, until the IEO has been revoked or the CMA's investigation is complete. The companies submitted a Merger Notice to the CMA on 26 January 2022, and this commenced Phase 1 of the CMA's merger investigation. Phase 1 is a 40 working day process at the end of which the CMA makes a decision as to whether to clear the transaction unconditionally or to refer the merger for a Phase 2 investigation (unless the parties offer acceptable undertakings in lieu of a Phase 2 reference).

On 24 March 2022, the CMA issued its Phase 1 decision. The CMA found that the merger between Morrisons and CD&R gives rise to a realistic prospect of a substantial lessening of competition with regards to the retail supply of road fuel (petrol and diesel) in 121 local areas within the UK. The CMA found no competition concerns at the national level.

The companies have until 31 March 2022 to offer undertakings to the CMA, and the CMA will have 50 working days from the date of the Phase 1 decision to give consideration as to whether to accept the companies' undertakings in lieu of a reference to a Phase 2 investigation (which is extendable by a further 40 working days). Any Phase 2 process would take up to 24 weeks - extendable by a further 8 weeks.

Non-financial highlights





1 January 2021 is outside of the financial period but included to ensure emissions' data has not been omitted.
* 39 weeks ended 31 October 2021.

Strategic report (continued)

Customers

Customer proposition

We continue to listen hard and respond to our customers. Our team of colleagues, supported by a high quality management team, serves around nine million customers every week in our 497 conveniently located supermarkets and through our online channels.

We are continually improving our core proposition, focusing on competitive pricing on essential products ("customer favourites"), and being more accessible through our online channel and complementary expansion of our wholesale and convenience businesses. In the financial period, we opened one new store in addition to 12 Fresh Look refits and launching six new Market Kitchens, as well as one store closure. We now have eight Market Kitchens across the estate providing hot and cold food-to-go prepared in-store by our trained chefs, using ingredients from Market Street. Our 402 cafes and 99 barista bars have been a popular offering to customers in the period, following an initial period of closure due to lockdown.

Customer behaviours

Social distancing remained a priority for customers in the period. At the start of the pandemic, the online market saw dramatic volume increases and Morrisons embraced this opportunity, growing our online share of total sales from 4% in the year to January 2020 to 9% in the 39 weeks ended 31 October 2021 and now having various online and home delivery channels available to 97% of British households. Whilst the rapid growth of the channel has slowed, not least with the oldest shopper groups re-discovering the social interaction of in-store shopping, the now established appeal of online for younger shoppers means it appears unlikely that its importance will decline.

The clearest indicator of COVID-19's impact on supermarket shopping habits was its immediate reversal of the long-term trends in shopping frequency and basket size. For several years, transactions had increased and basket sizes had decreased as customer preferences became less about 'the big weekly shop' and more about convenience and 'a little and often'. The arrival of COVID-19 saw this switch almost overnight: the big weekly shop was back, basket sizes grew dramatically and the number of fascias customers shopped in any given week dropped. Early panic buying played a role, but as the pandemic became established and lockdowns were introduced, the need and desire to minimise trips out maintained and embedded this switch in behaviour. Despite the end of lockdowns and the return of some semblance of normality (e.g. schools reopening, some commuting returning), whilst frequency has increased and basket size decreased, we have yet to see a return to pre-pandemic shopping behaviours.

Inevitably, when customers visit stores, cleanliness, presence of hand sanitiser and social distancing (from both staff and other customers) have remained important through the period. As food makers and shopkeepers, our high standard of hygiene and continued focus is reflected in our seven priorities and we have taken steps to reassure our customers and colleagues during this time.

Value and brands

We continually focus on making our brand popular across all stakeholder groups: customers, colleagues, suppliers and communities. We believe our brand resonates with customers as it stands for quality fresh food at great value, and we continue to deliver an increasingly distinctive offer. Our brand became stronger through the pandemic as we contributed to helping "feed the nation" while protecting our people, customers, suppliers and the broader community.

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

While we have increased prices as a result of inflationary pressures, we remain competitive on our customer favourites, the basket of around 2,000 important items that we know our customers care about the most. Despite increases in global commodity prices and freight inflation, as well as the cost of supply chain disruption seen across the UK, we have absorbed many of these industry-wide price and cost pressures to keep prices low for customers for as long as possible.

We are working hard to continue to improve our own brands for customers. Our wide range of brands means we can cater for many tastes and budget requirements, from our entry-point ranges such as Savers, Woodhead Bros, International Seafood Co and Greenside Deli, through to our premium range, The Best. In addition, we cater for many types of dietary and lifestyle choices, for example through our Free From, V Taste, Fresh Ideas, Counted and Nourish ranges and have continued to innovate with the launch of vegan-friendly products as veganism continues to gain popularity.

Strategic report (continued)

Colleagues

Helping to ‘Make Good Things Happen’

Throughout this unpredictable, and at times very challenging period, our colleagues have continued to play their full part in caring for our customers, communities and each other, balancing their role in helping to feed the nation with opportunities to ‘Make Good Things Happen’ for all of those who depend on us.

In April, we launched our Seeds of Hope campaign. Inspired by Rose, one of our Community Champions, colleagues gave away over one million packets of sunflower seeds to customers, local community groups and schools. In the following weeks, we built on this positivity by supporting Stories of Hope, helping children from disadvantaged backgrounds to access books, including creating, printing, and giving away 50,000 copies of our own children’s book, *Cedric the Seed*, to local schools and community groups.

Throughout the period, our colleagues supported hundreds of local charities and community groups by fundraising, volunteering their time or making donations including to local food banks, which also received a further £2m donation of food to ensure no one was left behind.

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

Given the incredible contribution of all our frontline colleagues, we were delighted that our industry-leading proposed pay deal of a minimum £10 per hour for our retail and manufacturing colleagues came into effect in April, as we continued to deliver on our ambition of a fair day’s pay for a fair day’s work for all of our colleagues.

We also listened hard to our colleagues, who told us how much of a difference the temporary increase to their shopping discount had made. In June, we responded by improving our colleague discount scheme so that colleagues now receive 15% discount on their shopping, with no cap on saving, alongside two further cards for family members or friends, which provide a 10% discount.

Colleagues also told us how challenging the last year and a half has been, so in August we announced that we would close all of our supermarkets on Boxing Day, so that as many frontline colleagues as possible could have a meaningful break with their families and loved ones.

A manager who helps and supports me

Given the impact of 2020 on our colleagues and business, we invested time for our Executive Committee to work directly with more than 150 of our most senior leaders to continue developing a culture that allows all of our 78,614 food makers and shopkeepers to work with ever greater purpose. This important programme reviewed our ways of working, the strength of our teamwork and the lessons of our rapid and effective response to the pandemic. On completing the programme, leaders took insights back to their business areas to help develop managers and support improved listening to colleagues. At the same time, larger themes have been used to inform a Company-wide leadership programme going forward.

I can have my say and I am treated with respect

Having seen how powerful the feedback and insights of our colleagues have been throughout the pandemic, we continued to prioritise listening to the frontline. In April, all of our food makers and shopkeepers had the opportunity to share their opinions and suggest how we make Morrisons a better place to work and shop, through our annual Your Say survey.

The survey measures ‘workplace happiness’ and within this period, despite the challenges that supermarket workers have faced, we were pleased to record a score equal to the benchmark for the wider retail industry. We were also particularly pleased to see the responses to ‘I receive a fair day’s pay for the work I do’ improve by 6%, very positive results in ‘My line manager helps and supports me’, up to 72%, and ‘I feel welcome at Morrisons’ achieving 74%.

Building on this listening, we also held two digital National Your Say forum meetings, so members of the Executive Committee could directly hear the questions that our frontline colleagues most wanted to ask, and provide appropriate responses.

Following some listening we did last year, we were pleased during the current period to complete improvements to our staff room food and drink offering. 24 hour grab-and-go facilities for our evening, twilight and night colleagues were introduced into all store staff rooms so all colleagues can take a break, enjoy a hot drink and choose from a wide range of hot and cold food options, no matter what time of day they work.

Strategic report (continued)
Colleagues (continued)

The tools and training to do my job

Throughout the period we have continued to adapt to hybrid working and have seen even more colleagues engaging with our digital platforms. As we have sought to retain the speed and flexibility of digital working, while rediscovering face-to-face working where it can increase efficiency and effectiveness, we have invested in new video-conferencing equipment in all stores and sites. This has ensured colleagues can more easily connect with other sites and stores, hold team meetings and receive business updates from the office. We have also now started a trial of MyMorri TV, with communication screens being tested in a number of stores and sites to help colleagues see key business updates more easily.

We launched new Career and Learning & Development icons on our internal MyMorri platform, helping colleagues to easily identify opportunities via internal vacancies or different career pathways. The sites provide guidance and support for job applications, interview preparation and CV building, along with self-guided development resources for career progression.

During the period colleagues in three of our stores trialled a new uniform, designed by colleagues and our in-house Nutmeg clothing team. The new uniforms are modern, smart, warm and durable and we are looking forward to introducing them to all of our colleagues.

Nurturing existing colleagues, and bringing new talent into the business continues to be a priority, and we are pleased that during the period we placed 200 colleagues onto craft apprentice schemes in Butchery, Bakery and Fish as we continue our tradition of growing real craft food makers. This was in addition to 50 colleagues who took up apprenticeships in areas as diverse as floristry, food science and in our abattoirs.

Our degree apprentice and graduate programmes also continue to play an important role, bringing young and capable talent into the business and creating a pipeline for management roles. In the period 132 colleagues started on these schemes. We are focused on improving the diversity of young people on these schemes. This year 21% of joiners were BAME, an 8% increase and for the first time we also provided a BAME summer internship in our Head Office for ten undergraduates at Bradford and Leeds Universities, something we intend to repeat in 2022, as well as providing more BAME summer internships in retail.

The Institute of Student Employers is the UK's leading independent voice for student employers and they held their annual awards in September, where we were pleased to win the award for the ‘Best School Leaver and Apprenticeship Strategy’ based on our work with degree apprentices.

We care

Our colleagues tell us how important our wellbeing support offer is and that they would like more help in the area of mental health. We were pleased to announce a new partnership with Vita Health who are specialists in mental health, meaning that they can support our colleagues with being as mentally fit and healthy as possible, as well as providing general wellbeing support.

We also asked colleagues in a small number of stores and sites to help us trial a new digital wellbeing service where they could book a digital consultation with an NHS-registered private GP, usually on the same day. The trial has been a success and has since been introduced for all of our colleagues.

Everyone is welcome and celebrated at Morrisons

We have continued our work to make sure everyone feels welcome and celebrated at Morrisons. Our Diversity and Inclusion programme is sponsored at Executive level and covers five areas: Women in Morrisons, BAME, LGBT+, ability, and family-friendly and carers.

We recognise the importance of a male/female balance and women in our business now make up almost 60% of our workforce. We are really proud of our sustained progress in this area and are supporting women into skilled and senior roles. The work we have done so far has seen our gender pay gap decrease since 2017/2018.

We are also committed to ensuring all colleagues, regardless of race, nationality and background, have equal access to development opportunities and are continuing to focus on supporting career progression of our colleagues from a BAME background. In support of our colleagues from a BAME background, we have signed up to the Business in the Community Race at Work Charter.

Six-day operations are in place in our head office, which provides better support for our stores and sites, and more opportunities to plan, review, and reflect for central teams. Central colleagues work four of the six days giving them greater opportunities to balance work and family life.

Strategic report (continued)

Suppliers

Strong supplier relationships, based on mutual trust and respect, are at the heart of what we do and continue to be a key priority in our growth and development.

Listening hard to build collaborative relationships

Despite the unprecedented events of the past two years, we have continued to prioritise listening and responding to our suppliers. We have held a further two virtual conferences with our supplier base where we have focused on feedback from our supply base and our strategic growth plan. We shared information on our recent takeover by CD&R and our overall performance, demonstrated how we are delivering growth, advised on our actions during Brexit, and provided updates on our expanding business channels across online and wholesale.

In the period, we have seen that supply chain processes have come under extreme pressure, with unprecedented disruption in the market. Throughout the period, working closely with our suppliers, we have managed to continue servicing all of our stores, including our store in Gibraltar, although availability has been challenging at times.

Supporting local suppliers

At Morrisons, we are committed to supporting our local communities and suppliers wherever possible. We make it easy for local food makers to work with us and develop their brands by offering mentoring, simple six-month contracts and trial agreements, shorter payment terms for those with less than £100,000 of business a year, as well as allowing for deliveries direct to their local stores. We know that supporting local communities is important to our customers and we have seen growth in sales of locally sourced food and drinks from smaller suppliers of +11% year on year, and +36.6% growth in sales of local products that are supplied directly to our stores by local suppliers.

We have introduced a new supplier programme, Growing British Brands, to find distinctive and innovative products that meet customer trends. Since the launch, we have received over 1,000 registers of interest to supply Morrisons from new brands and entrepreneurs. Our first products to hit the shelves include Nuud Chewing Gum, a plastic free, plant-based, biodegradable and naturally sugar-free product; and Winny’s Kitchen Jerk Sauce, an authentic Caribbean sauce from a start-up food brand that is now available nationally in over 400 stores.

Backing British farmers

We pride ourselves on being British food makers. As British farming’s biggest direct supermarket customer, we value the efforts of farmers who work hard all year round. Our fresh meat, milk and eggs are 100% British. We have continued to support our farmers through our ‘For Farmers’ range partnership with Arla, Lactalis and Ornua which has now donated over £23m to farmers since the initiative started in 2017. We have maintained our 2,700 farmers and local food makers in our 5% discount offering.

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

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

Working with suppliers to fulfil our responsibility to protect the environment

Reducing plastics

We continue to work with suppliers to fulfil our responsibility to protect the environment, with each food category having a defined set of plastic reduction targets. We have made a commitment to reduce the use of primary plastic packaging in our own-brand products by 50%, and to move towards 100% of plastic packaging being recyclable, reusable or compostable by 2025. Furthermore, we are eliminating problematic or unnecessary single use packaging through redesign or innovation.

We have introduced initiatives that will remove 11,000 tonnes of unnecessary or problematic plastic each year (2017 baseline). We are the first supermarket to commit to removing all plastic bags for life from our stores, removing 3,200 tonnes of plastic per annum, and the first to install water fountains at all stores, so that customers can refill on the go. We now offer up to 72 varieties of loose fruit and veg in 332 stores. We were first to introduce paper produce bags, removing 176 million plastic bags each year. We removed expanded polystyrene from Morrisons food and drink products, removing 700 tonnes of plastic each year. We were the first to eradicate black plastic from own-brand products, removing 3,966 tonnes of plastic each year. We have removed rigid PVC from our packaging, saving 2,220 tonnes of plastic from landfill each year.

Promoting the British fishing industry

We continue to offer the broadest range of fresh British fish of any major retailer, helping customers to make more sustainable choices which are not threatened by overfishing.

In February 2021, we brought Falfish into the Morrisons manufacturing family, a family-owned wholesaler of sustainably sourced seafood. Falfish has been a trusted supplier of high quality fresh fish to Morrisons for over 16 years. Following this deal, over 80% of Morrisons fish and shellfish - both in our 497 stores and in our online business - comes through our wholly-owned operations.

Sustainable sourcing

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

In 2022, we will trial a balanced scorecard approach as part of our way of working with suppliers, assessing how different aspects of sustainability, from deforestation and diets to plastics and people, are managed and to help identify where we can accelerate opportunities. We are keen to ensure that we manage data effectively, to improve reporting and help develop sustainable activity.

The Groceries Supply Code of Practice ('GSCOP' or 'the Groceries Code')

GSCOP applies to designated grocery retailers in the UK, adding specific regulations into the trading relationships between retailers and their suppliers. We take our responsibilities to suppliers seriously and we have established ways of working, which enable us to build strong collaborative relationships. For more details, see *morrisons-corporate.com/suppliers*. We listen hard to our suppliers at all times and this has continued to be vital during the challenges of the pandemic. Working closely and collaboratively with our suppliers we have been able to minimise the impact of supply chain issues for both our suppliers and our customers.

During the period, we have continued to make significant investments into our commercial and supply chain systems and processes, including our ordering and receiving, warehouse management and supplier database systems to improve the ways in which we communicate with our suppliers.

We actively engage with the relevant regulatory bodies, the Groceries Code Adjudicator ('GCA') and the Competition and Markets Authority ('CMA'), to build best practice. We meet regularly with the GCA and provide updates on our activity and details on specific areas of interest to the Adjudicator. As in previous years, our Code Compliance Officer ('CCO') has provided support to the GCA to help familiarise new retailers designated to operate under the Groceries Code.

Effective compliance risk management is critical to delivering on our commitments to all of our stakeholders. We have well-established governance structures to support GSCOP compliance. This includes a group consisting of senior Leadership team members from all relevant functions. Routine updates were provided to our Executive Committee and to our Corporate Compliance and Responsibility ('CRR') Committee, including developments about the operation of the Groceries Code. We formally report details of activity and specific concerns raised with our CCO to the GCA and to the CMA at the financial period end.

Our Legal, Compliance and Audit teams work closely together to provide colleagues across the business with the support and guidance needed to comply with the Code. We provide training, guidance and support to all colleagues in our Trading teams together with bespoke training for relevant colleagues in our Supply Chain and Finance teams through a range of formats. We review and update all of our training activities and materials to take account of any new learnings, build in regular real-life examples and to reflect additional guidance from the GCA.

In the 2021 GSCOP supplier survey conducted by YouGov on behalf of the GCA, 94% of suppliers rated Morrisons as complying with the Groceries Code 'mostly' or 'consistently well', an improvement on the previous year. Working with the GCA, our encouragement of suppliers to complete the anonymous survey led to Morrisons having the most suppliers complete the survey of all designated retailers.

GSCOP-related enquiries are dealt with in accordance with the regulations. Any matter not resolved directly with a buyer is escalated to the relevant Category Director and, if requested, to our CCO. During 2021 we were contacted by suppliers to review concerns, including in the following areas:

- Requesting review of supplier de-listing decisions including extensions to notice periods;
- Queries relating to resolution of goods receipt and invoice disputes; and
- Misalignments between supplier and Trading team on product ranges and volumes agreed.

At all stages, we try to resolve the concern by talking to the supplier openly and honestly and this approach is generally successful in reaching a swift resolution. A the end of the financial period, there were four direct Groceries Code-related complaints which are yet to be resolved. Contact details and further up-to-date information can be found at *morrisons-corporate.com/suppliers/meet-our-buyers*.

Strategic report (continued)

Protecting the environment and supporting communities

Our environment

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

Climate change

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

In the reporting period we set new targets to reach net zero GHG emissions in our own operations by 2035 (referred to as Scope 1 & 2) and to reduce our value chain emissions for own-brand products by 30% by 2030 (referred to as Scope 3). We are also a signatory to the British Retail Consortium's Climate Change Roadmap.

We are further integrating climate change into our strategic planning, and we continue to move towards greater disclosure under the Task Force on Climate-related Financial Disclosures ('TCFD') requirements in this Annual Report (see page 20).

Own operations (Scopes 1 & 2)

During the reporting period, we continued to invest in projects to reduce our energy consumption. For example, we have rolled out shelf-edge technology, which traps cold air within the fridge, to more stores. We have also upgraded more sites to use LED lighting with improved controls, and continue to move away from HFC-based refrigerants towards CO2 alternatives wherever possible.

To reduce gas consumption, we have upgraded the heating and ventilation controls across multiple stores. We have also led an engagement campaign across all sites and stores to encourage the right energy-saving behaviours, such as keeping blinds on fridges closed at night.

Our logistics division has continued to undertake a number of activities designed to reduce distance travelled and fuel consumed while delivering to our stores. This includes careful scheduling to minimise mileage, longer semi-trailers, and using vehicle telematics systems to encourage drivers to reduce harsh braking, acceleration and engine idling time.

During this time we have also invested in our existing renewable portfolio, improving our renewable generation with the ambition to increase this generation in future years.

Footprint

Continued energy efficiency measures have helped us to reduce our carbon intensity ratio by 7% versus the previous year.

Group greenhouse gas emissions methodology

We have reported for the financial period 1 February 2021 to 31 October 2021. We have used the Government's Environmental Reporting Guidelines (2021) to prepare the report, and the emissions factors from the UK Government GHG Conversion Factors for Company Reporting (2019).

In line with Streamlined Energy and Carbon Reporting ('SECR') requirements we have also reported on the underlying energy use used to calculate Group GHG emissions. The reporting boundary has been determined by operational control, which includes emissions from the operation of the Group's supermarkets, manufacturing, distribution sites and operation of its haulage fleet.

We exclude our Hong Kong office and Bos Brothers Fruit & Vegetables BV, which represent less than 0.1% of the total Group footprint and are therefore not material.

Strategic report (continued)

Protecting the environment and supporting communities (continued)

Group GHG emissions for period ending 31 October 2021

Emission source	1 January 2019 – 31 December 2019[9]	1 January 2020 – 31 December 2020[9]	1 January 2021 – 31 January 2021[7]	1 February 2021 – 31 October 2021[8]
	Tonnes of CO_2e			
Stationary combustion of fuel and operation of facilities				
Stationary combustion[1]	143,323	131,966	19,554	80,885
Emissions from combustion of fuel for transport purposes				
Mobile combustion (haulage and company vehicles)[2]	113,660	139,104	14,519	111,284
Fugitive Emissions				
Refrigerant[3]	86,984	70,392	6,080	65,158
Total – Scope 1	343,966	341,462	40,153	257,327
Energy purchased for own use (Scope 2)				
Electricity (location-based emissions)[4]	312,874	272,399	22,252	183,059
Grey fleet travel (Scope 3)	477	827	39	661
Total – Scope 1, 2 and 3 (location based)	**657,317**	**614,688**	**62,444**	**441,047**
Intensity Ratio: Tonnes of CO_2e per m^2 (gross internal area)[5]	0.18	0.17	–	0.12
Intensity Ratio: Tonnes of CO_2e per £m turnover	37.1	35.1	–	32.7
Underlying Energy Use (MWh)		*MWh*		
Electricity	1,224,075	1,168,392	104,833	864,552
Stationary combustion	776,745	714,912	106,507	439,700
Mobile combustion (haulage and company vehicles)	454,525	572,440	60,658	464,158
Grey fleet[6]	1,874	3,320	159	2,680
Total	**2,457,219**	**2,459,064**	**272,158**	**1,771,090**

1 Stationary combustion includes emissions from the combustion of natural gas, fuel oil, diesel, LPG and gas oil.

2 Company car emissions exclude Scope 3 employee commuting. Haulage data has been restated for 2019 and 2020, without Scope 3 well to tank emissions.

3 Includes refrigerant fugitive emissions and manufacturing process fugitive emissions.

4 Electricity excludes Scope 3 transmissions and distribution. Data taken from most recent invoice data which includes subsequent adjustments for rebilling; re-baselining of site inclusions/exclusions; and adjustments to the way data is apportioned across the year to ensure ongoing consistency. Electricity is reported using a location based approach, focusing on absolute reductions rather than sourcing green energy.

5 The intensity metric has been restated this year and now includes stores, distribution, offices and manufacturing sites.

6 Only partial data available for baseline year. As such the grey fleet consumption and associated emissions have been estimated on a pro-rata basis and unknown fuel types are assumed to be electric vehicles. Additionally, fuel for rental vehicles has been excluded as immaterial consumption.

7 January 2021 is outside of the financial period but included to ensure emissions data has not been omitted.

8 Reporting period of February 2021 to October 2021 selected to align with the latest financial period.

9 Previous reporting periods have been restated due to historic data adjustments.

Gibraltar supermarket's emissions are included in the UK and offshore emissions listed above.

Group GHG emissions

Scope 1 & 2 GHG emissions were verified in line with the reporting requirements of the GHG Protocol.

Scope 1 & Scope 2 GHGas emissions are subject to independent assurance by Challenge Sustainability in accordance with the ISAE 3000 standard. The full assurance statement with Challenge Sustainability's scope of work, basis of conclusion and the Group's basis of calculation will be published online on the sustainability section of our website in 2022.

Value chain emissions (Scope 3)

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

In addition to and supporting, our overall Scope 3 reduction target, as British farming's biggest customer we have an ambition to work towards Net zero agriculture by 2030. This specifically covers products from the 3,000 UK farmers and growers sourced directly for our own-brand products and relates to the whole lifecycle of farm produce - from germination to leaving the farm gate for a Morrisons store.

Farmers will be encouraged to reduce emissions through a range of methods, such as rearing different animal breeds and using low food-mile animal feed. Residual carbon emissions will be offset through a range of measures including planting trees and seeding hedgerows within the farm footprint. We expect that the first products to come from Net zero carbon farms will be eggs as early as 2022, followed by lamb, fruit, vegetables, pork and beef in the years to follow.

Strategic report (continued)

Protecting the environment and supporting communities (continued)

Footprint and target boundaries

Our Scope 3 footprint disclosed in this report relates to our 2019 baseline year (1st January 2019 - 31st December 2019). During this period our total reported footprint was 17,571,495 tonnes CO2e. Our 2021 footprint will be published on our website in 2022.

Whilst we are working to reduce emissions across our wider value chain, we remain focused on hotspots which have a material impact on our total footprint and where we are best able to drive change. Our Scope 3 target therefore relates to purchased goods and services, upstream transportation and distribution and use of sold products (direct). These three categories account for more than two thirds of the measured emissions from Morrisons' value chain and form the boundary for our Scope 3 science-based target, which has been approved by the Science Based Targets initiative ('SBTi').

Within purchased goods and services our target boundary covers own-brand products which, given our vertically integrated business model, account for the majority of emissions. Use of sold products is included in the boundary for direct emissions (primarily relating to fuel sales), however indirect emissions are excluded as we have significantly less control over how our products are used by customers after sale. Upstream transportation and distribution relates to own-brand emissions only. Other categories have been excluded on the basis of not being material to our footprint. This includes personal vehicles used for business in compliance with SECR legislation.

Our Scope 3 footprint was prepared using as much direct primary data as possible. This was often combined with life cycle assessments, industry emission factors (provided by The Carbon Trust) and environmentally extended input / output data. It is our intention to continue to increase the level of supplier-specific data we have available and we are working to measure on-farm footprints alongside manufacturing emissions from our supply chain.

Table 1 - Scope 3 Footprint (2019 calendar year)

Category	Total Emissions (t CO2e) within SBTi target boundary
1a & 1b Purchased goods and services (product and non-product)	8,452,707
4: Upstream transportation and distribution	539,467
11a: Use of sold products (direct)	8,579,321
Totals (excluding indirect emissions)	**17,571,495**

Strategic report (continued)

Protecting the environment and supporting communities (continued)
Task Force on Climate-related Financial Disclosures ('TCFD')

Governance

The Board has overall accountability for setting our strategy in relation to the environment and our communities, and throughout the majority of the financial period, it has delegated specific decisions and responsibility to various Committees. During the period from 1 February 2021 until the takeover of the Group by CD&R, the CCR and Audit Committee were responsible for decisions on corporate responsibility governance, environmental requirements and consideration of the Group's response to environmental and sustainability challenges. Following the takeover, these delegations were removed and full accountability has returned to the Board. Further information on the current and planned governance structure can be found on pages 34 to 43.

The CCR Committee met twice during the financial period and assessed the net zero plans and plastics, food waste and energy reduction strategies. The Audit Committee formally reviewed the Environment and Sustainability principal risk and considered the additional requirements created by the new TCFD disclosures. In December 2021, the Board met twice to discuss and agree the Environment and Sustainability strategy and plans. These risks are discussed as part of our regular functional risk register reviews.

Day-to-day management of climate-related risks and opportunities and the implementation of work to meet our climate-related targets is led through the Sustain sub-Committee of the Executive Committee, the Sustain Group and related workstreams. The Sustain Executive Sub-Committee meets quarterly and is chaired by the Chief Operating Officer. Updates from the Sustain workstreams are provided directly to the Executive Committee and, during the reporting period, to the CCR. Energy consumption and climate change impacts are also taken into consideration when looking at new investments.

Full disclosure of our Sustainability governance can be found on page 11 of our 2020/21 Sustainability Report.

Our new owners, CD&R, recognised the Group's role in tackling climate change in their published intention statements and as such, we anticipate that we will continue to develop our climate risk disclosures in line with the recommendations of the TCFD.

Strategy

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

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

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

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

Strategic report (continued)
Protecting the environment and supporting communities (continued)
Task Force on Climate-related Financial Disclosures ('TCFD') (continued)

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

We conducted an initial overview of publicly available 2ºC and 4ºC scenarios, and outline examples below of potential climate-related risks and opportunities.

Transition

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

Our business could be impacted by current and emerging regulations and policies, including the transition to low-carbon land management practices, leading to increased costs across procurement, manufacturing and stores. To mitigate this, we have continued to increase efficiency in our operations and we have worked with suppliers during 2021 to audit their GHG emissions.

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

It is critical that food production, distribution and consumption is transformed to be able to achieve a low-carbon economy. We have a specific opportunity due to our direct relationship with British farming to be able to directly influence our own-brand products to support this low-carbon transition. In collaboration with our supply chain, we have plans in place to support changes in environmental practice to mitigate and adapt to climate-related impacts, which can help the industry to decarbonise. For example, working with agritech company Better Origin, we are feeding insects (themselves fed on food waste from Morrisons manufacturing sites) to hens across a selection of our farms. This displaces the use of soya-based feed, which can account for up to 70% of the carbon footprint of an egg.

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

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

Physical

Acute: extreme weather causes disruption to our operations

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

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

Our business is reliant on a supply chain that will be impacted by longer-term changes in weather and precipitation patterns, potentially causing disruption to our business operations. As part of our Sustainability sourcing work stream, a human rights, deforestation and water-scarcity risk assessment was conducted across key materials and ingredients. Risk scores were calculated using a combination of qualitative and quantitative research methods. We are now following up with suppliers of those key commodities and in geographies at risk to support future decision-making.

Scenario analysis

By aligning our current goals with a transition to a low-carbon economy we are taking active steps to improve resilience to the impacts of climate-related risks. Over the next year, we will further evaluate the financial implications of our climate-related risks and opportunities by considering future climate scenarios.

Climate change risk management

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

Our environmental and sustainability risks are mapped across our functional risk registers, which details the mitigating actions, as well as the relevant responsible individuals monitoring the risk. These risks are discussed as part of our regular functional risk register reviews. The risk registers are formally reviewed and independently challenged each year and the outcome of the review would ordinarily be reported to the Audit Committee; this has been impacted in the period by the governance arrangements following the takeover. The Board conducts a review of the principal risks at least annually.

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

Metrics and targets

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

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

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

We additionally measure and report progress annually against our food waste and plastic reduction targets and sustainable sourcing certification coverage for deforestation, sustainable fishing and cotton procurement standards. Targets and metrics related to sustainability performance can be found in our Sustainability Report 2020/21 and on the sustainability section of our website.

Food waste

In line with the United Nations Sustainable Development Goal 12.3, our target is to reduce food waste in our stores by 50% by 2030 compared to a 2016 baseline.

Alongside minimising the levels of surplus we create, we are committed to finding innovative ways to redistribute surplus food to customers and communities. We have reduced our food waste by 13% since 2016 and will report our latest performance on our sustainability website in 2022.

Since our partnership with Too Good To Go began in 2019 we have sold over 500,000 'Magic Bags' through their app, which gives customers access to good quality products at a fraction of the retail price. We have seen sales increase in the reporting period by 88% compared to the same period in 2020, both providing an income to Morrisons and helping to reduce food waste. Our stores also continue to provide surplus food to local causes such as food banks.

Across our manufacturing and distribution sites we reached an important milestone with long-standing partner The Bread & Butter Thing, redistributing over a million meals during the financial reporting period.

Reducing plastic packaging

We have set a target to reduce our own-brand plastic packaging by 50% by 2025 and have committed that all of our own-brand plastic packaging will be reusable, recyclable or compostable by the same date.

We have moved all our fruit juices from plastic (PET) bottles to Tetra Paks, reducing our plastic footprint by 670 tonnes. Bananas are the second most commonly bought fresh product in Morrisons stores, and we have moved our entire range to strengthened paper bands made from FSC certified paper - this will remove 45 million single-use plastic banana bags a year. Fresh meat and fish have been moved to lighter-weight expanded polypropylene trays, which are widely recycled at the curb side and will help further reduce the amount of plastic used.

Hard-to-recycle plastics

Shortly after the financial period, we became the first supermarket to invest in recycling operations through the acquisition of a significant stake in a new recycling site in Fife. The site will reprocess hard-to-recycle soft plastics, such as chocolate wrappers, crisp packets and food film. The recycled material from the site is being considered for a range of applications, including store fixtures and fittings, alongside use in the agriculture and construction industry.

This underpins a new commitment that by 2025 we will recycle and reuse the equivalent amount of plastic we put on the market.

Paper bags

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

Plastic-free alternatives

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

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

Sourcing global resources sustainably

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

Fish

In February 2021 we bought Falfish, a family-owned seafood processor based in Cornwall. Sourcing directly from a range of British fishermen gives us more control over where our fish comes from and supports our long-term sustainable sourcing plans founded on British food production.

2021 marked the seventh year we have taken part in the Ocean Disclosure Project, a global platform for voluntary disclosure of seafood sourcing. We also continue our support for Odyssey Innovation's Net Regeneration Scheme, which provides end-of-life solutions for plastics associated with fishing nets and tackle.

Textiles

We continue to make progress towards our sustainability targets across our Nutmeg clothing range. In 2021, we sourced 86% of our cotton to the Better Cotton standard, and we are aiming to reach 100% by 2025. This is a standard designed to make global cotton production better for the people who produce it, better for the environment it grows in, and better for the sector's future.

Strategic report (continued)
Protecting the environment and supporting communities (continued)
Our community

Each of our stores across the UK is part of its own unique local community, which we are proud to serve.

Responding to local needs

Our Community Champions continue to play a vital role in our work to support the local communities we serve. We allocated over 500,000 hours for them to work directly with local organisations, charities, and community groups to support good causes and tackle the most important issues in the local community.

As part of our strategy to become locally integrated into the communities we serve, our Community Champions continued their extensive listening programme with community stakeholders to better understand local priorities and needs. The information was used to ensure their Community Plan remained locally relevant.

Our Community Champions have come up with some brilliant ideas which have been rolled out nationally. One example is our 'Package for Sandy' initiative which started with our Community Champion in the Bolton Atlas store who wanted to find a practical and discreet way to help people experiencing period poverty. Now customers can ask for a 'Package for Sandy' in any of our stores and be given a plain envelope containing free sanitary protection. In addition we ran a 'buy one, donate one' campaign on feminine care products which resonated with our customers and resulted in over 125,000 packs being donated to local good causes.

Tackling food poverty

Tackling food poverty continues to be a high priority for Morrisons. We donated over £2m worth of products to local food banks and community groups, distributed by our Community Champions. To support families struggling during the February half term we donated over 50,000 pizza-making kits to provide a nutritious meal and fun activity.

We also developed our Pick Up Pack scheme to encourage customers to add food bank donations as part of their regular shop. Our Community Champions work closely with local food banks and community groups to understand the items they need the most. They then make dedicated packs of these items, and place them at the front of the store for customers to pick up on their way in. The scheme generated over £2m worth of donations in the financial period. In addition, customers are able to make monetary donations to the Trussell Trust when shopping online. The Trussell Trust works to stop UK hunger and poverty through a network of over 1,200 food banks.

Morrisons Foundation

In the period ended 31 October 2021, the Morrisons Foundation donated £1.8m in grants to registered charities. Since its launch, it has donated over £34m and has supported over 3,000 charities to make a positive difference in local communities.

In March 2021 the Morrisons Foundation donated 7,300 new books to schools nominated by Community Champions across England, Scotland and Wales. Working in partnership with the National Literacy Trust, the project offered 125,000 pupils the opportunity to enjoy a free bundle of books.

Supporting charities

Our colleagues, customers and suppliers raised over £2.6m in the financial period for our national partnership with Young Lives vs Cancer (formerly CLIC Sargent), a charity which provides vital support to young cancer patients and their families. The money was used to provide grants to help families with the financial costs of cancer and has funded the purchase of a property in Manchester which opened as a 'Home from Home' for cancer patients in January 2022. Our partnership ended in February 2022 and we raised a total of £18m since it began in February 2017.

Our new charity partner for the next three years is Together for Short Lives. Our partnership will raise vital funds for children's hospices across Britain, providing lifeline care in the heart of our local communities for thousands of families facing the heartbreak of their child dying at a young age.

As a strategic partner of the Poppy Appeal we were pleased to welcome volunteers back into our stores after the pandemic's disruption last year. Alongside implementing systems to collect donations at our checkouts and online, many of our in-store colleagues also volunteered to fundraise and together we raised over £1.7m. We also raised over £130,000 for Marie Curie's Great Daffodil Appeal in March 2021 and were the headline partner for the NHS Big Tea in July 2021, raising over £250,000 for NHS Charities Together.

Strategic report (continued)

Managing our risks

Successful delivery of our seven priorities depends on our ability to make sound, risk-informed decisions. Managing risk and uncertainty is an integral part of the Board's strategic thinking.

Risk management approach

We respond to changes in our industry and the wider political‑economic climate by maintaining a business-wide understanding of our key risks and how to manage them. This helps us to deliver our ambitions for all of our stakeholders and means that we are in a better position to achieve our priorities, respond to emerging risks and to create and take advantage of new opportunities.

The risk management process

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

Risk registers for each of the key business functions sit at the heart of this process. These registers detail the main functional risks and are used to assess the gross level of risk to the business (likelihood and impact), the extent of any mitigating controls and the resultant net level of risk. They also detail any further plans to mitigate or reduce risks and the associated target level of risk. The impact assessment of a risk includes considering its potential reputational, financial and operational effects. We assign targets to each risk based on the risk appetite framework established and agreed with the Board.

The risk registers are owned and managed by operational management, with the head of each function certifying annually that these have been reviewed and that action plans are in place where required. The risk registers are also formally reviewed and independently challenged each year.

The Executive Committee reviews coverage across the Group's principal risks, the key controls already in place and any risk mitigation plans. Their review considers the completeness of risks captured in the detailed functional risk registers, strategic risks, external factors and any emerging risks. The Executive Committee reviews the principal risks prior to them being approved by the Board.

The Group's principal risks are monitored every month by the Executive Committee using key risk indicator reporting, supplemented by more detailed reviews as appropriate to identify any new risks or changes in the risk landscape. In addition, a new Risk sub-Committee was established in January 2022 to coordinate and oversee a broader assessment of risks to the Group.

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

The Audit Committee supports the Board in maintaining a robust risk management framework by approving the risk management process and reviewing the Group's principal risks, risk appetite and key risk indicator reporting on a regular basis. Note that the activities that were ordinarily undertaken by the Audit Committee have instead been undertaken by the Board in the interim period since the takeover by CD&R became effective on 27 October 2021. See the Governance report for further detail (page 32).

Principal and emerging risks

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

Changes to principal risks

During the period, no new Group risks have been added and the Board has removed the principal risk for UK-EU Trade having previously reduced the net risk at the last financial year-end. In addition, the net risk ratings have been increased for the Competitiveness, Information Security, Financial and Treasury Group and People risks based on external factors. These include increasing fuel, energy and commodity prices, inflation, the highly competitive labour market, the prevalence of cyber security attacks on the food supply chain and the increased level of debt held due to the change in ownership.

Change in ownership

We have considered the impact of the change in ownership on the existing Group principal risks, and have reassessed the coverage, mitigations and net risk rating through this lens. The Board believes that the risks identified provide sufficient coverage and that the Group's principal risks remain complete and appropriate. We have increased the net risk of our Financial and Treasury Group risk in light of the increased level of debt held following the takeover of the Group by CD&R and the change in our credit rating. In addition, there is a short-term risk related to the availability of debt financing, as we seek to put in place the new long term funding.

Strategic report (continued)

Managing our risks (continued)

Conflict in Ukraine

We continue to monitor the evolving situation in Ukraine but at present believe the current impacts are covered by our existing Group risks. In addition to providing support to both colleagues and the humanitarian response, we have well established processes for actively engaging our suppliers to manage the impacts to supply chains and availability; and to respond to changes in international sanctions. The potential impact to consumer sentiment associated with increasing fuel, energy and food prices is included within the increased Competitiveness risk.

UK-EU trade

Following the agreement of a zero-tariff deal on the movement of goods and having delivered our plans to mitigate any immediate impacts arising from the UK's changing relationship with the EU, we believe the time is now right to remove this risk. While aspects of the previous risk remain relevant, these are now included within the existing Group principal risks for Business Interruption, Competitiveness and People. The Group will continue to respond to new regulatory requirements throughout 2022.

Competitiveness

The net risk for Competitiveness has increased in the year. This is due to increased pressure on consumer spending as a result of rising inflation caused by increased commodity, food, energy and fuel costs.

COVID-19

COVID-19 continues to have an impact on our business, customers, colleagues and suppliers. Our key focus remains to provide a safe working and shopping environment for our colleagues and customers. The business has had to respond at pace to a wide range of requirements, changing legislation and devolved government guidance. Supported by our business continuity framework we have been able to create flexible and scalable plans which are now well practised.

Financial and Treasury

The risk has been increased due to the change in the ownership structure detailed above.

Information Security

2021 saw a number of high profile cyber attacks on the food supply chain. Although we believe we have robust measures in place to protect ourselves, we recognise that cyber criminals have increasingly seen this as a lucrative area to exploit and so have increased the net risk accordingly.

People

The net risk for People has increased during the period. This is due to incorporating the labour and people risks previously included within the UK-EU Trade principal risk and to reflect the increased competitiveness in the external labour markets especially for our manufacturing and logistics sites.

Emerging risks

Our risk management process incorporates the formal identification and management of emerging risks and these are reported to the Audit Committee and the Board alongside our known principal risks.

We employ the following strategies to ensure that our business is adequately prepared for the potential threats or opportunities these present, and that we have a clear reporting route to the Executive Committee when necessary:

- strategic and operational horizon scanning across the business;
- working with our key strategic partners to share emerging consumer trends; and
- using third-party experts to assist with the consideration of emerging risks and legislation.

We continue to review and assess the potential impacts of key risks including climate change, consumer trends, exposures to specific businesses, innovations in technology, changes in regulation and public health concerns such as new variants of COVID-19.

The risk management framework

Top down	**Board of Directors**	Maintains sound risk management and control systems, assesses principal risks
	Audit Committee	Sets risk management framework, assesses effectiveness of risk and control systems and maintains oversight of risk monitoring
	Executive Committee and Risk sub-Committee	Assesses principal, operational and emerging risks and undertakes regular monitoring of risk
Bottom up	**Risk and Internal Audit**	Coordinates risk management activity through review of risk registers, agreement of risk mitigation plans and preparation of risk reporting
	Operational Management	Reviews operational risks, operates controls and implements risk mitigation plans

Principal risks

Risk	Description	Mitigation
Business Interruption ←→ #	There is a risk that a major incident - such as a significant failure of technology or a strategic third party, a natural disaster, a global pandemic such as COVID-19, disruption in the supply chain or strike action - could cause significant disruption to business operations. The Group's response must be appropriate to minimise disruption and reputational damage.	• We have recovery plans in place covering our stores, depots, online operation, sites and offices; • These plans include, where appropriate, secondary locations which would be used as backup in case of an incident; • Business continuity resilience and disaster recovery exercises are undertaken to test processes and management's ability to respond effectively; • A Crisis Management Group is in place to oversee these plans and to manage and respond to any major incidents; • We conduct supplier risk assessments and have contingency plans in place, where possible, to manage the risk of loss of supply; • We continue to actively engage our key suppliers to reduce any impact to our supply chains as a result of COVID-19, labour or driver shortages and have maintained our focus on UK sourcing; • There has been continued investment in cloud technologies to provide further resilience to the Technology systems; and • We work alongside our strategic third party partners ensuring both parties' continuity plans are robust and aligned.
Competitiveness ↑ **1 4 5 7**	The grocery sector continues to be highly competitive with increased price pressure caused by inflation. If we do not engage with our suppliers or effectively manage our trade plan, harnessing the benefits of new technology to remain competitive, there is a risk this will adversely impact like-for-like sales and financial performance.	• Our pricing, trade plan and promotional and marketing campaigns are actively managed; • Our strong balance sheet and strong cash flow allow us to continue to invest in our proposition; • Long-term agreements are established with suppliers, ensuring a competitive customer offer to help maintain security of supply; • We continue to actively engage our key suppliers, work closely with British growers and farmers; and • We continually review our range, category plans and quality and respond to customer feedback.
COVID-19 ←→ #	COVID-19 continues to have an impact on our business. Failure to appropriately respond to and manage the impacts of COVID-19 on our colleagues, customers and suppliers or to adapt our ways of working could adversely affect our business performance.	• Flexible and scalable plans are in place and embedded within each business area to respond as necessary to the continually evolving nature of the pandemic; • The safety and wellbeing of our colleagues and customers remains our top priority and we continue to adhere to the UK and devolved government guidelines; • We have maintained our increased focus on cleaning and hygiene; • We have a well-managed balance sheet and liquidity strategy which has provided resilience to operate through the pandemic and enabled us to quickly take action to support our customers, colleagues and suppliers; • We continue to closely monitor colleague absence in stores, manufacturing, logistics, online and home delivery with plans in place to provide additional support where required; • We have provided greater flexibility around shifts and annual leave, and have permanently increased our colleague discount to 15% in recognition of everyone's efforts; and • We continue to work hard with all our suppliers including supporting British farmers.

Customer ←→ #	There is a risk that we do not meet the needs and expectations of our customers in respect of price, range, quality and service or respond to changes in eating and shopping habits. If we do not provide the shopping trip that customers want, both in store and online, we could lose sales and market share particularly in an environment of weaker customer sentiment.	• One of our seven priorities is to 'serve customers better' and we have a range of activities to support that; • The ongoing programme of customer listening helps us to gain a deep understanding of what our customers want and has informed key activities such as our store Fresh Look programme as well as changes to range and the introduction of more locally sourced products; • We closely monitor research on customer perceptions and respond quickly wherever possible, such as to plastics, palm oil, red meat and changes to eating habits; • We have made our products more accessible to more customers by working with our wholesale partners and expanding the areas covered by our online offering. We are actively exploring more opportunities to do this; • We actively respond to customer complaints and aim to continually improve the customer experience; and • Our network of Community Champions actively engage local communities to support local charities.
Environment and Sustainability ←→ **1 2 3 4 7**	This risk relates to a failure to reduce the environmental impact of the business or meet the external sustainability commitments and expectations of our customers and wider stakeholders, which could result in financial penalties and/or reputational damage.	• Developments and progress in our sustainability agenda are reported to the Sustain Executive Sub-Committee and to the Board; • The Sustain Executive Sub-Committee meets regularly during the year and performs an oversight, monitoring and advisory role for key areas which deliver sustainable growth with a lower environmental impact; • Each Sustain workstream commitment has a senior responsible business owner providing updates to the Sustain Group, chaired by the Group Corporate Services Director. This Group reports to the Sustain Sub-Committee and their relevant Executive Committee Director; • We have a clear strategy to reduce Morrisons emissions footprint and expect to achieve Net zero emissions by 2035 (Scope 1 & 2) • This includes our ambition to be Net zero in our UK agriculture supply chain by 2030, working with the farmers who directly supply us to reduce emissions from livestock and produce, increase carbon sequestration and improve the use of renewable energy on farm; and • We also pledge to reduce the plastic we use in our products by 50% with 100% of plastic packaging used on our products to be recyclable, reusable or compostable by 2025.
Financial and Treasury ↑ #	The main areas of this principal risk are the availability of funding and management of cash flow, including liquidity requirements and debt maturity profiles, to meet business needs and to reduce any impact caused by rising commodity and volatile energy costs. There is a risk of a working capital outflow if there was a significant reduction in payment terms to suppliers. Some suppliers benefit from access to supply chain finance facilities. The withdrawal of these facilities could lead to some terms being reviewed. The growth of wholesale supply contracts introduces credit risk which requires policies and monitoring to manage.	• The Group's Treasury policy is to maintain an appropriate borrowing maturity profile and a sufficient level of headroom in committed facilities. This includes an assumption that supply chain finance facilities are not available for the benefit of suppliers; • The Group's Treasury function is responsible for the forward-planning and management of funding, interest rates, foreign currency exchange rates and certain commodity price risks. They report to the Treasury Committee and operate within clear policies and procedures which are approved by the Board. The appropriateness of policies is reviewed on a regular basis; • There are governance processes in place to control purchases in foreign currency and reduce the volatility of energy and commodity prices through hedging; • For livestock and produce, we track prices and forecasts and enter into long-term contracts where appropriate to ensure stability of price and supply; and • We continue to monitor credit risk across our wholesale customers to limit exposure while maintaining trade.

Strategic report (continued)

Managing our risks (continued)

Food Safety, Product Integrity and Ethical Sourcing ←→ **1 2 3 5 6 7**	There is a risk that the products we sell are unsafe, or not of the integrity that our customers expect. It is of utmost importance to us, and to the confidence that customers have in our business, that we meet the required standards. If we do not do this it could impact business reputation and financial performance. It is also important to us to support sustainable, ethical and resilient supply chains.	• Monitoring processes are in place to manage food safety and product integrity throughout the Group and supply chain; • Regular assessments of our suppliers and own manufacturing and store production facilities are undertaken to ensure adherence to standards; • Our vertical integration model gives us control over the integrity of a significant proportion of our fresh food; • Management regularly monitors food safety and product integrity performance and compliance as well as conducting horizon scanning to anticipate emerging issues; • The process is supported by external accreditation and internal training programmes; • We have updated our systems and processes to ensure ongoing compliance with allergen labelling under Natasha's Law; • Our Ethical Trading Policy and Code establish key requirements for all suppliers. We actively monitor compliance through an extensive third party audit programme and provide support for suppliers when issues are identified; • We work closely with our supply chain to understand food provenance, sustainable and ethical practices including animal welfare; and • Our measures to tackle modern slavery are reported annually in our Modern Slavery Act Statement.
Health and Safety ←→ **2 5 6 7**	The main aspect of this principal risk is of injury or harm to customers or colleagues. Failure to prevent incidents could impact business reputation and customer confidence and lead to financial penalties.	• We have clear policies and procedures detailing the controls required to manage health and safety risks across the business; • An ongoing training programme is in place for front line operators and management. These have been updated in light of our expanded online operations; • A programme of health and safety audits is in place across the Group with resource dedicated to manage this risk effectively; and • Management regularly monitors health and safety performance and compliance with electronic accident reporting across all stores and sites to help identify and respond to any trends.
Information Security ↑ **1 2 3 4 5 7**	A cyber attack or security breach could lead to a loss of customer, colleague or Group confidential data, business disruption, reputational damage and significant fines. The risk environment is challenging, with increased levels of sophisticated cyber-crime, complex regulatory requirements and our use of a number of third parties.	• The Information Security Steering Group oversees a rolling programme of work to review and enhance our information security controls, ensuring these remain commensurate with our level of risk; • Information security policies, procedures and controls are in place, including encryption, network security, systems access and data protection; • This is supported by ongoing monitoring, reporting and rectification of vulnerabilities; • The General Data Protection Regulation ('GDPR') Working Group has responsibility for overseeing data management practices, policies, regulatory awareness, and training associated with customer and colleague data. This includes change management activities and a review of third parties managing data on our behalf; and • Focused working groups are in place which review the management of data across the business including colleague data, customer data, commercial data, financial data and the sharing of any data with third parties.

People ↑ #	Our colleagues are key to the achievement of our plan, particularly as we improve the business. There is a risk that if we fail to attract, retain or motivate talented colleagues, we will not provide the quality of service that our customers expect.	• We have fair employment policies, and competitive remuneration and benefits packages; • A Group-wide reward framework is in place and roles are evaluated against an external framework, driving stronger consistency of rewards; • Our training and development programmes are designed to give colleagues the skills they need to do their job and support their career aspirations; • Line managers conduct regular talent reviews and processes are in place to identify and actively manage talent; • We have worked to give colleagues increased visibility and flexibility of their hours and rotas with the introduction of a new people system and modernised working patterns; • We continue to monitor the availability of labour across the Group and have enacted specific people plans across our manufacturing and logistics sites, including supporting EU colleagues through the process of applying for settled status and increasing the number of apprentices; • Colleague engagement surveys, listening sessions and networking forums are used to understand and respond to our colleagues; and • We take pride in creating an inclusive work environment where everyone feels welcome and we celebrate our differences.
Regulation ←→ #	The Group operates in an environment governed by numerous regulations including GSCOP, competition, employment and regulations over the Group's products. The Board takes its responsibilities very seriously and recognises that a breach of regulation can lead to reputational and financial damages to the Group. Consideration is also given to any potential changes to regulations.	• The Group monitors for potential regulatory and legislative changes and the impact on contractual arrangements; • We actively engage with government and regulatory bodies on policy changes which could impact our colleagues and our customers; • We have a GSCOP compliance framework in place including training for relevant colleagues and processes to monitor compliance; • We have a senior level working group in place to review and improve GSCOP compliance activity; • We have an independent whistleblowing line for suppliers to provide feedback to the Group and a CCO so that action can be taken as necessary; • We have an established GDPR governance framework including data management practices, policies, regulatory awareness and training; and • We have training, policies and legal guidance in place to support compliance with competition law and other regulations.

Key		**Link to our seven priorities**					
↑	Increase in net risk	1	Be more competitive	4	Simplify and speed up the organisation	7	Creating and scaling for profitable growth
←→	No change in net risk	2	Serve customers better	5	Naturally digital	#	Underpins all seven priorities
↓	Decrease in net risk	3	Local integration and serving the community	6	Pride in hygiene		

Climate change risk management

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

Our environmental and sustainability risks are mapped across all our functional risk registers, which detail the mitigation actions, as well as the relevant responsible individuals monitoring the risk. These risks are discussed as part of our regular functional risk register reviews. During the period, the Audit Committee had the responsibility for reviewing the risk registers, which are independently reviewed and challenged each year. The Board conducts an annual review of the principal risks. The process will be reviewed when the CMA's Initial Enforcement Order, in place following the takeover by CD&R, is lifted. See the Corporate governance section for more details.

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

Strategic report (continued)

Section 172 of the Companies Act 2006

In addition to examples throughout the Strategic report the Board has provided a statement on page 47 explaining how it has had regard to the requirements in section 172 of the Companies Act 2006. As part of the Board's decision-making process, our Directors regard the likely consequences of any decision to the long-term success of the Company, our five stakeholder groups, the community and the environment. Further details can be found on page 48.

Approval of the Strategic report

Pages 1 to 31 of the Report form the Strategic report.
The Strategic report was approved by the Board and signed on its behalf by:

Jonathan Burke, Company Secretary
29 March 2022

Governance report

Board of Directors and Executive Committee

Composition of the Board

Until the effective date of the takeover by CD&R on 27 October 2021, a majority of the members of the Board, excluding the Chair, comprised Non-Executive Directors with an appropriate mixture of skills and experience. The Board was satisfied that all Non-Executive Directors, including the Non-Executive Chair, were independent according to the definition contained in the UK Corporate Governance Code 2018 ('the Corporate Governance Code'). Each of the Non-Executive Directors committed an appropriate amount of time in order to effectively fulfil their role and responsibilities on the Board.

Any additional external appointments required approval by the Chair, Chief Executive and Senior Independent Director. Significant appointments were approved if it was believed that these appointments would not negatively impinge on the Directors' commitment or time to Morrisons.

Until their resignations, Rooney Anand was the Senior Independent Director and Kevin Havelock was the Non-Executive Director designated to engage with colleagues on behalf of the Board.

Upon the effective date of the takeover, the Chair and Non-Executive Directors resigned from the Board. At 31 October 2021 and at the date of signing this Annual Report and Financial Statements the Board consisted of the three Executive Directors. Appointment of any new directors, including representatives of CD&R is still to be finalised.

1. David Potts
Appointment
David joined the Group as Chief Executive Officer in March 2015.

Experience
David is a vastly experienced retailer who joined Tesco PLC at the age of 16 and worked there for 39 years. He rose to become CEO of its Ireland business, its UK retail stores business and then CEO of Tesco Asia. David was also on the Tesco PLC Board from 1998 until he left in 2011. Prior to his appointment as Chief Executive of Morrisons, David held several advisory positions with a number of private equity and consultancy firms and developed his own retail concept to sell general merchandise. He also worked on two extensive retail projects in the UK.

External roles
None

2. Trevor Strain
Appointment
Trevor joined the Group in June 2009 as Commercial and Operations Finance Director. In June 2011, he became Finance Director Corporate and took responsibility for the Group's productivity programmes. Trevor joined the Board as Chief Financial Officer in April 2013 and assumed the additional responsibilities of Group Commercial Director in October 2018. In December 2019, Trevor became the Chief Operating Officer.

Experience
Prior to joining Morrisons, Trevor worked for Tesco PLC in a number of roles until his appointment as UK Property Finance Director in 2006 and subsequently UK Planning and Reporting Finance Director. Trevor began his career with Arthur Andersen and is a member of the Institute of Chartered Accountants in England and Wales (ICAEW).

External roles
Non-Executive Director at Yorkshire County Cricket Club Limited

3. Michael Gleeson
Appointment
Michael joined the Group in 2014 as Group Financial Controller. In 2015 he became the Supermarkets Financial Director before taking up post as Trading Director of Ambient, Frozen, Dairy, Fuel and Services. Michael joined the Board on 3 February 2020 as Chief Financial Officer. Michael has recently notified the Company of his resignation and he will step down from his position as Chief Financial Officer on 4 April 2022 but remain in the business for a period of time thereafter to ensure an orderly transition.

Experience
Prior to joining Morrisons, Michael worked for Tesco PLC in a number of senior finance roles including Group Financial Planning and Analysis Director and CFO of Tesco.com. Michael began his career with Arthur Andersen and is a member of the Institute of Chartered Accountants in Ireland.

External roles
None

Governance report (continued)

Board of Directors and Executive Committee (continued)

Jonathan Burke
Company Secretary

Appointment
Jonathan was appointed as the Group's Company Secretary in February 2017.

Experience
As a qualified accountant and Company Secretary, Jonathan has worked at Morrisons for over 30 years holding various finance, compliance and project roles. Jonathan was also previously Company Secretary between 2001 and 2009.

Previous Appointments

The Chair and following Non-Executive Directors resigned on 27 October 2021:

- Andrew Higginson (Chair)
- Rooney Anand (Senior Independent Director)
- Susanne Given (Independent Non-Executive Director)
- Kevin Havelock (Independent Non-Executive Director)
- Lyssa McGowan (Independent Non-Executive Director)
- Jeremy Townsend (Independent Non-Executive Director)

In addition, Paula Vennells (Independent Non-Executive Director) resigned on 25 April 2021.

Attendance at Meetings

	Scheduled Board meetings[1]	Unscheduled Board meetings[2]	Audit Committee	Nomination Committee[3]	Remuneration Committee	CCR Committee
Andrew Higginson[4]	6/6	22/22	-	0/0	4/4	2/2
David Potts	6/6	22/22	-	-	-	2/2
Trevor Strain	6/6	22/22	-	-	-	2/2
Michael Gleeson	6/6	22/22	-	-	-	-
Rooney Anand[4]	6/6	21/22	3/3	0/0	4/4	2/2
Kevin Havelock[4]	6/6	19/22	3/3	0/0	4/4	2/2
Susanne Given[4]	6/6	20/22	3/3	0/0	4/4	2/2
Lyssa McGowan[4]	6/6	22/22	3/3	0/0	4/4	2/2
Jeremy Townsend[4]	6/6	22/22	3/3	0/0	4/4	2/2
Paula Vennells[5]	2/2	2/2	1/1	0/0	2/2	-

[1] Scheduled Board meetings are those meetings set at the start of the financial period to cover the ordinary course of business activity.

[2] Due to the nature of the takeover, Board meetings were often required to be held at short notice. We wish to take this opportunity to thank all of our Directors for the flexibility and commitment they have shown to the Company, as suitable meeting times were found at very short notice. However on certain occasions, some Directors were unable to attend unscheduled meetings due to their prior commitments. If a Director was unable to attend a meeting, they received all papers or a brief verbal update of the subject to be discussed and shared any comments, usually with the Chair, on the subject matters tabled for discussion prior to the meeting.

[3] The matters scheduled for discussion at the Nomination Committee Meetings were placed on hold during the takeover period. Please see the Nomination Committee section on page 47 for more details.

[4] Andrew Higginson, Rooney Anand, Susanne Given, Kevin Havelock, Lyssa McGowan and Jeremy Townsend resigned from the Board on 27 October 2021 following the effective date of the takeover.

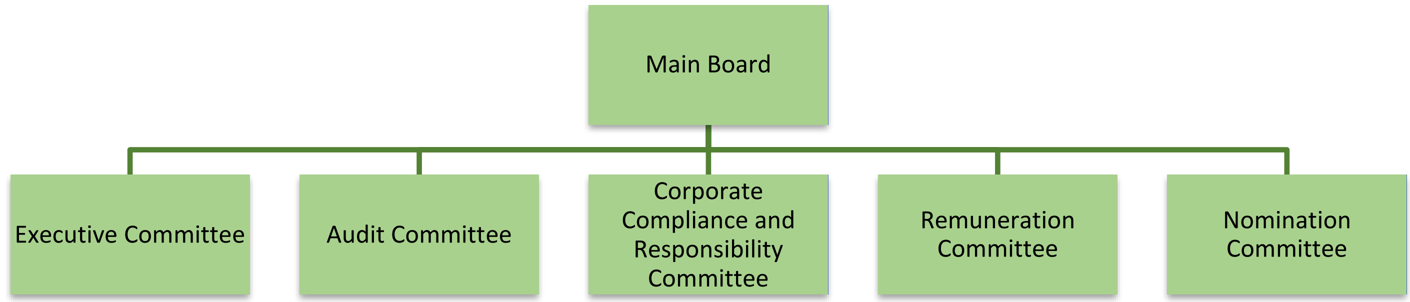
[5] Paula Vennells resigned from the Board on 25 April 2021.

Governance report (continued)

Board of Directors and Executive Committee (continued)

Structure of the Board and its Committees

For the period from the start of the financial year until the effective date of the takeover on 27 October 2021, the governance structure of the Group was as follows.



Following the effective date of the takeover, the interim structure which will remain in place until the IEO is lifted has been made up of the Main Board, and Executive Committee (see page 38 for further detail).

For the period from the start of the financial period until the effective date of the takeover on 27 October 2021, the roles and responsibilities of the Chair, Chief Executive and Senior Independent Director are shown below.

Following the effective date of the takeover, the Chief Executive took on the role of Chair in Board meetings and will continue to do so until the IEO is lifted. There is currently no Senior Independent Director in role.

	Chair	**Chief Executive**	**Senior Independent Director**
Role	• Providing leadership to the Board; • Taking responsibility for the Board's composition and development; • Planning and conducting Board meetings effectively; and • Ensuring all Directors are involved and focused on the key tasks.	• Developing strategic operating plans that reflect the longer-term objectives and priorities established by the Board; • Closely monitoring the operating and financial results against plans and budgets, taking remedial action where necessary and informing the Board of significant changes; and • Putting in place adequate operational planning control systems.	• Acting as a sounding board for the Chair, supporting the delivery of his objectives and leading the Chair's evaluation on the Board's behalf; and • Meeting with the Non-Executive Directors to review the Chair's performance at least once a year.
Responsibilities	• Engaging the Board in assessing and improving its performance; • Overseeing the induction and development of Directors; and • Providing advice and assistance to the Chief Executive.	• Building and maintaining an effective executive management team; • Ensuring that the operating objectives and standards of performance are not only understood but owned by management and other employees; and • Maintaining ongoing dialogue with the Chair of the Board.	• Being available to shareholders and other Non-Executive Directors to address any concerns or issues they feel have not been adequately dealt with through the usual channels of communications; and • Working closely with the Nomination Committee to support the succession of the Chair.

Governance report (continued)

Board of Directors and Executive Committee (continued)

The decisions delegated by the Board to its Committees from the start of the financial period until the effective date of the takeover on 27 October 2021 are shown in the table below and on the following page.

Function	Main Board See page 44 for details of activities	Executive Committee See page 45 for details of activities	Audit Committee See pages 45 and 46 for details of activities
Members	Andrew Higginson[6] (Chair) David Potts Trevor Strain Michael Gleeson Rooney Anand[6] Susanne Given[6] Kevin Havelock[6] Lyssa McGowan[6] Jeremy Townsend[6] Paula Vennells[7]	David Potts Trevor Strain Michael Gleeson Andy Atkinson Clare Grainger David Lepley Rachel Eyre[8]	Jeremy Townsend[6] (Chair) Rooney Anand[6] Susanne Given[6] Kevin Havelock[6] Lyssa McGowan[6] Paula Vennells[7]
Key objectives	Overall conduct of the business and setting strategy.	• Implementing strategy and actions in respect of financial planning and performance; and • Day-to-day management of operations.	• Effective governance of financial reporting, internal controls and risk management systems; • Reviewing significant accounting judgements, assumptions and estimates; • Managing the relationship and the appointment of the external auditor; and • Monitoring and reviewing the effectiveness of the Group's Risk and Internal Audit function.
Responsibilities	• Understanding, reviewing and responding to the views of all stakeholders; • Developing and approving the strategy and key policies of the Group; • Managing culture and values; • Monitoring progress towards achieving all Board objectives; • Monitoring financial performance, critical operational issues and risks by reviewing performance against strategy, objectives, business plans and budgets; • Approving communications to shareholders including the Annual Report and Financial Statements, Interim Financial Report and Trading Statements; • Approving changes to the Group's capital structure and major expenditure; • Approving membership of the Board on recommendation of the Nomination Committee; and • Appointing and removing the Company Secretary.	• Developing and implementing the strategy; • Understanding, reviewing and responding to the feedback from stakeholders including customers and colleagues; • Maintaining oversight of: – financial performance, reporting and control; – risk management; – operational improvement programmes; and – review and supervision of operational activities. • Making recommendations to the Board in respect of: – budgets and long-term plans; – dividend levels; – Group risk register; and – ad-hoc events. • Managing succession planning for all colleagues including senior management; and • Organising Sub-Committees which are responsible for key operational oversight and decision making, including: – departmental performance reviews; – oversight of improvements to process for supplier and compliance with GSCOP; and – progress against our sustainability plan.	• Reviewing and making recommendations to the Board on: – the integrity of financial reports, including reviewing significant financial reporting issues and considering how these issues have been addressed; – whether the Annual Report and Financial Statements are fair, balanced and understandable; – the effectiveness of the Group's internal control and risk management system; – the effectiveness of the Risk and Internal Audit function; – the independence, effectiveness and appointment of the external auditor, approval of their fees; and monitoring of the Group's policy on non-audit services; and – approval of Tax and Treasury policies

[6] Andrew Higginson, Rooney Anand, Susanne Given, Kevin Havelock, Lyssa McGowan and Jeremy Townsend resigned from the Board on 27 October 2021 following the effective date of the takeover.

[7] Paula Vennells resigned from the Board on 25 April 2021.

[8] Rachel Eyre was appointed to the Executive Committee on 26 April 2021.

Governance report (continued)

Board of Directors and Executive Committee (continued)

Function	CCR Committee See page 46 for details of activities	Remuneration Committee See page 46 for details of activities	Nomination Committee See page 47 for details of activities
Members	Rooney Anand[6] (Chair) Andrew Higginson[6] David Potts Trevor Strain Susanne Given[6] Kevin Havelock[6] Lyssa McGowan[6] Jeremy Townsend[6] Paula Vennells[7] Andrew Clappen[9]	Kevin Havelock[6] (Chair) Andrew Higginson[6] Rooney Anand[6] Susanne Given[6] Lyssa McGowan[6] Jeremy Townsend[6] Paula Vennells[7]	Andrew Higginson[6] (Chair) Rooney Anand[6] Susanne Given[6] Kevin Havelock[6] Lyssa McGowan[6] Jeremy Townsend[6] Paula Vennells[7]
Key objectives	Developing and implementing the Group's policies on corporate compliance and corporate responsibility; reviewing and ensuring compliance with those policies and with ethical and governance standards.	Developing and implementing the Group's remuneration framework and policies for Directors and colleagues including all long-term incentive plans, bonuses and pensions	Advising the Board on Board and senior management appointments and succession planning; monitoring the composition of the Board and its Committees.
Responsibilities	• Maintaining oversight of strategy and process in areas of corporate responsibility, including: – food safety and food integrity; – health and safety; – gender pay; – environmental responsibilities, including energy usage, packaging and food waste; – cybersecurity; – ethical trading; – modern slavery; – competition compliance; – GDPR; and – The Morrisons Foundation and charitable giving.	• Setting the remuneration policy for the Group's Chief Executive, Chair, Executive Directors and Executive Committee; • Reviewing workforce remuneration; • Aligning incentives and rewards to the corporate culture and objectives; • Agreeing remuneration of the Executive Directors and Executive Committee; • Engaging with shareholders in respect of remuneration policies; • Reviewing the terms and operation of the share ownership guidelines; and • Reviewing the Chief Executive and Chair's expenses.	• Evaluating the current and required mixture of skills and experience on the Board; • Reviewing succession planning for the Board; • Sourcing and selecting Board candidates; • Maintaining general oversight of people and capability within the business, and their diversity; • Reviewing the talent pool for the Executive Committee and levels below Executive Committee; and • Reviewing and setting policy on diversity and inclusiveness.

[9] Andrew Clappen is the Group Corporate Services Director.

Governance report (continued)

Board of Directors and Executive Committee (continued)

Executive Committee

1. David Potts

See Board of Directors on page 32.

2. Trevor Strain

See Board of Directors on page 32.

3. Michael Gleeson

See Board of Directors on page 32.

4. Andy Atkinson

Appointment
Andy joined Morrisons in 2011 and was appointed as Group Customer and Marketing Director in January 2016. In February 2020, Andy was appointed Group Commercial Director.

Experience
Andy previously held a number of senior commercial and trading roles within the organisation. Prior to joining the Group, Andy worked in a variety of senior commercial positions within Boots, progressing to Commercial Director. Andy started his career at Coca-Cola before moving to Walt Disney and then L'Oréal.

5. Rachel Eyre

Appointment
Rachel joined Morrisons in April 2021 as Group Customer and Marketing Director.

Experience
Rachel spent the past five years with Sainsbury's where most recently she led Group marketing communications across Sainsbury's, Argos and Tu.

Prior to that she launched Future Brands, a venture arm within the commercial team, which identified and on boarded distinctive brands that were exclusive to the grocer. Rachel spent the early part of her career with Barclays where she worked across brand, marketing and communications in the wake of the global financial crisis.

6. Clare Grainger

Appointment
Clare joined Morrisons in February 2009 and was appointed Group People Director in September 2015.

Experience
Clare began her career at Asda where she held a number of roles at Head Office and in the Retail division. She progressed through a variety of senior HR positions including Head of HR at HBOS/Lloyds Banking Group, where she led a number of programmes to drive differentiation in both sales and services.

7. David Lepley

Appointment
David joined Morrisons in June 2016 as Store Replenishment Director. In February 2017, he became Operations Director for the Central region and took responsibility for a third of the Group's retail stores. David joined the Executive Committee as Group Retail Director on 3 February 2020.

Experience
David began his career at Asda in 2004 and rapidly worked his way up from Store Manager to Regional Director for North Supermarkets. In 2015, David was appointed Senior Strategy and Development Director for Grocery Home Shopping before becoming Vice President of Online Grocery Operations later that year.

Jonathan Burke

See Board of Directors on page 33.

Governance report (continued)

Corporate governance statement

The Board considers that its corporate governance policies and procedures have been and remain appropriate, noting the limitations of the interim governance structure due to the CMA's IEO, which was imposed on the Company on 26 October 2021 and took effect from the effective date of the takeover by CD&R on 27 October 2021, five days before the 31 October 2021 financial period end. Throughout the period until the effective date of the takeover by CD&R the Group applied the principles and, other than regarding Executive Directors' pensions, procedurally followed the detailed provisions of the Corporate Governance Code.

The CMA's IEO requires that the Morrisons and CD&R businesses are held separate and not integrated. At the point of signing this report Morrisons remains subject to the IEO which is likely to remain in force until the CMA has finalised its ongoing merger investigation (see page 11 for more details on the investigation status). As such, the Company has been legally restricted from engaging in any consultation or discussions with our new shareholder with regards to agreeing any changes to key governance matters such as Board and Committee structures or compositions.

Whilst operating under these restrictions, the Company has continued to apply the principles and procedurally followed the provisions of the Corporate Governance Code to the extent practical within the interim governance structure available. Provisions of the Corporate Governance Code which we have not complied with at the financial period end reporting date are inclusions of a viability statement (Provision 31), various aspects of the work of the Audit Committee (Provision 26), and the disclosure aspects of the remuneration section (Provision 41). The Board notes that this interim governance structure may require review in the future, particularly regarding the division of responsibilities within the Board, the finalisation of on-going assessments of Executive Directors, management and Board performance, and our ability to discuss with our new shareholder their views on the Company and the remuneration policy. More detail on how we believe we followed the Corporate Governance Code during the period up to the effective date of the takeover and thereafter is found in the table below.

On 14 February 2022, Morrisons adopted the Financial Reporting Council's Wates Corporate Governance Principles for Large Private Companies. The Board is comfortable that the Group's approach to Purpose, Leadership, Director Responsibilities, Opportunities and Risks aligns to the Wates Principles within the confines of the IEO. As Morrisons is currently subject to the IEO, the Group has not been able to discuss and agree the future Board and Committee structure with CD&R, including any appointment of a permanent Chair to the Board or the role or composition of the Audit Committee. The Group has reviewed and refreshed its internal governance structures, will review its Board and Committee composition further at the appropriate point in time, and a complete overview of the application of the Wates Principles will take place during the 52 week period ending 30 October 2022.

Board leadership and company purpose	**As a premium listed company from 1 February 2021 to 27 October 2021**	**As a non-premium listed company, from the effective date of the takeover by CD&R on 27 October 2021**
Basis of generating and preserving long-term value and contributing to wider society	The Board regularly assesses the basis on which the Company generates and preserves value over the long term and the opportunities for the Company. More information on this can be found on pages 4 to 26 and the impact of Board decisions in the period can be found on pages 47 to 48. More information on the risks the Company faces is found on pages 25 to 30. The sustainability of the Business Model and the contribution of the business to wider society is described on pages 17 to 24.	No change.

Governance report (continued)

Corporate governance statement (continued)

Board leadership and company purpose	As a premium listed company from 1 February 2021 to 27 October 2021	As a non-premium listed company, from the effective date of the takeover by CD&R on 27 October 2021
Morrisons culture	The Board assesses and monitors the Company culture in line with the Company's purpose, ways of working and stakeholder groups. More information on this can be found on pages 4 to 5. The Directors have a good understanding of the views of our colleagues and culture facilitated by the Your Say survey results, formal and informal discussions with the leadership of the Group, and day-to-day interactions with our colleagues in store. From these various sources, the Board is able to confirm that the culture of our business is aligned to the purpose, values and strategy that the Board has set. The Company's approach to investing in and rewarding our colleagues is set out on pages 13 to 14.	No change.
Understanding shareholder views	Led by the Investor Relations Director, throughout the period, the Chair and Board regularly engaged with or received updates on our shareholders to understand their views on the Company. The Senior Independent Director, Rooney Anand, was available for shareholders prior to the effective date of the takeover to address any concerns or issues that they felt had not adequately dealt with through the usual channels of communication. Throughout the takeover period, NM Rothschild & Sons Limited and our brokers provided further regular insight of shareholder views to the Board.	As CD&R have purchased the entire share capital of Morrisons, the Board will engage with CD&R once the CMA's IEO is lifted.
Understanding AGM Voting	The Board engaged with shareholders after the 2021 AGM to understand the reasons for their voting behaviour. This feedback was considered during the period, such as when determining the appropriate remuneration arrangements for the change in control.	As CD&R have purchased the entire share capital of Morrisons, the Board will engage with CD&R once the CMA's IEO is lifted.

Governance report (continued)

Corporate governance statement (continued)

Board leadership and company purpose	**As a premium listed company from 1 February 2021 to 27 October 2021**	**As a non-premium listed company, from the effective date of the takeover by CD&R on 27 October 2021**
Effective engagement with, and encouraging participation from, shareholders and stakeholders (section 172 Companies Act 2006 reporting)	More information on this can be found on pages 47 to 48. The Company's approach to investing in and rewarding our colleagues is set out on pages 13 to 14.	All Board decisions continue to be made in line with section 172 Companies Act 2006 requirements.
Workforce engagement	Kevin Havelock was the designated Non-Executive Director for workforce engagement.	Following Kevin Havelock's resignation, David Potts became the Board member responsible for workforce engagement.
Whistleblowing policy	The Group has a whistleblowing policy. More information on this can be found on page 51.	No change.
Managing conflicts of interest	Any conflicts or potential conflicts of interest are carefully managed within the ordinary activities of the Board.	No change.
Division of responsibilities		
The Chair's role and responsibilities	Andrew Higginson was independent upon appointment. The role of the Chair and CEO were held by separate individuals with clear roles and responsibilities.	At an appropriate time, following the lifting of the IEO, the Company will review the requirement to appoint a Chair. During the interim period, the role of Chair in Board meetings is being fulfilled by David Potts who is also the CEO.
Non-Executive Directors	Over half of the Board were Non-Executive Directors. All Non-Executive Directors were considered to be independent as defined by the Corporate Governance Code.	All Non-Executive Directors resigned following the effective date of the takeover.
Senior Independent Director roles and responsibilities	Rooney Anand was the Senior Independent Director and became a key contact for large shareholders during the takeover process.	No remaining Director has been appointed as the Senior Independent Director. The Company will liaise with our shareholder to review this requirement at an appropriate time, following the lifting of the IEO.
Board and Director performance	The responsibilities of the Chair, Chief Executive, Senior Independent Director, Board and Committees are outlined on page 34 to 36. Throughout the period the Non-Executive Directors scrutinised and held management and individual Executive Directors to account against their agreed performance objectives.	At an appropriate time, following the lifting of the IEO, the Board will discuss and finalise the performance of management and individual Executive Directors with CD&R.
Board meeting attendance and time commitment of Non-Executive Directors	The attendance at Board meetings is shown on page 33.	The attendance at Board meetings will be reported in the next Annual Report for the financial year ending 30 October 2022.

Governance report (continued)

Corporate governance statement (continued)

Division of responsibilities	**As a premium listed company from 1 February 2021 to 27 October 2021**	**As a non-premium listed company, from the effective date of the takeover by CD&R on 27 October 2021**
External appointment approval process	The Board delegated the approval of external appointments to the External Appointments Approvals Sub-Committee consisting of the Chair, CEO and Senior Independent Director.	The Board and Company Secretary are required to approve any additional external appointments for any Board Member.
Company Secretary	As Company Secretary, Jonathan Burke remained highly accessible to all Board members throughout the period to provide advice as required. Jonathan Burke also advised the Board on governance matters with Ashurst LLP providing additional guidance on governance matters relating to the takeover.	No change.
Composition, succession and evaluation		
Nomination Committee membership and responsibilities	The Nomination Committee membership and responsibilities are shown on page 36.	When the IEO has been lifted, the Directors will review the Board and Committee structure with CD&R.
Director annual re-election	The Directors are subject to annual re-election.	When the IEO has been lifted, the Directors will discuss the requirement for annual re-elections with CD&R.
Chair tenure	Upon his resignation, Andrew Higginson had served just under seven years as Chair.	When the IEO has been lifted, the Directors will discuss the tenure of any future Chair with CD&R.
Director recruitment process	No new Director appointments were made within this financial period. However, in previous years succession planning meetings were held at which key individual profiles were presented and considered alongside diversity metrics, including, but not limited to, gender, social and ethnic backgrounds, age and personal strengths.	When the IEO has been lifted, the Directors will discuss the recruitment process for Directors with CD&R.
Board evaluation	During the previous financial year, the Board undertook extensive board effectiveness reviews by both Consilium Board Review and KPMG LLP. During the period prior to the effective date of the takeover, the Chair regularly led short discussions on the effectiveness of the Board at the end of individual Board meetings.	When the IEO has been lifted, the Directors will discuss how CD&R wishes to assess the performance of the Board going forward.

Governance report (continued)

Corporate governance statement (continued)

Audit, Risk and Internal Control	As a premium listed company from 1 February 2021 to 27 October 2021	As a non-premium listed company, from the effective date of the takeover by CD&R on 27 October 2021
Audit Committee membership and responsibilities	The Audit Committee membership and responsibilities are shown on page 35. The Audit Committee focused on the effectiveness of the Internal Audit team and the external audit process, and in the period considered the appropriateness of the external financial reporting, including discussion and challenge of key judgements.	Post-takeover, the Company is bound by the CMA's IEO. The Board and Committee structure will be reviewed once the IEO has been lifted. Activities ordinarily undertaken by the Audit Committee have been undertaken by the Board during the interim period.
Audit Committee activities	The activities of the Audit Committee during the period are shown on page 45.	Post-takeover, the Company is bound by the CMA's IEO. The Board and Committee structure will be reviewed once the IEO has been lifted.
Director responsibility for the Annual Report and Financial Statements	The Directors' Responsibility statement is shown on page 52. The Board is responsible for the consideration of the Annual Report and Financial Statements including assessing whether the report is fair, balanced and understandable, and that the going concern basis of accounting is appropriate.	No change.
Assessment of emerging and principal risks	The assessment of emerging and principal risks is shown on pages 25 to 30.	The risk section has been updated to reflect the current assessment of the principal risks.
Risk management and internal control systems	The risk management processes, including agreement of risk appetite, are shown on pages 25 to 30. The risk management processes and internal control systems have been reviewed and approved by the Audit Committee in previous years but due to the timing of the takeover have not been approved in the period.	The risk management and internal controls system assessments have been updated to include any required updates following the takeover and will be considered by the Board until the review of the new structure is completed.
Going concern	The Going Concern statement is on page 49.	The going concern analysis has been reviewed post takeover.
Remuneration Committee membership and responsibilities	The Remuneration Committee membership and responsibilities are shown on page 36.	When the IEO has been lifted, the Directors will review the Board and Committee structure with CD&R.
Non-Executive Director remuneration	As per the Code, the Chair and Non-Executive Directors were not incentivised using share options or other performance-related incentives, nor did they receive any additional remuneration as a result of the takeover.	When the IEO has been lifted, the remuneration of any Chair or Non-Executive Directors appointed to the Board will be discussed with CD&R.

Governance report (continued)

Corporate governance statement (continued)

Remuneration	**As a premium listed company from 1 February 2021 to 27 October 2021**	**As a non-premium listed company, from the effective date of the takeover by CD&R on 27 October 2021**
Remuneration consultants	Willis Towers Watson were appointed by the Remuneration Committee in August 2016, following a competitive tender process, to provide independent external advice on market practice and Executive and Non-Executive remuneration. Willis Towers Watson did not provide any other services to the Group.	When the IEO has been lifted the Directors will discuss with CD&R the requirement for remuneration consultants.
Post-employment shareholding requirement	The Group's policies included a policy around post-employment shareholding requirements.	The takeover and delisting of the shares from the London Stock Exchange has removed this policy.
Executive pensions	David Potts and Trevor Strain each receive a pension supplement frozen at their 2019/20 benefit level. Having discussed shareholder feedback with the Committee and management, both the CEO and COO voluntarily committed to a reduction in their pension levels to those available to the workforce by the end of 2022. Michael Gleeson receives a pension allowance equivalent to 5% of base salary. This is in line with the majority of the workforce.	No change.
Contract periods	Our policy is for Executive Directors to have rolling service contracts with a notice period of 12 months. On an exceptional basis, to complete external recruitment a longer initial period reducing to 12 months may be used. At its discretion, the Group may pay in lieu of notice. Payment in lieu of notice could potentially include up to 12 months' base salary, benefits and pension, but is payable in instalments and subject to mitigation.	No change.
Director remuneration policy	The principles that underpin our Director's remuneration policy are: 1. Drive a long-term sustainable business 2. Provide clear alignment between Directors and shareholders 3. Incentivise a balanced approach to the needs of our stakeholders 4. Sustainably secure the talent to lead our business, now and in the future	When the IEO has been lifted, the Directors, in conjunction with CD&R will review the remuneration policy and structures in accordance with the Wates Principles.
Remuneration Committee considerations	The activities of the Remuneration Committee are shown on page 46.	When the IEO has been lifted, the Directors will discuss and set remuneration structures and practices in accordance with the Wates Principles with CD&R.

Governance report (continued)

Board and Committee activities in the period

Main Board

Activities in the period

As a listed entity for the majority of the financial period the Group had a governance structure in place to ensure compliance with the Corporate Governance Code. During the financial period the Board has undertaken the following:

Strategy and planning

- set the strategy and plans for the Group;
- approved the budget and commercial plans, including productivity savings to invest in the customer offer;
- approved the Group's capital allocation framework; and
- reviewed the core purpose of Morrisons; and reset the priorities, ways of working and stakeholder groups.

Operational performance

- overseen the continued response to the COVID-19 pandemic;
- reviewed the annual business plan and received regular updates regarding its delivery and resource requirements;
- reviewed the performance of the Chief Executive; and
- reviewed the Group's continued operations and growth opportunities in online, wholesale and manufacturing.

Financial performance

- reviewed the results and forecasts throughout the financial period and reviewed and approved regulatory announcements; and
- approved the Annual Report including assessing whether the report is fair, balanced and understandable, that a going concern basis of accounting is appropriate, and assessing the viability statement.

Risk

- assessed the Group's emerging and principal risks and agreement of risk appetite; and
- monitored the Group's risk management and internal control systems.

Governance

- ensured business is conducted in accordance with the Group's values; and
- identified and managed any potential conflicts of interests as appropriate.

Colleagues

- reviewed the values and culture of the Group through Your Say survey responses and feedback provided from the Your Say forums.

Stakeholders

- ensured that the strategy is aligned to long-term success for all stakeholders; and
- considered feedback received from customers, colleagues, suppliers, shareholders and other stakeholders.

Shareholder engagement

Prior to the effective date of the takeover by CD&R, the Board remained committed to communicating the strategy to analysts, investors and shareholders on a regular basis through a planned programme.

The Investor Relations programme included:

- formal presentations of full and half-year financial results;
- trading statements;
- regular meetings between institutional investors, the Chief Executive, the CFO, the Chief Operating Officer and the Investor Relations team following the full and half-year results;
- correspondence and meetings between the Chair and major shareholders to discuss any aspect of the Group or its governance arrangements;
- attending key investor conferences;
- communication between the Chair of the Remuneration Committee and major shareholders on remuneration policy and significant changes in remuneration arrangements;
- responding to enquiries from shareholders and analysts through the Investor Relations team; and
- maintaining dedicated shareholder and investor sections on the website.

In addition, the Investor Relations team provided regular updates to the Board and feedback from meetings held between executive management and institutional shareholders. The Group's brokers sought independent feedback from analysts and investors at appropriate times following the full and half-year results meetings, and this was reported to the Board.

Governance report (continued)

Board and Committee activities in the period (continued)

Executive Committee

Activities in the period

During the period, the Executive Committee has:

Strategy and planning

- developed plans to implement the Group's strategy;
- determined the draft budget and long-term plan; and
- approved capital budgets.

Operational performance

- adapted to changing regulations, government guidelines and best practice to ensure that our colleagues and customers remain as safe as possible during the pandemic;
- further refined the home delivery and Click & Collect channels;
- continued to implement the Group's priorities;
- periodically reviewed performance against strategic objectives;
- reviewed changes to speed up and simplify the business; and
- agreed improvements to the Group's technology infrastructure.

Financial performance

- driven trading performance and reviewed financial performance throughout the period;
- managed and controlled the necessary investment in ensuring our operations remain safe for colleagues and customers; and
- reduced the cost base of the organisation through productivity and procurement improvements.

Risk

- determined principal and emerging risks for the Group;
- reviewed functional risk registers; and
- reviewed the Group's risk management systems and the findings from internal audit reports.

Governance

- overseen the Group's compliance with its obligations under GSCOP; and
- reviewed GDPR compliance.

Stakeholders

- considered regular updates on customer views;
- overseen the Group's commitment to Corporate Social Responsibility, in particular the targets around carbon and plastic reduction, as well as its support for the Group's charity partner Young Lives vs Cancer in the period, and for the charitable Morrisons Foundation;
- reviewed the talent, capabilities and capacity within the Group;
- listened to views of colleagues including reviewing the Your Say survey results and agreeing improvement actions; and
- recommended the ordinary and special dividends to the Board.

Audit Committee

The Audit Committee structure was in place with membership from the Non-Executive Directors up until the point of change in ownership on 27 October 2021. During the period the Audit Committee activities included:

- considering the appropriateness of the Group's Annual Report and Financial Statements for 2020/21 and Interim Financial Report;
- consideration of the effectiveness of external audit;
- discussion and agreement of the revised principal risks in light of changes in the Group's priorities; and
- reviewing the effectiveness of the internal control and risk management framework.

Governance Report (continued)

Board and Committee activities in the period (continued)

Audit Committee (continued)

The main features of the Group's internal control and risk management systems relating to the accuracy and reliability of financial reporting, are:

- the recruitment of suitably qualified and experienced finance colleagues;
- the segregation of duties, clear lines of accountability and delegation of authority;
- policies and procedures that cover financial reporting, preparation of financial information and capital expenditure;
- a robust period-end review process including review and commentary from business owners;
- a tiered review process for external financial reporting involving internal stakeholders from relevant areas of the business;
- information and data security policies and procedures; and
- self-certification of internal control and risk management by each function of the business.

Until the new governance structure is put in place following the removal of the current IEO, responsibility for the following activities resides with the Board:

- monitoring the Group's financial reporting process;
- monitoring of the effectiveness of internal control and management of risk across the Group, including internal audit;
- monitoring the statutory audit process;
- reviewing and monitoring the independence and effectiveness of the Group's statutory auditor, PricewaterhouseCoopers LLP and any process for the selection of the statutory auditor;
- challenge of key accounting judgements and estimates made in respect of the Group's financial statements including:
    - impairment of property, plant and equipment, right-of-use assets and intangible assets;
    - commercial income;
    - inventories;
    - leases;
    - retirement benefit schemes; and
    - profit before exceptionals.
- assessment of the Group's ability to continue as a going concern.

Corporate Compliance and Responsibility (CCR) Committee

Prior to the resignation of the Non-Executive Directors during the period, the CCR Committee had:

- reviewed GSCOP compliance including training and results of internal reviews;
- assessed GDPR compliance;
- reviewed the Sustain strategy and approved publication of the Assured Corporate Responsibility Report;
- reviewed progress against ambitions for:
    - ethical trading;
    - redistribution of food waste;
    - food safety and improvements; and
    - fisheries and agriculture; and
- reviewed policies and progress regarding:
    - plastic waste; and
    - modern slavery.

Remuneration

The activities of the Remuneration Committee in the period, prior to the resignation of the Non-Executive Directors, included:

- approval of the remuneration policies and practices which support the strategy and promote long-term sustainable success,
- consideration of investor feedback, particularly on the remuneration policy, through ongoing dialogue;
- consideration of the appropriate remuneration arrangements for the change of control, for example requesting the goodwill payment for Sharesave, recommending the treatment of the in-year annual bonus plan and deciding the treatment and pay out for in-flight LTIPs; and
- endorsement of the increase in minimum hourly pay to £10 per hour.

The strategic rationale adopted in the period for the Directors' remuneration policies, structures and performance metrics were set out in the Annual Report for 2020/2021.

When the IEO has been lifted the Directors will review the policy and remuneration structures in accordance with the Wates Principles.

Governance report (continued)

Board and Committee activities in the period (continued)

Nomination Committee

In January 2021, the Nomination Committee, led by the Chair, established a clear and detailed forward agenda for the Nomination Committee through 2021. This plan included the process to identify and appoint two suitable new Non-Executive Directors, a review of diversity within both the Group and the Board, and reviewing the Board's internal effectiveness review responses. This programme of activity was planned from July 2021 onwards, to best align with the other activities, responsibilities and demands on the Directors' time during the first half of the year.

As the Board recommended a takeover offer ahead of the first meeting in 2021, the activities of the Nomination Committee were paused during the takeover period.

The Committee noted that the Group's diversity is regularly monitored and driven by the CEO and Group People Director. Prior to the effective date of the takeover, the policy fully supported the Hampton-Alexander recommendations that the Board should comprise at least one-third females and intended on working towards achieving this target. It also supported the Parker recommendation that the Board should include at least one BAME director. More detail on the Group's activity relating to equal opportunities for all can be found on page 50.

There is a robust process in place for the appointment of new Directors. The continued appropriateness of the process will be reviewed in conjunction with CD&R when the IEO has been lifted. The process includes producing a detailed specification for any candidate. An independent external recruitment consultancy, which would be signed up to the voluntary Code of Conduct on gender diversity and best practice, would assist in identifying long-lists of candidates with the requisite skills and experience for the role. From the long-lists, a diverse shortlist of potential candidates would be selected and then interviewed by the Chair and a sufficiently diverse selection of Directors. Following this, the candidate would be put forward to the Nomination Committee for its consideration prior to a recommendation for appointment being put forward to the Board.

Doing the right thing for all our stakeholders

How we have considered compliance with section 172 of the Companies Act 2006

The following section serves as our section 172 statement. Section 172 requires that Directors act in the way they consider, in good faith, would be most likely to promote the success of the Group for the benefit of its members as a whole. In doing so the Directors should have regard (amongst other matters) to: the likely consequences of any decision in the long term; the interests of employees; the need to foster relationships with suppliers, customers and others; the impact of the Group's operations on the community and the environment; the maintaining of a reputation for high standards of business conduct; and the need to act fairly as between members of the Company.

Morrisons recognises five main stakeholder groups: customers, colleagues, suppliers, shareholders, and environment and supporting community. The Board and Group also regularly consider the needs of other stakeholders such as the Government, regulatory bodies, charities and NGOs when making decisions.

Our business model and Board operations are focused on delivering long-term benefits for all our stakeholders while maintaining a high standard of business conduct. The Board has recognised the need for genuine, well-informed and dynamic engagement with our stakeholders and believes the Group has the right representatives formally and informally engaging with a wide and diverse selection of stakeholders (more information on this can be seen on pages 12 to 24 of this report). The Group spends a lot of time listening to and understanding the views of our stakeholders to form an integral part of any decision making. Particular areas of consideration in the period have been the effective date of the takeover and the impact of the Group on the environment and community.

Governance report (continued)
Doing the right thing for all our stakeholders (continued)

Takeover by CD&R

Throughout the takeover process, the Board considered all stakeholders when evaluating any potential offer and in the decisions made to recommend offers to our shareholders. The Board strived to balance the needs and ambitions of all stakeholders, alongside considering the long-term and reputational impacts. As soon as a potential takeover was discussed, the Board agreed that it would not recommend an offer to our shareholders without considering the impact on all stakeholder groups.

This contributed to a robust and strong set of assurances being made by both bidders ensuring that Board-recommendable offers were only made by potential owners who understood the importance of the key attributes of Morrisons.

A strong communications programme was set up by the Board to ensure that all stakeholder views were considered after each announceable event during the takeover process. This included:

- shareholder engagement by the Chair, Senior Independent Director, CFO and Director of Investor Relations. This found that shareholders were seeking to ensure that they received the best possible return on their investment and asked for reassurance that the proposed purchaser was a responsible investor who will maintain the high standards of Morrisons going forwards.
- colleague and trade union presentations made by the CEO and Group People Director that allowed colleagues to ask questions about the takeover offers for answering in a live and open setting. During these sessions colleagues mainly sought reassurance that their jobs would be protected and that the values and strategy of the Company would not significantly change following the takeover. These assurances from the potential buyers included recognising the value of employees to everything that Morrisons does and fully supporting Morrisons recent pay award of at least £10 an hour for all Morrisons colleagues in stores and manufacturing sites. The potential owners confirmed that they do not intend to make any change to the benefits provided by the Morrisons pension schemes.
- discussion with suppliers and farmers led by the Chief Operating Officer. Suppliers and Farmers were reassured by the new owners' assurances that the strategy and management would remain largely unchanged under private ownership and there were no anticipated material changes to the existing payment practices.
- negotiations with the pensions scheme trustees to ensure that the schemes retained adequate protection post takeover. Following constructive engagement with the trustees of the Morrisons pension schemes, CD&R were able to provide the trustees with assurances as to the ongoing protection of the pensions schemes.
- discussions with Government, regulatory bodies and NGOs led by the CEO. Whilst these bodies all prioritised different and very important concerns, all were seeking reassurance that the Company's culture, values and strategy would be retained, with a commitment to ensuring continuous improvement on all environmental, social and governance measures. The Company was able to reassure these bodies that the potential new owner would continue to support Morrisons strong track record in ESG performance including Morrisons commitment, as one of British farming's largest direct supermarket customers, to become the first supermarket to be completely supplied by net zero carbon British farms by 2030.
- feedback from customers through our ongoing and extensive customer listening programmes led by the Group Marketing Director.

Environment and community

The Board continued to drive commitments in several new Sustain and community initiatives, including commitments to Net zero carbon agriculture by 2030 and removing all plastic bags from our stores by early 2022, and our Growing British Brands and Seeds of Hope campaigns. The Board further committed to the environmental strategy with a significant investment in a new recycling operation.

Further information on the outcome of board decisions for different stakeholders can be found on pages 12 to 24.

Directors’ report

Statutory disclosures

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

Change of name

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

Political donations

No political donations were made in the financial period, in line with the Group’s policy (31 January 2021: nil).

Going concern

The Directors’ assessment of the Group and the Company’s ability to continue as a going concern is based on cash flow forecasts for the Group and the committed borrowing and debt facilities of the Group. These forecasts include consideration of future trading performance, working capital requirements, changes to financing arrangements, retail market conditions and the wider economy.

The Group has negotiated and has available to it committed facilities that will meet the Group’s needs in the short and medium term.

Having assessed the principal and emerging risks as set out on pages 25 to 30, the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements. Further information can be found on page 67.

Forward-looking statements

The Strategic report and Directors’ report are prepared for the members of the Group and should not be relied upon by any other party or for any other purpose. Where the Strategic report and Directors’ report include forward-looking statements, these are made by the Directors in good faith based on the information available to them at the time of their approval of the Annual Report and Financial Statements.

Consequently, such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying such forward-looking statements and information.

The liabilities of the Directors in connection with the Strategic report and the Directors’ report shall be subject to the limitations and restrictions provided by the Companies Act 2006.

Borrowing powers

The Articles of Association of the Company restrict the borrowings of the Group and its subsidiary undertakings to a maximum amount equal to twice the share capital and consolidated reserves unless otherwise approved by the Company by ordinary resolution.

Directors’ report (continued)

Directors’ indemnities and Directors’ and Officers’ liability insurance

Qualifying third-party indemnity provisions (as defined by section 234 of the Companies Act 2006) were in force during the course of the financial year ended 31 October 2021 for the benefit of the Directors of the Company and directors of the Company's subsidiaries in relation to certain losses and liabilities that they may incur or may have incurred in connection with their duties and powers of office.

The Group also maintains insurance cover for the protection of Directors and senior management from personal liabilities and costs which may arise in the course of fulfilling their duties.

Appointment and powers of Directors

Directors are appointed by ordinary resolution at a general meeting of ordinary shareholders. The Directors have the power to appoint a Director during the year.

Subject to its Articles of Association and relevant statutory law, and to such direction as may be given by the Group in general meeting by special resolution, the business of the Group shall be managed by the Directors, who may exercise all powers of the Group which are not required to be exercised by the Group in general meeting.

Articles of Association

The Company’s Articles of Association may only be amended by a special resolution at a general meeting of shareholders.

Share capital

The authorised and called-up share capital of the Company, together with details of shares allotted and cancelled during the financial period, are shown in note 6.6 of the financial statements.

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

During the period, 32,228,906 (52 weeks ended 31 January 2021: 4,751,802) ordinary shares were issued to employees exercising share options. In addition, 3,841,275 (52 weeks ended 31 January 2021: 5,494,159) LTIP share awards were settled out of the trust shares. The vesting of shares was accelerated as a result of the takeover of the Group.

Equal opportunities for all

We have always said that the performance of this great British business would be led by colleagues, and as such we have five people ambitions, which includes being a business where everyone feels welcome and celebrated. This is promoted through a safe and supportive environment free from racism, discrimination, harassment, bullying and victimisation.

We strive towards an environment where full and fair consideration is given to all applicants and where all colleagues regardless of race, colour, nationality, ethnic origin, age, sex, marital or civil partnership status, disability, religion or belief, sexual orientation, gender re-assignment or trade union membership have access to training and the opportunity to develop and progress. We also encourage employment from anyone who wants to make a positive impact, with every application given full and fair consideration.

Dignity and respect underpins our behaviour towards all customers, colleagues and candidates. To ensure individual needs are considered, the Group will make reasonable adjustments, where required, to the selection process, work environment or practices to support those who need it.

The Group is more mindful than ever of mental health and wellbeing; and through our practices we should ensure the same respect and support is provided to every candidate and colleague, and to treat them equally in respect of recruitment, promotion, training, pay and other employment policies and conditions. Decisions are made based on relevant merits and abilities, and made free from bias.

Like most businesses, we know we are on a journey around diversity, inclusion, belonging and wellbeing; however we are committed to improving and remaining responsive to customers, colleagues and the wider communities we serve, and truly being a business where everyone is welcome and celebrated.

Human rights policy

Morrisons respect for fundamental human rights is consistent with the United Nations Universal Declaration of Human Rights, and we ensure all of our internal policies are consistent with this. The Directors have concluded the Group does not currently have any human rights issues.

Directors' report (continued)

Whistleblowing policy

The Group is committed to ensuring that all individuals have the ability to raise genuine concerns in good faith without fear of victimisation, subsequent discrimination or disadvantage, even if they turn out to be mistaken. More information on our whistleblowing policy can be found on our website *morrisons-corporate.com/about-us/whistleblowing-policy*. All Board members review the whistleblowing policy on an annual basis and receive reports which include an analysis of whistleblowing trends.

Anti-bribery and anti-corruption policy

The Directors have reviewed the Group's anti-bribery and anti corruption policy, which sets out our zero-tolerance approach to bribery and corruption and the conduct expected of all of our colleagues and contractors. The Directors have also considered the gifts and hospitality policy which defines the process which must be followed before any gifts or hospitality are offered or accepted. Regular training is provided to all colleagues to maintain awareness of these policies and processes.

Health and safety policy

It is the Group's intention, so far as is reasonably practicable, to ensure the health, safety and welfare of all its employees, customers and visitors to its premises. The Group's health and safety policy is approved by the Executive Committee. To deliver our policy, each division and subsidiary company has a comprehensive health and safety management system, which contains the policy and procedures for complying with the Health and Safety at Work Act 1974, including the provision, based on risk assessment, of safe working practices for all activities across the Group. To drive continuous improvement in performance and practices, each division has a schedule of audits completed by our central Health and Safety team as well as nine divisional health and safety improvement plans.

Non-financial information statement

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

- information on social matters is shown in the Strategic report on page 24;
- information on environmental matters is shown in the Strategic report on pages 17 to 23;
- information on our colleagues is shown in the Strategic report 13 and 14;
- our respect for human rights is set out in our Corporate governance statement on page 50;
- our approach to anti-corruption and anti-bribery matters is set out in our Corporate governance report on page 51;
- our business model is described on pages 4 and 5;
- our principal and emerging risks, and how we manage them, are described on pages 25 to 30; and
- other non-financial key performance indicators are shown on page 11.

By order of the Board

Jonathan Burke, Company Secretary

29 March 2022

Statement of Directors' responsibilities
in respect of the Report and Financial Statements

The directors are responsible for preparing the Wm Morrison Supermarkets Limited Annual Report and Financial Statements for the 39 weeks ended 31 October 2021 in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB) and the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law).

Under Company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period. In preparing the financial statements, the Directors are required to:

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

The directors are responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement

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

- the Group financial statements, which have been prepared in accordance with IFRSs as issued by the IASB, give a true and fair view of the assets, liabilities, financial position and statutory loss after tax of the Group;
- the Company financial statements, which have been prepared in accordance with United Kingdom Accounting Standards, comprising FRS 101, give a true and fair view of the assets, liabilities and financial position of the company; and
- the Financial Statements includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces.

Directors' confirmations

In the case of each Director in office at the date the directors' report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Group's and Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group's and Company's auditors are aware of that information.

By order of the Board

Jonathan Burke, Company Secretary
29 March 2022

Independent auditors’ report

to the members of Wm Morrison Supermarkets Limited (formerly Wm Morrison Supermarkets PLC)

Report on the audit of the financial statements

Opinion
In our opinion:

- Wm Morrison Supermarkets Limited’s (formerly Wm Morrison Supermarkets PLC) Group financial statements and Company financial statements (the “financial statements”) give a true and fair view of the state of the Group’s and of the Company’s affairs as at 31 October 2021 and of the Group’s loss and the Group’s cash flows for the 39 week period then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 “Reduced Disclosure Framework”, and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the “Annual Report”), which comprise: the consolidated and Company statements of financial position as at 31 October 2021, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of cash flows, the consolidated and Company statements of changes in equity, General information for the period then ended, and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Directors.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (“ISAs (UK)”) and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors’ responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC’s Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC’s Ethical Standard were not provided.

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

Our audit approach

Overview

Audit scope

- We identified two reporting units, Wm Morrison Supermarkets Limited (formerly Wm Morrison Supermarkets PLC) and Safeway Stores Limited, which in our view, required a full scope audit based on their size and risk.
- The Group engagement team performed the audit procedures for each reporting unit in the scope of our Group audit, which accounted for approximately 99% of total Group revenue and 100% of Group Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA) before exceptionals. Our audit scope provided sufficient appropriate audit evidence as a basis for our opinion on the Group financial statements as a whole.

Key Audit Matters

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

Materiality

- Overall Group materiality: £15,000,000 (PY: £20,000,000) based on 2.4% of EBITDA before exceptionals. This represents a change in basis from the prior year having used professional judgement in considering a basis of profit before tax and exceptionals and revenue.
- Overall Company materiality: £13,500,000 (PY: £18,000,000) based on the Company allocation of Group materiality.
- Performance materiality: £11,250,000 (PY: £15,000,000) (Group) and £10,125,000 (PY: £13,500,000) (Company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

Impact of COVID-19 (Group and Company), shrinkage provision (Group and Company) and Impairment of Intangibles (Group and Company), which were key audit matters last year, are no longer included because of, respectively, there being minimal implications of COVID-19 to the business during the period as a result of government restrictions being removed with the wider economic impact due to COVID-19 reduced and a reduction in our focus on both the shrinkage provision and impairment of intangible assets as the estimation uncertainty and judgements involved in determining the level of provision is consistent with the prior year. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Impairment of property, plant and equipment and right-of-use assets (Group and parent) Refer to page 70 (sources of estimation uncertainty), note 3.1 (accounting policies), notes 3.3 and 11.7 (property, plant and equipment) and notes 11.8 (Right-of-use assets). The Group has a large freehold store estate recognised within property, plant and equipment (Group: £5,764m, Company: £1,569m) and right of use assets representing leasehold land and buildings (Group: £885m, Company: £959m) at 31 October 2021. Given the challenging trading conditions in the UK grocery retail market in recent years and the subsequent adverse impact on the market value of traditional supermarket stores, the possibility of impairment of these assets and the related trading assets is an area of focus for management, as is the possibility that previously charged impairments may need reversing where store trading conditions have improved. We focused on this area because of the judgement required in applying various estimations when testing for impairment and impairment write-backs and the significant carrying value of freehold and leasehold property. Management considers each store location to be a cash generating unit ('CGU') and has calculated the recoverable amount of each CGU as the higher of value-in-use and fair value less costs of disposal. **Value-in-use** Value-in-use is based on discounted future cash flow forecasts, requiring management to make judgements relating to certain key inputs including, for example, discount rates and future growth rates. **Fair value less costs of disposal** Fair value less costs of disposal is estimated by management based on market knowledge of individual stores and likely demand from grocers or other retailers in the event these stores were for sale. The key judgements made by the Directors relate to the estimated rental values and yields for these stores. The Group has recognised a net impairment of £61m (£169m impairment write back offset by £230m impairment charge). The £230m impairment charge includes £147m in relation to property, plant and equipment and £83m in relation to right-of-use assets. The £169m impairment write back includes £138m in relation to property, plant and equipment, £27m in relation to right-of-use assets and £4m in relation to investment property. The Company has recognised a net impairment charge of £60m (£63m impairment write back offset by £123m impairment charge). The £123m impairment charge includes £63m in relation to property, plant and equipment, £60m in relation to right-of-use assets. The £63m impairment write back includes £42m in relation to property, plant and equipment, £17m in relation to right-of-use assets and £4m in relation to investment property.	In relation to the value-in-use assessment we have: • Obtained the Group's and Company's financial plan covering the next financial period and medium-term outlook (upon which the forecasts underpinning the value-in-use calculations are based); • Challenged management's forecasts by seeking evidence in relation to the key assumptions and compared future cash flow performance to historical levels to ensure that the planned performance is considered reasonable; • Assessed the accuracy of management's discounted cash flow model including testing the mathematical accuracy of the calculations included within the model and the application of the requirements of IAS 36 impairment of assets' and impact of IFRS 16; • Assessed the discount rate applied, with the support of our internal valuations specialists; and • Considered the sensitivity of the model to changes in these key assumptions. We found, based on our audit work, that the key assumptions and calculations used by management were supportable and appropriate. **Fair value less costs of disposal** We evaluated and challenged the estimates of store rental values and yields used by management in their calculation of store market values. This involved using our own internal valuation experts, with a particular focus on the assumptions and methodology used, obtaining third party evidence and market data to corroborate the assumptions. We determined that the valuations performed by management were reasonable. In addition, we evaluated the adequacy of the disclosures made in notes 3.3 and 3.4 (Group) and notes 11.7 and 11.8 (Company) of the financial statements, including disclosures regarding the key assumptions and sensitivities as required by IAS 36 'Impairment of assets' and found them to be appropriate.

Key audit matter	How our audit addressed the key audit matter
Commercial income (Group and parent) Refer to page 70 (sources of estimation uncertainty), note 1.1 (accounting policies) and note 1.5 (operating profit). **Commercial income** The Group and Company has two categories of commercial income: marketing and advertising funding; and volume-based rebates on purchases. Commercial income is recognised as a deduction from cost of sales and is earned over the period of the contractual agreements with individual suppliers, as disclosed in the accounting policies on page 72. The total income recognised in the income statement in a period is based on the expected entitlement earned up to the balance sheet date under each supplier agreement. It requires management to apply judgement based on the contractual terms in place with each of its suppliers, together with estimates of amounts the Group and Company is entitled to where transactions span the financial period end. We also recognise that there could be a potential for fraud through possible manipulation of this income. **Manual promotional funding** The Group and Company separately recognises promotional funding on promotions that are partially funded by suppliers. The majority of promotional funding is an automated deduction from cost of sales, triggered when a sale is recognised. However, there are some elements of promotional funding which include a manually calculated element to the invoicing. We focused on the manually calculated elements of promotional funding because of the significant number of transactions and agreements in place with suppliers covering a range of periods, the manual nature of the invoicing process and the industry-wide focus on this area of accounting.	We performed the following procedures in relation to both commercial income and manually calculated promotional funding: • understood, evaluated and tested management's key controls, including the monitoring of invoices raised and the accuracy of confirmations received from suppliers; • tested a sample of balance sheet items to supporting documentation including supplier agreements and independent external confirmations from supplier. This included testing accrued items on the balance sheet to subsequent post period end invoicing as well as independent confirmations; • used data analytics to identify any unusual items and where such items were identified these were agreed to supporting documentation; • tested a sample of supplier arrangements recognised in the income statement to supporting agreements and invoices. We have also assessed supplier dispute provisions at the period end for comfort over items recognised in the income statement; • cut-off work involved testing a sample of commercial income and the manually calculated elements of promotional funding recognised both pre and post the period end and evaluating by reference to documentation from suppliers that the timing of recognition was appropriate; • our credit note testing focused on credit notes raised after the period end in order to identify any instances of commercial income or the manually calculated elements of promotional funding being subsequently reversed; • assessed the recoverability of unsettled balances included within trade receivables in note 5.3 to the financial statements (where the Group does not have the right of offset against trade creditors); and • considered the adequacy of related disclosure within the Group's financial statements. No significant issues were identified as a result of this work.

Key audit matter	How our audit addressed the key audit matter
Exceptional items (Group) Refer to page 69 (critical accounting judgements) and note 1.4 (profit before exceptionals). The Group's Alternative Performance Measures are 'Profit before exceptionals' and 'Earnings before Interest, Tax, Depreciation and Amortization (EBITDA) before exceptionals'. Management uses these measures to improve the transparency and clarity of the Group's financial performance. The Group's profit before exceptional items of £133m is stated before £8m of IAS 19 pension interest income and £4m administrative expenses and a net charge from exceptional items of £258m. EBITDA before exceptionals is £640m. These exceptionals are represented as follows: • £19m of restructuring and store closure costs; • £110m net impairment and provision for onerous contracts; • £28m loss arising on disposal and closure; • £3m of other exceptional costs; and • £98m of transaction fees and other acquisition related costs. The determination of which items are to be excluded from EBITDA before exceptionals and profit before exceptionals is subject to judgement and therefore users of the Group financial statements could be misled if amounts are not classified and disclosed in a transparent manner and consistently with the Group's accounting policy.	We considered whether the presentation of these Alternative Performance Measures were appropriate. We performed the following procedures: • Reviewed management's definition and classification of exceptional items, including the sub-categorisation of these items; • Obtained supporting evidence to corroborate the accuracy and completeness of exceptional items; • Where estimation uncertainty exists (e.g. restructuring costs), we challenged the key assumptions in light of information available and historical assessments made for similar circumstances; • Challenged management on the classification of exceptional items through consideration of the application of the accounting policy including those items classified as 'other exceptional costs'; and • Challenged management over disclosures relating to exceptional items to ensure that these were appropriate and consistent with the individual exceptional items and the work performed. We did not identify any material issues in our work over those items presented as exceptional.
Valuation of Retirement benefits (Group and parent) Refer to page 70 (critical accounting judgements and sources of estimation uncertainty), notes 8 and 11.20 (pensions). We have focused on the valuation of the Group and Company's defined benefit pension schemes because of the level of estimation required in determining the period end valuation. In addition, the size of the gross assets (Group: £5,676m and Company: £2,009m) and liabilities (Group: £4,709m and Company £1,642m) within the schemes are significant and material. The net surplus position of the schemes at 31 October 2021 was £967m for the Group and £367m for the Company. Where a defined benefit scheme is in a surplus position, management needs to consider whether the Group and Company has the right to recognise a surplus, or whether it is necessary to restrict the amount of surplus recognised. This requires judgement as to the rights of the Group, Company and Trustees in each of the Group's schemes.	We performed the following procedures: • Obtained the IAS 19 valuation reports produced by the Group's independent actuaries; • Used our internal pensions experts to assess the judgemental assumptions used in calculating the valuation of the pension schemes' liabilities, including discount rates, inflation and mortality rates; • Obtained the detailed reports relating to the valuation of the schemes' assets and agreed the valuations to third party confirmations; • Assessed the membership data used in valuing the schemes' liabilities and tested any significant changes since the last valuation; and • Agreed a sample of contributions made by the Group to bank statements. Based on our work performed, the actuarial assumptions used in calculating the pension surplus were within an acceptable range. We considered management's assessment of the Group's right to recognise the net surplus in two of the three schemes by reference to the requirements of IFRIC 14 'Limit on defined benefit asset', including reviewing legal advice provided to management, and satisfied ourselves that it is appropriate to recognise the net surplus on the balance sheet.

Independent auditors' report (continued)

to the members of Wm Morrison Supermarkets Limited

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

The Group's accounting process is structured around a Group finance function at its head office in Bradford which is responsible for the Group's reporting units. For each reporting unit we determined whether we required an audit of its reported financial information ('full scope'), or whether certain account balances of reporting units were required to be in the scope of our Group audit to address specific risk characteristics or to provide sufficient overall Group coverage of particular financial statement line items.

A full scope audit was required for two components, being Wm Morrison Supermarkets Limited (formerly Wm Morrison Supermarkets PLC) and Safeway Stores Limited, which were determined as financially significant because they individually contribute more than 15% of the Group's EBITDA. In addition, we determined that a certain account balance (Investments in Joint Ventures) in a further reporting unit was in the scope of our Group audit to address specific risk characteristics or to provide sufficient overall Group coverage of particular financial statement line items.

All of the audit procedures have been performed by the Group audit engagement team.

In aggregate, our audit procedures accounted for 99% of Group Revenues and 100% of Group EBITDA before exceptionals. In addition, the Group audit team performed analytical review procedures over a number of smaller reporting units. This included an analysis of period-on-period movements, at a level of disaggregation to enable a focus on higher risk balances and unusual movements. Those not subject to analytical review procedures were individually, and in aggregate, immaterial. This gave us the evidence we needed for our opinion on the financial statements as a whole.

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

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	**Company financial statements**
Overall materiality	£15,000,000 (PY: £20,000,000).	£13,500,000 (PY: £18,000,000).
How we determined it	2.4% of EBITDA before exceptionals. This represents a change in basis from the prior year having used professional judgement in considering a basis of profit before tax and exceptionals and revenue	the Company allocation of Group materiality
Rationale for benchmark applied	We applied the benchmark of EBITDA before exceptionals as the most relevant metric against which the performance of the Group is most commonly measured. In the current period, the Group was taken over by a private equity house and therefore a profit before exceptionals and tax measure is not deemed appropriate. As such, we have used our professional judgement in selecting a materiality basis which we believe is a key measure used by the new shareholders in assessing the Group's performance.	In our view, users focus on the consolidated results of the Group rather than the individual results of the Company, therefore we determined our materiality in the overall context of the Group.

Materiality (continued)

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was £13,500,000 for each of the two components. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (PY: 75%) of overall materiality, amounting to £11,250,000 (PY: £15,000,000) for the Group financial statements and £10,125,000 (PY: £13,500,000) for the Company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Directors that we would report to them misstatements identified during our audit above £ 750,000 (Group audit) (PY: £ 1,000,000) and £ 675,000 (Company audit) (PY: £ 900,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors’ assessment of the Group's and the Company’s ability to continue to adopt the going concern basis of accounting included:

- We obtained from management their latest assessments that support the Board’s conclusions with respect to the going concern basis of preparation of the financial statements;
- We evaluated management’s base case forecast and severe but plausible downside scenarios and challenged the adequacy and appropriateness of the underlying assumptions, including a decrease in like-for-like sales;
- We have evaluated the Group's access to debt facilities throughout the period, including the replacement of the entity's external revolving credit facility with intercompany funding provided by the Group's parent Company, Market Bidco Limited;
- In conjunction with the above we have also reviewed management’s analysis of both liquidity and covenant compliance to satisfy ourselves that no breaches are anticipated over the period of assessment; and
- We have obtained and evaluated CD&R's publicly declared intentions statement to satisfy ourselves of the new shareholder's intention to continue the current business strategy for a period of at least 12 months from the date of signing this audit opinion.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and the Company’s ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors’ use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Group's and the Company's ability to continue as a going concern.

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

Independent auditors' report (continued)

to the members of Wm Morrison Supermarkets Limited

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the period ended 31 October 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Independent auditors' report (continued)

to the members of Wm Morrison Supermarkets Limited

Responsibilities for the financial statements and the audit (continued)

Auditors' responsibilities for the audit of the financial statements (continued)

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to the Companies Act 2006, UK tax legislation including Income, Sales and Payroll tax, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to forgery or intentional misrepresentations, or through collusion. Audit procedures performed by the engagement team included:

- review of the financial statement disclosures to underlying supporting documentation;
- review of correspondence with, and reports to, the regulators;
- review of correspondence with legal advisers;
- enquiries of management and review of internal audit reports in so far as they related to the financial statements; and
- auditing the risk of management override of controls, including through testing journal entries and other adjustments for appropriateness, testing accounting estimates (because of the risk of management bias), and evaluating the business rationale of significant transactions outside the normal course of business.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the Company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Directors, we were appointed by the members on 5 June 2014 to audit the financial statements for the year ended 1 February 2015 and subsequent financial periods. The period of total uninterrupted engagement is 8 years, covering the periods ended 1 February 2015 to 31 October 2021.

Independent auditors' report (continued)

to the members of Wm Morrison Supermarkets Limited

Other matter

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

John Ellis (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
29 March 2022

Consolidated income statement

39 weeks ended 31 October 2021

	Note	39 weeks ended 31 October 2021 Before exceptionals £m	Exceptionals (note 1.4) £m	Exceptionals - Transaction costs (note 1.4) £m	Total £m	52 weeks ended 31 January 2021 Before exceptionals £m	Exceptionals (note 1.4) £m	Total £m
Revenue	1.2	**13,483**	**–**	**–**	**13,483**	17,598	–	17,598
Cost of sales		**(13,146)**	**(16)**	–	**(13,162)**	(17,097)	(113)	(17,210)
Costs of sales before supply chain disruption		**(13,116)**	**(16)**	**–**	**(13,132)**	(17,097)	(113)	(17,210)
Supply chain disruption[2]		**(30)**	**–**	**–**	**(30)**	–	–	–
Gross profit		**337**	**(16)**	**–**	**321**	501	(113)	388
Other operating income		**77**	**–**	**–**	**77**	92	–	92
Profit/(loss) on disposal and closure		**–**	**(28)**	**–**	**(28)**	–	2	2
Administrative expenses		**(203)**	**(120)**	**(98)**	**(421)**	(287)	59	(228)
Operating profit/(loss)	1.5	**211**	**(164)**	**(98)**	**(51)**	306	(52)	254
Operating profit/(loss) before supply chain disruption[1]		**241**	**(164)**	**(98)**	**(21)**	306	(52)	254
Supply chain disruption[2]		**(30)**	**–**	**–**	**(30)**	–	–	–
Finance costs	6.2	**(83)**	**–**	**–**	**(83)**	(111)	–	(111)
Finance income	6.2	**5**	**8**	**–**	**13**	6	16	22
Share of profit of joint venture (net of taxation)	4.2	–	–	–	–	–	–	–
Profit/(loss) before taxation		**133**	**(156)**	**(98)**	**(121)**	201	(36)	165
Taxation	2.2	**(39)**	**(87)**	**–**	**(126)**	(58)	(11)	(69)
Profit/(loss) for the period attributable to the owners of the Company		**94**	**(243)**	**(98)**	**(247)**	143	(47)	96

[1] Alternative performance measures are defined in the glossary (see pages 135-137)
[2] Supply chain disruption costs in the 39 weeks 31 October 2021 amounted to £30m and are included in arriving at gross profit. These costs relate to the mitigating actions and impact on the Group's operations arising from the unprecedented nationwide disruption in the supply chain and lack of availability in the labour market, including warehouse, transport and manufacturing costs. These costs began to be incurred during August 2021 and are returning to a stable level in March 2022. These costs have been disclosed separately to provide additional information to users of the financial statements.

All of the results shown above relate to continuing operations.

Consolidated statement of comprehensive income

39 weeks ended 31 October 2021

Other comprehensive income/(expense)	Note	**39 weeks ended 31 October 2021 £m**	52 weeks ended 31 January 2021 £m
Items that will not be reclassified to profit or loss			
Remeasurement of defined benefit schemes	8.2	**236**	(248)
Tax on defined benefit schemes	2.3	**(90)**	32
		146	(216)
Items that may be reclassified subsequently to profit or loss			
Cash flow hedging movement		**167**	41
Exchange differences on translation of foreign operations		**1**	1
Tax on items that may be reclassified subsequently to profit or loss	2.3	**(42)**	(7)
		126	35
Other comprehensive income/(expense) for the period, net of tax		**272**	(181)
Profit/(loss) for the period attributable to the owners of the Company		**(247)**	96
Total comprehensive income/(expense) for the period attributable to the owners of the Company		**25**	(85)

Consolidated statement of financial position

As at 31 October 2021

	Note	31 October 2021 £m	31 January 2021 £m
Assets			
Non-current assets			
Goodwill and intangible assets	3.2	**320**	328
Property, plant and equipment	3.3	**7,327**	7,358
Right-of-use assets	3.4	**940**	997
Investment property	3.6	**61**	59
Retirement benefit surplus	8.2	**995**	754
Investment in joint venture	4.2	**31**	31
Trade and other receivables	3.7	**81**	70
Derivative financial assets	7.3	**43**	9
		9,798	9,606
Current assets			
Inventories	5.2	**902**	814
Trade and other receivables	5.3	**427**	336
Current tax asset		**53**	27
Derivative financial assets	7.3	**33**	13
Cash and cash equivalents		**296**	240
		1,711	1,430
Assets classified as held-for-sale	3.5	**1**	–
		1,712	1,430
Total assets		**11,510**	11,036
Liabilities			
Current liabilities			
Trade and other payables	5.4	**(3,187)**	(2,837)
Borrowings	6.3	**(838)**	(54)
Lease liabilities	6.4	**(76)**	(72)
Derivative financial liabilities	7.3	**(19)**	(18)
		(4,120)	(2,981)
Non-current liabilities			
Borrowings	6.3	**(1,107)**	(1,986)
Lease liabilities	6.4	**(1,284)**	(1,299)
Derivative financial liabilities	7.3	**(2)**	(2)
Retirement benefit deficit	8.2	**(28)**	(36)
Deferred tax liabilities	2.3	**(730)**	(463)
Provisions	5.5	**(55)**	(53)
		(3,206)	(3,839)
Total liabilities		**(7,326)**	(6,820)
Net assets		**4,184**	4,216
Shareholders' equity			
Share capital	6.6	**245**	241
Share premium	6.6	**252**	201
Capital redemption reserve	6.7	**39**	39
Merger reserve	6.7	**2,578**	2,578
Retained earnings and other reserves	6.7	**1,070**	1,157
Total equity attributable to the owners of the Company		**4,184**	4,216

The notes on pages 71 to 111 form part of these financial statements. The financial statements on pages 63 to 111 were approved by the Board of Directors on 29 March 2022 and were signed on its behalf by:

Michael Gleeson, Chief Financial Officer

Company registration number: 00358949

Consolidated statement of cash flows

39 weeks ended 31 October 2021

	Note	39 weeks ended 31 October 2021 £m	52 weeks ended 31 January 2021 £m
Cash flows from operating activities			
Cash generated from operations	5.6	**621**	286
Interest paid		**(76)**	(116)
Taxation paid		**(17)**	(81)
Net cash inflow from operating activities		**528**	89
Cash flows from investing activities			
Dividends received from joint venture		–	8
Proceeds from the disposal of property, plant and equipment, investment property, right-of-use assets and assets held-for-sale		**10**	27
Purchase of property, plant and equipment, investment property and right-of-use assets		**(307)**	(461)
Purchase of intangible assets		**(53)**	(77)
Acquisition of business (net of cash received)	4.3	**(8)**	(1)
Net cash outflow from investing activities		**(358)**	(504)
Cash flows from financing activities			
Purchase of trust shares	6.6	**(3)**	–
Settlement of share awards	6.6	**(8)**	(10)
Proceeds from exercise of employee share options	6.6	**55**	9
Proceeds from settlement of derivative contracts	6.7	**118**	–
New borrowings		–	934
Repayment of borrowings		**(94)**	(237)
Repayment of lease obligations		**(59)**	(85)
Dividends paid	1.7	**(123)**	(261)
Net cash (outflow)/inflow from financing activities		**(114)**	350
Net increase/(decrease) in cash and cash equivalents		**56**	(65)
Cash and cash equivalents at start of period		**240**	305
Cash and cash equivalents at end of period	6.5	**296**	240

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

	Note	39 weeks ended 31 October 2021 £m	52 weeks ended 31 January 2021 £m
Financing activities:			
Cash inflow from increase in borrowings		**–**	(934)
Cash outflow from repayment of borrowings		**94**	237
Cash outflow from repayment of lease liabilities		**59**	85
Non-cash movements on lease liabilities[2]		**(48)**	(80)
Other financing non-cash movements		**1**	6
Net decrease/(increase) from financing activities		**106**	(686)
Other non-cash movements		**53**	40
Net increase/(decrease) in cash and cash equivalents		**56**	(65)
Opening net debt[1]		**(3,169)**	(2,458)
Closing net debt[1]	6.5	**(2,954)**	(3,169)

1 Net debt is defined in the Glossary on page 137.

2 Non-cash movement on lease liabilities comprise £41m (31 January 2021: £15m) in relation to new leases and £7m (31 January 2021: £65m) from the remeasurement of existing leases.

Consolidated statement of changes in equity

39 weeks ended 31 October 2021

	Note	Share capital £m	Share premium £m	Capital redemption reserve £m	Merger reserve £m	Hedging reserve £m	Retained earnings £m	Total equity £m
Current period								
At 1 February 2021		**241**	**201**	**39**	**2,578**	**(3)**	**1,160**	**4,216**
Loss for the period		**–**	**–**	**–**	**–**	**–**	**(247)**	**(247)**
Other comprehensive income/(expense):								
Cash flow hedging movement		**–**	**–**	**–**	**–**	**167**	**–**	**167**
Exchange differences on translation of foreign operations		**–**	**–**	**–**	**–**	**–**	**1**	**1**
Remeasurement of defined benefit schemes	8.2	**–**	**–**	**–**	**–**	**–**	**236**	**236**
Tax in relation to components of other comprehensive income	2.3	**–**	**–**	**–**	**–**	**(42)**	**(90)**	**(132)**
Total comprehensive income/(expense) for the period		**–**	**–**	**–**	**–**	**125**	**(100)**	**25**
Employee share option schemes:								
Purchase of trust shares	6.6	–	–	–	–	–	**(3)**	**(3)**
Share-based payments charge		**–**	**–**	**–**	**–**	**–**	**29**	**29**
Settlement of share awards	6.6	**–**	**–**	**–**	**–**	**–**	**(56)**	**(56)**
Share options exercised	6.6	**4**	**51**	**–**	**–**	**–**	**–**	**55**
Sale of trust shares	6.7	**–**	**–**	**–**	**–**	**–**	**41**	**41**
Dividends	1.7	**–**	**–**	**–**	**–**	**–**	**(123)**	**(123)**
Total transactions with owners		**4**	**51**	**–**	**–**	**–**	**(112)**	**(57)**
At 31 October 2021		**245**	**252**	**39**	**2,578**	**122**	**948**	**4,184**

Attributable to the owners of the Company

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
Prior 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/(expense)	2.3	–	–	–	–	(7)	32	25
Total comprehensive income/(expense) for the period		–	–	–	–	34	(119)	(85)
Employee share option schemes:								
Share-based payments charge	1.6	–	–	–	–	–	20	20
Settlement of share awards	6.6	–	–	–	–	–	(9)	(9)
Share options exercised	6.6	1	9	–	–	–	–	10
Dividends	1.7	–	–	–	–	–	(261)	(261)
Total transactions with owners		1	9	–	–	–	(250)	(240)
At 31 January 2021		241	201	39	2,578	(3)	1,160	4,216

General information

Company information

Wm Morrison Supermarkets Limited (formerly known as Wm Morrison Supermarkets PLC) is a company incorporated in the United Kingdom under the Companies Act 2006 (Registration number 00358949). Following the de-listing of its shares from the London Stock Exchange on 28 October 2021, the Company was re-registered as a private limited company on 17 November 2021. The Company is domiciled in the United Kingdom and its registered address is Hilmore House, Gain Lane, Bradford, BD3 7DL.

Basis of preparation

The consolidated financial statements have been prepared for the 39 weeks ended 31 October 2021 in accordance with UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards. The change in basis of preparation is required by UK Company Law for the purposes of financial reporting as a result of the UK's exit from the EU on 31 January 2020 and the cessation of the transition period on 31 December 2020, with future changes being subject to endorsement by the UK Endorsement Board. The change does not constitute a change in accounting policy but rather a change in framework which is required to ground the use of IFRS in Company Law. There is no impact on the recognition, measurement or disclosures in the period as a result of the change in the framework.

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

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

Accounting reference date

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

Going concern

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

The COVID-19 pandemic continued to have an impact on customer behaviour during the 39 weeks ended 31 October 2021. All stores continued to trade throughout the period although elements within the store were restricted during periods of lockdown, with cafés closed for 15 weeks of the period and fuel sales affected by reduced demand from customers. Profit before tax and exceptionals continued to be impacted in the period by the direct costs associated with COVID-19, as expected.

In addition, for the 39 weeks ended 31 October 2021 the Group incurred significant costs in relation to the impact of the unprecedented nationwide disruption in the supply chain of the Group's operations. The costs incurred relate to the cost of mitigating actions taken by management.

The Directors' assessment of the Group's ability to continue as a going concern includes consideration of cash flow forecasts for the Group and the committed borrowing and debt facilities of the Group and its parent entities that were either in place at the point of signing these financial statements or expected to be in place during the period under consideration. These forecasts include consideration of future trading performance, working capital requirements, known and possible changes to financing arrangements and the wider economy and include the modelling of a number of downside scenarios. The scenarios considered take account of a number of severe, but plausible, downsides that the Group might experience by flexing the forecasts for a number of financial assumptions, such as reductions in like-for-like ('LFL') sales, fuel price and volumes, cost inflation headwinds, the potential loss of a large wholesale customer relationship, and failing to recover lost profits incurred as a result of the pandemic.

The Group continues to maintain a robust financial position providing it with sufficient access to liquidity, through a combination of cash, intercompany loans 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 99. As disclosed in note 7, discussions are ongoing with various banks and platform providers to ensure the continued availability of supply chain finance facilities.

General information (continued)

Going Concern (continued)

As at 31 October 2021, the Group had total committed revolving credit facilities of £1,550m and net debt (excluding leases) of £1,594m. These facilities were subsequently replaced on 8 November 2021 with intercompany funding provided by Market Bidco Limited, the Group's new intermediate parent company (see full details in note 10.3). This funding is in place at the date of approval of these consolidated financial statements. In respect of banking covenants in relation to the Group's committed RCFs at 31 October 2021, along with additional covenants in place as a result of new financing arrangements entered into after the period end, each scenario modelled demonstrates sufficient liquidity and financial covenant headroom being available. In addition, Market Holdco 3 Limited (the immediate parent of Market Bidco Limited) has provided a letter stating its intentions to support the Group for at least the period of the going concern assessment.

On 26 October 2021, the Competition & Markets Authority ('CMA') imposed an Initial Enforcement Order ('IEO') on Wm Morrison Supermarkets Limited and CD&R. The IEO is, effectively, a 'hold separate' requirement, which will remain in place until the CMA has completed its merger investigation. The Directors have therefore considered CD&R's publicly declared Intention Statements, which place an emphasis on continuity of business strategy, along with the funding secured and related cash flow modelling. They are satisfied that the going concern basis remains appropriate for the preparation of the consolidated financial statements with the Group being well funded, profitable and cash generative for a period of at least 12 months from the date of approval of these consolidated financial statements.

New accounting standards, amendments and interpretations adopted by the Group

There have been no new standards, interpretations and amendments to standards which are mandatory for the Group for the first time for the 39 weeks ended 31 October 2021, which have a material impact on the Group's consolidated financial statements.

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

There are a number of standards and interpretations issued by the IASB that are effective for financial statements after this reporting period. Of these new standards, amendments and interpretations, there are none that are expected to have a material impact on the Group's consolidated financial statements.

Basis of consolidation

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

Foreign currencies

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

Fair value measurement

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

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

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

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

Alternative Performance Measures

The Directors measure the performance of the Group based on a range of financial measures, including measures not recognised by IFRS. These Alternative Performance Measures may not be directly comparable with other companies' Alternative Performance Measures and the Directors do not intend these to be a substitute for, or superior to, IFRS measures. For definitions of the Alternative Performance Measures used, see the Glossary on pages 135 to 137.

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.

As at 31 October 2021, the Group has considered the impact of the takeover by CD&R on its critical estimates and judgements and does not consider that there is a significant impact on any of those areas. For further details on the takeover, see page 11 of the Strategic Report.

Critical accounting judgements

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

Profit before exceptionals

Profit before exceptionals is defined as 'Profit before exceptional items and net retirement benefit credit'. For further details, see the Glossary on page 135. The Directors consider that this adjusted profit measure provides useful information for stakeholders on ongoing trends and performance. This measure is consistent with how business performance is measured internally by the Directors.

The profit before exceptionals measure is not a recognised measure under IFRS and may not be directly comparable with adjusted measures used by other companies. The Group's definition of items excluded, together with details of adjustments made during the period, is provided in note 1.4. The classification of items excluded from profit before exceptionals requires judgement including 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.

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

In relation to the COVID-19 pandemic, the Directors have ensured that COVID-19 specific costs are presented within profit before exceptionals in compliance with the Financial Reporting Council's guidance in both the current and the prior financial periods.

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.

General information (continued)

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 that surplus or whether it is necessary to restrict the amount of surplus recognised.

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

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

Impairment of property, plant and equipment, right-of-use assets and intangible assets
Property, plant and equipment, right-of-use assets and intangible assets are reviewed at each period end for impairment or where changes in circumstances indicate 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 addition, when calculating future cash flows for each store location, 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 where a reliable store pick trading history has been established.

Further detail is provided in notes 3.1, 3.2, 3.3, 3.4 and 3.6.

Commercial income
Commercial income is accounted for as a deduction from the cost of purchase, and it is recognised in accordance with signed supplier agreements, with most income subject to little or no subjectivity or judgement. A level of estimation or judgement is required for certain agreements in assessing future sales or purchase volumes and whether performance obligations have been achieved, this level of judgement is higher when supplier agreements do not end co-terminously with the financial reporting period. This is estimated based on historical trends and information on sales or purchase projections. The Group's recognition policy for commercial income along with areas of estimation is included in note 1.1.

Inventories
Certain estimates are required to assess the net realisable value of inventories, along with provisions for obsolete and slow moving inventories and inventory loss, where estimation is required. Estimating the level of loss between inventory counts is inherently judgemental and is based on 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.

Notes to the Group financial statements

39 weeks ended 31 October 2021

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 assesses 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).

The More points scheme has been discontinued in the financial period ended 31 October 2021.

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 period, shortly after the promotions have ended.

Notes to the Group financial statements (continued)

Performance in the period (continued)

1.1 Accounting policies (continued)

Commercial income

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

Type of commercial income	Description	Recognition
Marketing and advertising funding	Examples include income in respect of in-store and online marketing and point of sale, as well as funding for advertising.	Income is recognised dependent on the terms of the specific supplier agreement in line with when performance obligations in the agreement are met. Income is invoiced once the performance conditions in the supplier agreement have been achieved.
Volume-based rebates	Income earned by achieving volume or spend targets set by the supplier for specific products over specific periods.	Income is recognised through the financial period based on forecasts for expected sales or purchase volumes, informed by current performance, trends and the terms of the supplier agreement. Income is invoiced throughout the financial period in accordance with the specific supplier terms.

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

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

In order to provide users of the financial statements with greater understanding in this area, additional income statement and statement of financial position disclosure is provided in notes 1.5, 5.2, 5.3 and 5.4 to the financial statements.

Other operating income

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

Profit/(loss) on disposal and closure

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

1.2 Revenue

	39 weeks ended 31 October 2021 £m	52 weeks ended 31 January 2021 £m
Sale of goods in-store and online	**10,298**	14,183
Other sales	**801**	922
Total sales excluding fuel	**11,099**	15,105
Fuel	**2,384**	2,493
Total revenue	**13,483**	17,598

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.

1.4 Profit before exceptionals

'Profit before exceptionals' is defined as profit before exceptional items and net retirement benefit credit. Further detail on the definition of profit before tax and exceptionals and profit before exceptionals after tax is provided in the Glossary on pages 135 to 137.

The Directors consider that the adjusted profit measure referred to in the results provides useful information on ongoing trends and performance, and is 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 credit; and to apply a normalised tax rate of 29.5% (31 January 2021: 28.7%).

The 'Profit before exceptionals' measure is not a recognised measure under IFRS and may not be directly comparable with adjusted measures used by other companies. The classification of items excluded from profit before exceptionals requires judgement including considering the nature, circumstances, scale and impact of a transaction. Reversals of previous exceptional items are assessed based on the same criteria. Given the significance of the Group's property portfolio and the quantum of impairment and property-related provisions recognised in the consolidated statement of financial position, movements in impairment and other onerous and property-related provisions would typically be included as exceptional items, as would significant impairments or impairment write backs of other non-current assets.

Despite being a recurring item, the Group has chosen to also exclude net retirement benefit credit from 'profit before exceptionals' as it is not part of the operating activities of the Group, relates primarily to a closed pension scheme, and its exclusion is consistent with how the Directors assess the performance of the business. The net retirement benefit credit consists of the net retirement benefit interest income and the administration cost associated with the pension scheme.

Notes to the Group financial statements (continued)

Performance in the period (continued)

1.4 Profit before exceptionals (continued)

	39 weeks ended 31 October 2021 £m	52 weeks ended 31 January 2021 £m
Profit/(loss) after tax	**(247)**	96
Add back: tax charge for the period[1]	**126**	69
Profit/(loss) before tax	**(121)**	165
Adjustments for:		
Net impairment and provision for onerous contracts[1]	**110**	(83)
(Profit)/loss on disposal and closure[1]	**28**	(2)
Restructuring and store closure costs[1]	**19**	56
Other exceptional items[1]	**3**	15
Online and home delivery expansion transformation costs[1]	**–**	66
Net retirement benefit credit (note 8.2)[1, 2]	**(4)**	(16)
Transaction fees and other takeover related costs[1]	**98**	–
Profit before tax and exceptionals	**133**	201
Normalised tax charge at 29.5% (31 January 2021: 28.7%)[1,3]	**(39)**	(58)
Profit before exceptionals after tax	**94**	143

1 Adjustments marked 1 increase post-tax adjusted earnings by £341m (31 January 2021: £47m).
2 Net retirement benefit credit in the period is made up of net retirement benefit interest income net of retirement benefit administrative costs. Retirement benefit administrative costs were not disclosed as exceptional in the comparative period.
3 Normalised tax is defined in the Glossary, see page 136 for details.

Net impairment and provision for onerous contracts

A net charge of £110m (31 January 2021: net credit of £83m) has been recognised in respect of impairment and provision for onerous contracts for the 39 weeks ended 31 October 2021.

The net charge of £110m includes:

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

The £230m impairment charge on tangible assets includes £147m in relation to property, plant and equipment, £83m in respect of right-of-use assets and £nil for investment property (see notes 3.3, 3.4 and 3.6 respectively).

The £169m impairment write back on tangible assets includes £138m in relation to property, plant and equipment, £27m in respect of right-of-use assets, and £4m for investment property (see notes 3.3, 3.4 and 3.6 respectively).

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

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

The £76m impairment write back shown separately in 'impairment write back – store pick' at 31 January 2021 has been presented alongside other impairments within 'net impairment and provision for onerous contracts' at 31 October 2021. In the 39 weeks ended 31 October 2021, £23m of the impairment write back relates to store pick operations reaching maturity (31 January 2021: £76m).

Profit/(loss) arising on disposal and closure

A net loss arising on disposal and closure of £28m has been recognised (31 January 2021: £2m net profit) in relation to property disposals (net profit of £5m) and business closures (costs incurred of £33m). The business closure costs include a £13m charge in relation to the closure of some operations such as Eat Fresh and the temporary food box offering, along with costs of £20m relating to the consolidation of certain store pick sites, which has also been taken into account in our impairment assessment.

The net £2m credit recognised in the 52 weeks to 31 January 2021 arose solely in respect of profits on disposal of properties.

Performance in the period (continued)

1.4 Profit before exceptionals (continued)

Restructuring costs

Restructuring costs total £19m for the 39 weeks ended 31 October 2021 (31 January 2021: £56m). This amount includes a £3m charge relating to the conclusion of organising and modernising the ways of working across head office (31 January 2021: £17m); a £12m charge from reorganisations within logistics to increase the flexibility of the distribution network to respond to changes in the business (31 January 2021: £16m); and a £4m charge for finalisation of the restructuring of store management and operations (31 January 2021: £21m). Additionally, in the 52 weeks ended 31 January 2021, a £3m charge was included for restructuring of the manufacturing operations and a £1m credit was included relating to store closures.

Other exceptional items

Other exceptional items total £3m (31 January 2021: £15m). These costs at 31 October 2021 relate to costs incurred in relation to legal cases in respect of historical events

In the 52 weeks ended 31 January 2021, the £15m charge comprised of; 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.

Online and home delivery expansion

There was no charge or credit in respect of online and home delivery expansion in the financial period to 31 October 2021. In the 52 weeks ended 31 January 2021, the costs of the rapid roll out of online and home delivery amounted to £66m and comprised 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 processes and system integrations relating to store pick operations were adapted.

Transaction fees and other takeover related costs

An £98m charge has been recognised in respect of transaction fees (£60m) and other takeover related costs (£38m), such as the cost of accelerated maturity of open incentive schemes. The majority of these costs are not deductible for tax purposes.

Taxation

A normalised tax charge of 29.5% (31 January 2021: 28.7%) has been applied in arriving at profit before exceptionals after tax. The total tax charge for the 39 week period ended 31 October 2021 of £126m (31 January 2021: £69m) includes an exceptional tax charge of £87m (31 January 2021: £11m charge) comprising a £115m charge (31 January 2021: £41m charge) due to the change in the standard rate of corporation tax in respect of deferred tax (see note 2.3) and a £28m credit (31 January 2021: £30m credit) in relation to other exceptional items.

1.5 Operating profit

	39 weeks ended 31 October 2021 £m	52 weeks ended 31 January 2021 £m
The following items have been included in arriving at operating profit:		
Employee costs (note 1.6)	**1,502**	2,138
Depreciation and impairment:		
Property, plant and equipment (note 3.3)	**317**	405
Right-of-use assets (note 3.4)	**50**	63
Investment property (note 3.6)	**2**	2
Net impairment charge/(write back) (notes 3.3, 3.4 and 3.6)	**61**	(141)
Amortisation and impairment:		
Intangible assets (note 3.2)	**60**	71
Net impairment charge (note 3.2)	**9**	67
Other lease expenses:		
Short-term leases longer than one month	**9**	16
Leases of low-value assets, excluding short-term	**2**	2
Value of inventories expensed	**10,410**	13,472

The Group waived the right to £44m (31 January 2021: £230m) of business rates relief that it had received from the UK Government to support businesses through the early days of the COVID-19 pandemic. Therefore profit before exceptionals is stated after charging the normal level of business rates in both periods.

Notes to the Group financial statements (continued)

Performance in the period (continued)

1.5 Operating profit (continued)

Commercial income

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

	39 weeks ended 31 October 2021 £m	52 weeks ended 31 January 2021 £m
Marketing and advertising funding	**71**	88
Volume-based rebates	**99**	152
Total commercial income	**170**	240

Auditor remuneration

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

	39 weeks ended 31 October 2021 £m	52 weeks ended 31 January 2021 £m
Audit services		
Fees payable to the Group's auditor for the audit of the Group and the Company financial statements	**1.2**	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**	0.2
	1.7	1.3

The Board has a policy on the engagement of the external auditor to supply non-audit services.

1.6 Employees and Directors

	39 weeks ended 31 October 2021 £m	52 weeks ended 31 January 2021 £m
Employee benefit expense for the Group during the period		
Wages and salaries	**1,320**	1,870
Social security costs	**101**	144
Share-based payments	**2**	20
Retirement benefit costs	**79**	104
	1,502	2,138

In the 39 weeks ended 31 October 2021, there was £61m (31 January 2021: £57m) of exceptional costs in addition to the employee benefit expenses shown in the table above (see note 1.4). This amount included £35m (31 January 2021: £nil) in the form of share-based payments.

	39 weeks ended 31 October 2021 No.	52 weeks ended 31 January 2021 No.
Average monthly number of people, including Directors		
Stores	**93,678**	99,769
Manufacturing	**8,911**	9,006
Distribution	**6,631**	6,220
Centre	**3,141**	3,052
	112,361	118,047

Notes to the Group financial statements (continued)

Performance in the period (continued)

1.6 Employees and Directors (continued)

Directors' remuneration

	39 weeks ended 31 October 2021 £m	52 weeks ended 31 January 2021 £m
Aggregate emoluments, excluding pension contributions and LTIP	**2.5**	7.2
Contributions in lieu of pension schemes' supplement	**0.4**	0.4
Aggregate amounts receivables under long-term incentive schemes*	**7.8**	2.5
	10.7	10.1

* Payments under long-term incentive schemes were accelerated at the point of takeover.

No directors are accruing retirement benefits under defined benefit contribution personal pension schemes (31 January 2021: none). Contributions in lieu of pension schemes supplement have been received by three directors (31 January 2021: three).

Highest paid director

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

	39 weeks ended 31 October 2021 £m	52 weeks ended 31 January 2021 £m
Total amount of emoluments and amounts receivable under long-term incentive schemes	**4.1**	4.0
Company contributions in lieu of pension schemes' supplement	**0.2**	0.2
	4.3	4.2

Senior management remuneration

The table below shows the remuneration of senior managers. It excludes employees already included in the Directors' remuneration set out above. Senior managers are considered to be key management personnel in accordance with the requirements of IAS 24 'Related party disclosures'.

	39 weeks ended 31 October 2021 £m	52 weeks ended 31 January 2021 £m
Senior managers		
Wages and salaries	**12**	21
Social security costs	**1**	4
Share-based payments	**–**	5
Retirement benefit costs	**1**	1
	14	31

In the 39 weeks ended 31 October 2021, there was £13m of exceptional costs in addition to the senior management remuneration shown in the table above (see note 1.4). This amount included £12m in the form of share-based payments.

1.7 Dividends

Amounts recognised as distributed to equity holders in the period:

	39 weeks ended 31 October 2021 £m	52 weeks ended 31 January 2021 £m
Final dividend for the period ended 31 October 2021 of 5.11p (January 2021: 4.84p)	**123**	116
Interim dividend for the period ended 31 October 2021 of nil (January 2021: 2.04p)	**–**	49
Special interim dividend for the period ended 31 October 2021 of nil (January 2021: 4.00p)	**–**	96
	123	261

The dividends paid and proposed during the period are from the 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 Board, who also review updates on tax compliance and governance matters.

The Group's approach to tax is to ensure compliance with the relevant laws of the territories in which the Group operates. The vast majority of the Group's business is in the UK so the vast majority of the Group's taxes are paid in the UK. The Group operates a small number of branches and subsidiary companies outside of the UK based in the following overseas territories:

- The Netherlands: The Group has operations in the Netherlands as part of its produce supply chain. Local corporation taxes of £0.3m were paid during 2021 (31 January 2021: £2.1m);
- 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 the period (31 January 2021: £nil);
- 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;
- Spain, South Africa: The Group has opened offices in Spain and South Africa during the period to administer quality assurance for produce sourced in those regions. Local corporation taxes of £nil were paid during the period; and
- Ireland: The Group has opened an office in Ireland during the period to manage the legal requirements as a EU food business operator. Local corporation taxes of £nil were paid during the period.

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

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

Notes to the Group financial statements (continued)

2 Taxation (continued)

2.2 Taxation

2.2.1 Analysis of charge in the period

	39 weeks ended 31 October 2021 £m	52 weeks ended 31 January 2021 £m
Current tax		
UK corporation tax	**–**	47
Foreign tax	**1**	2
Adjustments in respect of prior periods	**(10)**	4
	(9)	53
Deferred tax		
Origination and reversal of timing differences	**9**	(20)
Adjustments in respect of prior periods	**11**	(5)
Impact of change in tax rate	**115**	41
	135	16
Tax charge for the period	**126**	69

2.2.2 Tax on items charged in other comprehensive income and equity

	39 weeks ended 31 October 2021 £m	52 weeks ended 31 January 2021 £m
Remeasurements of defined benefit retirement schemes and impact of rate change	**90**	(32)
Cash flow hedges	**42**	7
Total tax on items included in other comprehensive income and equity (note 2.3)	**132**	(25)

2.2.3 Tax reconciliation

The reconciliation below shows how the tax charge of £126m (31 January 2021: £69m) has arisen on the loss of £121m (31 January 2021: £165m profit).

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

	39 weeks ended 31 October 2021 £m	52 weeks ended 31 January 2021 £m
Profit/(loss) before taxation	**(121)**	165
Profit/(loss) before taxation at 19% (31 January 2021: 19%)	**(23)**	31
Effects of:		
Recurring items:		
Expenses not deductible/(income not taxable) for tax purposes	**9**	(3)
Tax relief for share-based payments	**(17)**	–
Disallowed depreciation on UK properties	**22**	27
Deferred tax on Safeway acquisition assets	**–**	(6)
Non-recurring items:		
Profit/(loss) on property transactions	**1**	(1)
Exceptional costs/(income)	**18**	(19)
Adjustments in respect of prior periods	**1**	(1)
Effect of change in tax rate	**115**	41
Tax charge for the period	**126**	69

2 Taxation (continued)

2.2.3 Tax reconciliation (continued)

Factors affecting current and future tax charges

The effective tax rate for the period was 98.9% (31 January 2021 42.0%). The effective tax rate was 79.9% (31 January 2021: 23.0%) above the UK statutory tax rate of 19% (31 January 2021: 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 29.5% (31 January 2021: 28.7%), The normalised tax rate was 10.5% (31 January 2021: 9.7%) above the UK statutory tax rate. 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.

An increase in the standard rate of corporation tax from 19% to 25% from 1 April 2023 was announced at Budget 2021 and was substantively enacted during the period so at 31 October 2021 deferred tax balances have been calculated at 19% or 25% depending upon when the temporary difference is expected to reverse. The deferred tax liability recognised on the balance sheet increased by £146m as a result of the change in rate at which deferred tax is provided which resulted in a £115m deferred tax charge recognised within exceptional items in the income statement for the period and a £31m deferred tax charge recognised in other comprehensive income.

2.3 Deferred tax liabilities

	31 October 2021 £m	31 January 2021 £m
Deferred tax liability	**839**	548
Deferred tax asset	**(109)**	(85)
Net deferred tax liability	**730**	463

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 1 February 2021	387	136	(60)	**463**
Charged/(credited) to profit/loss for the period	23	3	(6)	**20**
Charged/(credited) to profit/loss for the period – impact of rate change	122	12	(19)	**115**
Charged to other comprehensive income and equity	–	59	42	**101**
Charged to other comprehensive income and equity – impact of rate change	–	31	–	**31**
At 31 October 2021	532	241	(43)	**730**
Prior period				
At 3 February 2020	352	159	(39)	**472**
Charged/(credited)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)**
(Credited)/charged to other comprehensive income and equity – impact of rate change	–	15	(1)	**14**
At 31 January 2021	387	136	(60)	**463**

The analysis of deferred tax liabilities are as follows:

	31 October 2021 £m	31 January 2021 £m
Deferred tax liability to be settled within 12 months	**(16)**	25
Deferred tax liability to be settled after more than 12 months	**746**	438
	730	463

Notes to the Group financial statements (continued)

3 Operating assets

3.1 Accounting policies

Intangible assets

Goodwill

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

Other intangible assets (software development costs 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 accumulated impairment, and are amortised over their estimated useful lives (three to ten years) on a straight line basis. Amortisation is charged in cost of sales.

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

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.

Investment property

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

3 Operating Assets (continued)

3.1 Accounting policies (continued)

Non-current assets classified as held-for-sale

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

Impairment of non-financial assets

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

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

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. The cash flows for online store pick are considered as part of the store location CGU where a reliable store pick trading history has been established.

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

Trade and other receivables

Leases – Group is the lessor

Where the Group is a lessor, the Group classifies each lease at 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 income is recognised within other operating income on a straight-line basis over the term of the lease.

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

Other receivables

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

Notes to the Group financial statements (continued)

3 Operating Assets (continued)

3.2 Goodwill and intangible assets

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

Other intangibles include software development costs and licences. Within this asset class, there are assets under construction with a cost as at 31 October 2021 of £14m (31 January 2021: £14m). The net book amount of licences at 31 October 2021 was £11m (31 January 2021: £12m).

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

Having applied the same impairment methodology and key assumptions as for property, plant and equipment disclosed in note 3.3, a net impairment charge of £9m (31 January 2021: £67m) has been recognised in relation to intangible assets. 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 £23m (31 January 2021: £44m). The cost of internal labour capitalised during the period is £13m (31 January 2021: £22m).

Notes to the Group financial statements (continued)

3 Operating Assets (continued)

3.2 Goodwill and intangible assets (continued)

Prior 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 accumulated impairment losses			
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

3.3 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 1 February 2021	3,848	4,201	635	2,355	**11,039**
Additions	4	16	1	283	**304**
Interest capitalised	–	–	–	1	**1**
Transfers to assets classified as held-for-sale	–	(1)	–	–	**(1)**
Disposals	(4)	(1)	–	(34)	**(39)**
Fully written down assets	–	–	(2)	(144)	**(146)**
At 31 October 2021	3,848	4,215	634	2,461	**11,158**
Accumulated depreciation and accumulated impairment losses					
At 1 February 2021	386	1,891	372	1,032	**3,681**
Depreciation charge for the period	–	83	12	222	**317**
Impairment	28	30	25	64	**147**
Impairment write back	(79)	(35)	(7)	(17)	**(138)**
Disposals	(4)	(1)	–	(25)	**(30)**
Fully written down assets	–	–	(2)	(144)	**(146)**
At 31 October 2021	331	1,968	400	1,132	**3,831**
Net book amount at 31 October 2021	3,517	2,247	234	1,329	**7,327**
Assets under construction included above	3	–	–	14	**17**

The Group has performed its 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 period.

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

The cost of financing property developments prior to their opening date has been included in the cost of the asset. The cumulative amount of interest capitalised in the total cost above amounts to £199m (31 January 2021: £199m).

Notes to the Group financial statements (continued)

3 Operating Assets (continued)

3.3 Property, plant and equipment (continued)

Impairment

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

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

'Value-in-use' is calculated by projecting 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, 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;
- 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 7.5% (31 January 2021: 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. A combination of these factors has resulted in the decrease of the discount rate used in the financial period ended 31 October 2021; and
- consideration is given to any significant one-off factors impacting the locations and any strategic, climate-related, Brexit or market factors which may impact future performance. Given the content of CD&R's published intention statement regarding continuity of business strategy no adjustments have been made to assumed cash flows because of the takeover.

'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. At each financial period end reporting date, 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 at each reporting date. The Group calculates the recoverable amount of its corporate assets and compares this amount to its book value. The recoverable amount is based on the 'value-in-use' calculation undertaken for the store location CGU assessment, less the carrying value of the location CGUs. As at 31 October 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 charge of £9m (£147m impairment charge offset by a £138m impairment write back) during the period in respect of property, plant and equipment (31 January 2021: net £102m impairment write back, being a £42m impairment charge offset by £144m impairment write back). Indicators at 31 October 2021 included that customer behaviour, and shopping patterns continue to be affected by the pandemic; switching between supermarkets and online, food to go and cafes have been impacted by increased home working and the store pick model continues to mature and adapt. In addition, there were specific indicators of impairment on certain assets identified in the period. This movement reflects continued fluctuations from store level trading performance and local market conditions.

At 31 October 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.£40m loss and -1% discount rate or +1% growth rate would result in a c.£25m 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)

3.3 Property, plant and equipment (continued)

Prior period	Freehold land £m	Freehold buildings £m	Leasehold property improvements £m	Plant, equipment, fixtures and vehicles £m	Total £m
Cost					
At 3 February 2020	3,841	4,192	636	2,119	10,788
Additions	10	20	9	477	516
Transfers to assets classified as held-for-sale	–	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 accumulated impairment losses					
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

3.4 Right-of-use assets

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

The Group has performed its 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 period.

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

3 Operating Assets (continued)

3.4 Right-of-use assets (continued)

Impairment

Having applied the same methodology and key assumptions as for property, plant and equipment as set out in note 3.3, the Group has recognised a net impairment charge of £56m (£83m impairment charge offset by £27m impairment write back) during the period in respect of right-of-use assets (31 January 2021: net £41m impairment write back; £54m impairment write back offset by £13m impairment charge). This movement reflects fluctuations from store level trading performance and local market conditions.

At 31 October 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.£3m loss and -1% discount rate or +1% growth rate would result in a c.£3m gain. The impairment model is also sensitive to the inclusion of store pick in individual CGUs which could impact future impairment assessments.

Prior 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 accumulated impairment losses			
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

3.5 Assets classified as held-for-sale

	31 October 2021 £m	31 January 2021 £m
At start of period	**–**	3
Transfers from property, plant and equipment at net book value	**1**	–
Disposals	**–**	(3)
At end of period	**1**	–

During the 39 weeks ended 31 October 2021 assets with a cost of £1m and accumulated depreciation of nil were transferred from property, plant and equipment to assets classified as held-for-sale.

3 Operating Assets (continued)

3.6 Investment property

Current period	Freehold £m	Leasehold £m	**Total £m**
Cost			
At 1 February 2021 and at 31 October 2021	43	124	**167**
Accumulated depreciation and accumulated impairment losses			
At 1 February 2021	21	87	**108**
Depreciation charge for the period	–	2	**2**
Impairment write back	–	(4)	**(4)**
At 31 October 2021	21	85	**106**
Net book amount at 31 October 2021	22	39	**61**

Included in other operating income for the 39 weeks ended 31 October 2021 is £8m (52 weeks ended 31 January 2021: £9m) of rental income generated from investment properties. At the end of the period the fair value of freehold investment properties was £32m (31 January 2021: £32m), with leasehold investment properties supported by their value-in-use. Freehold investment properties are valued by independent surveyors on a vacant possession basis using observable inputs (fair value hierarchy level 2).

Prior period	Freehold £m	Leasehold £m	Total £m
Cost			
At 3 February 2020	43	161	204
Additions	1	5	6
Transfers to right-of-use assets	–	(15)	(15)
Fully written down assets	(1)	(27)	(28)
At 31 January 2021	43	124	167
Accumulated depreciation and accumulated impairment losses			
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 31 January 2021	22	37	59

3.7 Trade and other receivables – non-current

	31 October 2021 £m	31 January 2021 £m
Finance leases – Group is lessor	**8**	8
Other receivables	**73**	62
	81	70

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.

3 Operating Assets (continued)

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

Finance leases

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

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

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

Operating leases

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

	31 October 2021 £m	31 January 2021 £m
Less than one year	**10**	10
One to two years	**6**	6
Two to three years	**5**	6
Three to four years	**5**	5
Four to five years	**4**	4
More than five years	**19**	22
Total undiscounted lease payments receivable	**49**	53

Operating lease income of £10m has been recognised in the 39 weeks ended 31 October 2021 (52 weeks ended 31 January 2021: £13m). This includes £nil relating to variable lease payments that do not depend on an index or rate (52 weeks ended 31 January 2021: £nil).

Other receivables

Other receivables of £73m (31 January 2021: £62m) comprise deferred consideration due after more than one year in relation to the disposal of two of the Group sites. The amount includes £36m (31 January 2021: £35m) of deferred cash consideration on a discounted basis and £37m (31 January 2021: £27m) representing the fair value of future leases of newly constructed supermarkets and convenience stores on parts of one of the sites.

As at 31 October 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

	31 October 2021 £m	31 January 2021 £m
Contracts placed for future capital expenditure not provided in the financial statements (property, plant and equipment, right-of-use assets and intangible assets)	**72**	55
Contracts placed for future leases not provided in the financial statements	**25**	31

Notes to the Group financial statements (continued)

4 Interests in other entities

4.1 Accounting policies

Joint ventures

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

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

Business combinations

The acquisition method is used to account for business combinations. 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	**31 October 2021 £m**	31 January 2021 £m
Non-current assets	**29**	41
Current assets	**36**	21
Current liabilities	**(3)**	(1)
Net assets	**62**	61
Group's share of net assets	**31**	31
Profit	**–**	1
Group's share of profit	**–**	–

The Group's share of profit amounted to £0.2m in the 39 weeks ended 31 October (52 weeks ended 31 January 2021: £0.3m).

4.3 Business combinations

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

Notes to the Group financial statements (continued)

5 Working capital and provisions

5.1 Accounting policies

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

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

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

Cash and cash equivalents includes debit and credit card payments made by customers, which clear the bank shortly after the sale takes place. It also includes BACS receipts in flight at the reporting date for transactions where control is considered to have passed to the Group. BACS payments in flight at the reporting date are excluded from cash and cash equivalents as control is deemed to have passed from the Group.

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

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

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

Provisions
Provisions are created where the Group has a present obligation as a result of a past event, where it is probable that it will result in an outflow of economic benefits to settle the obligation, and where it can be reliably measured. The Group assesses the appropriateness of its provisions at each reporting date. The amounts provided are based on the Group's best estimate of the least net cost of exit. Where material, these estimated outflows are discounted to net present value using a pre-tax rate that reflects current market assumptions. The unwinding of this discount is recognised as a financing cost in the income statement.

Contingent liabilities
Contingent liabilities are possible obligations whose existence will be confirmed only on the occurrence or non-occurrence of uncertain future events outside the Group's control, or present obligations that are not recognised because it is not probable that an outflow of economic benefits will be required to settle the obligation or the amount cannot be measured reliably. The Group does not recognise contingent liabilities 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 it reliably.

Notes to the Group financial statements (continued)

5 Working capital and provisions (continued)

5.2 Inventories

	31 October 2021 £m	31 January 2021 £m
Raw materials[1]	**61**	51
Finished goods	**841**	763
	902	814

[1] Raw materials were not separately disclosed in the Annual Report for the 52 weeks ended 31 January 2021. To provide enhanced disclosure to the users of the accounts, the value of stock has been split in the current and prior periods between raw materials and finished goods.

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

5.3 Trade and other receivables

	31 October 2021 £m	31 January 2021 £m
Commercial income trade receivables	**6**	6
Accrued commercial income	**57**	47
Other trade receivables	**167**	142
Less: provision for impairment of trade receivables	**(4)**	(5)
Trade receivables	**226**	190
Prepayments and accrued income	**133**	128
Other receivables	**68**	18
	427	336

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

In the 39 weeks ended 31 October 2021, £nil (52 weeks ended 31 January 2021: £20m) of deferred cash consideration has been received in relation to the sale of the Camden site on 13 December 2019.

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

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	0.4%	0.7%	11%	61%	100%	
Gross carrying amount – trade receivables	149	38	4	1	3	**195**
Provision for impairment of trade receivables	–	–	(1)	(1)	(3)	**(5)**

As at 31 October 2021 and 31 January 2021, 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 25 March 2022, £6m of the £6m commercial income trade receivables balance had been settled and of the £57m accrued commercial income £2m has still to be invoiced.

As at 25 March 2022, £97m of the £97m wholesale trade receivables balance within other trade receivables had been settled.

5 Working capital and provisions (continued)

5.4 Trade and other payables

	31 October 2021 £m	31 January 2021 £m
Trade payables	**2,677**	2,335
Less: commercial income due, offset against amounts owed	**(17)**	(32)
	2,660	2,303
Other taxes and social security payable	**97**	64
Other payables	**145**	104
Accruals and deferred income	**285**	366
	3,187	2,837

Amounts accrued in relation to store restructuring activity are included within accruals and deferred income at 31 October 2021.

As at 28 February 2022, £17m of the £17m commercial income due above had been offset against payments made.

Trade payables include £692m (31 January 2021: £556m) where suppliers have chosen to receive early payment under the Group's supply chain finance facilities (see note 7.2).

5.5 Provisions

	Onerous contracts £m	Other provisions £m	Total £m
At 1 February 2021	33	20	**53**
Charged for the period	17	1	**18**
Utilised during the period	(7)	(1)	**(8)**
Released during the period	–	(8)	**(8)**
At 31 October 2021	43	12	**55**

Included with the above balance at 31 October 2021 is £13m (31 January 2021: £7m) relating to a balance due within one year. The provision is revised regularly in response to market conditions. The £17m charge for the period in respect of onerous contracts relates to an element of the £37m disclosed in respect of provision for onerous contracts within note 1.4.

5.6 Cash generated from operations

	39 weeks ended 31 October 2021 £m	52 weeks ended 31 January 2021 £m
Profit/(loss) for the period	**(247)**	96
Net finance costs	**70**	89
Taxation charge	**126**	69
Share of profit of joint venture (net of tax)	**–**	–
Operating (loss)/profit	**(51)**	254
Adjustments for:		
Depreciation and amortisation	**429**	541
Impairment	**240**	125
Impairment write back	**(170)**	(199)
Profit arising on disposal and exit of properties	**(6)**	(2)
Defined benefit scheme contributions paid less operating expenses	**(5)**	(6)
Share-based payments charge	**29**	20
Increase in inventories[1]	**(88)**	(154)
Increase in Trade and other receivables[1]	**(55)**	(3)
Increase/(decrease) in Trade and other payables[1]	**296**	(267)
Increase/(decrease) in provisions[1]	**2**	(23)
Cash generated from operations	**621**	286

Total working capital inflow (the sum of items marked [1] above) is £155m in the period (31 January 2021: £447m outflow). This includes £71m of non-cash exceptional charges (31 January 2021: £7m), net of £6m of onerous payments (31 January 2021: £22m), a £17m charge in respect of onerous contracts and accruals of onerous commitments (31 January 2021: £nil) and £6m exceptional and other non-operating payments (31 January 2021: £42m). When adjusted to exclude these items, the operating working capital inflow is £79m (31 January 2021: £390m outflow).

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 and loss for the period over the term of the borrowings on an effective interest rate basis.

Borrowing costs

All borrowing costs are recognised in the Group's 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% (31 January 2021: 4%). Capitalised interest is included within interest paid in cash flow from operating activities.

Lease liabilities

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

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

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

The discount rates applied in the measurement of the lease liabilities represent the Group's incremental borrowing rates. The incremental borrowing rates are determined through a build-up approach, starting with a risk-free rate specific to the term and economic environment of the lease, adjusted for both the credit risk of the lessee and other characteristics of the lease (for example the quality of the underlying assets). The inputs used to determine the rates are regularly reassessed, based on historical experience and other factors which the Directors 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 has purchased the Company's equity share capital, the consideration paid, including directly attributable incremental costs, is deducted from retained earnings until the shares are cancelled. On cancellation, the nominal value of the shares is deducted from share capital and the amount is transferred to the capital redemption reserve.

Own shares held

The Group held an employee trust for the granting of Group shares to executives and members of the employee share plans during the financial period, however following the takeover by CD&R on 27 October 2021 and the subsequent delisting of the Company from the London Stock Exchange, the trust was no longer in use at the reporting date. Shares in the Group held by the employee share trust were presented in the statement of financial position as a deduction from retained earnings.

6 Capital and borrowings (continued)

6.1 Accounting policies (continued)

Net debt

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

6.2 Finance costs and income

	39 weeks ended 31 October 2021 £m	52 weeks ended 31 January 2021 £m
Interest payable on short-term loans and bank overdrafts	**(8)**	(5)
Interest payable on bonds	**(31)**	(45)
Interest on lease liabilities	**(43)**	(60)
Interest capitalised	**2**	2
Total interest payable	**(80)**	(108)
Provisions: unwinding of discount (note 5.5)	**–**	(1)
Other finance costs	**(3)**	(2)
Finance costs[1]	**(83)**	(111)
Bank interest and other finance income	**3**	3
Other receivables: unwinding of discount	**2**	3
Finance income before exceptionals[1]	**5**	6
Net retirement benefit interest (notes 1.4 and 8.2)	**8**	16
Finance income	**13**	22
Net finance costs	**(70)**	(89)

1 Net finance costs before exceptionals marked 1 amount to £78m (31 January 2021: £105m).

6.3 Borrowings

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

	31 October 2021 £m	31 January 2021 £m
Current		
Other short-term borrowings	**–**	54
Revolving credit facility	**838**	–
	838	54

The re-categorisation of the revolving credit facility as current related to the requirement to repay the balance following the takeover of the Group by CD&R and the subsequent change in financing arrangements.

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

	31 October 2021 £m	31 January 2021 £m
Non-current		
£250m sterling bonds 4.625% December 2023	**250**	249
£250m sterling bonds 3.50% July 2026	**264**	267
£250m sterling bonds 4.75% July 2029	**246**	246
£350m sterling bonds 2.50% October 2031	**347**	347
Revolving credit facility	**–**	877
	1,107	1,986

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.

	31 October 2021 £m	31 January 2021 £m
Less than one year	**881**	95
One to two years	**41**	41
Two to three years	**281**	290
Three to four years	**29**	29
Four to five years	**277**	909
More than five years	**676**	948

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:

	31 October 2021		31 January 2021	
	Amortised cost £m	**Fair value £m**	Amortised cost £m	Fair value £m
Total borrowings: non-current and current	**1,945**	**1,956**	2,040	2,199

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

	31 October 2021 £m	31 January 2021 £m
Current lease liabilities	**76**	72
Non-current lease liabilities	**1,284**	1,299
	1,360	1,371

Maturity of lease liabilities

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

	31 October 2021 £m	31 January 2021 £m
Less than one year	**132**	129
One to two years	**126**	124
Two to three years	**118**	117
Three to four years	**115**	110
Four to five years	**112**	107
More than five years	**1,492**	1,557

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 October 2021, the undiscounted future rentals payments relating to periods beyond what is considered reasonably certain total £60m for breaks and £915m for lease extensions (31 January 2021: £58m and £912m 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 39 weeks ended 31 October 2021 and 52 weeks ended 31 January 2021 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 39 weeks ended 31 October 2021 and 52 weeks ended 31 January 2021 are shown in note 1.5. This note also includes the expense of variable lease payments incurred during the periods and expenses incurred on both low-value leases and short-term leases longer than one month. The total cash outflow for leases was £115m (31 January 2021: £163m).

6.5 Analysis of net debt[1]

	Note	**31 October 2021 £m**	31 January 2021 £m
Fuel and energy price contracts	7.3	**43**	9
Non-current financial assets		**43**	9
Foreign exchange forward contracts	7.3	**2**	1
Fuel and energy price contracts	7.3	**31**	12
Current financial assets		**33**	13
Other short-term borrowings[2]	6.3	**–**	(54)
Lease liabilities[2]	6.4	**(76)**	(72)
Foreign exchange forward contracts	7.3	**(7)**	(17)
Revolving credit facility[2]	6.3	**(838)**	–
Fuel and energy price contracts	7.3	**(12)**	(1)
Current financial liabilities		**(933)**	(144)
Bonds[2]	6.3	**(1,107)**	(1,109)
Revolving credit facility[2]	6.3	**–**	(877)
Lease liabilities[2]	6.4	**(1,284)**	(1,299)
Foreign exchange forward contract	7.3	**–**	(1)
Fuel and energy price contracts	7.3	**(2)**	(1)
Non-current financial liabilities		**(2,393)**	(3,287)
Cash and cash equivalents		**296**	240
Net debt[1]		**(2,954)**	(3,169)

1 Net debt is defined in the Glossary on page 137.

Total net liabilities from financing activities (the sum of items marked 2 in the table) is £3,305m in the 39 weeks ended 31 October 2021 (31 January 2021: £3,411m). Of the £106m decrease (31 January 2021: £686m increase) in net liabilities from financing activities, £153m (31 January 2021: £612m) relates to cash movements offset by an increase of £47m (31 January 2021: £74m decrease) relating to non-cash movements.

Notes to the Group financial statements (continued)

6 Capital and borrowings (continued)

6.6 Called-up share capital

	Number of shares millions	Share capital £m	Share premium £m	**Total £m**
At 1 February 2021	2,410	241	201	**442**
Share options exercised and shares issued under LTIP schemes	40	4	51	**55**
At 31 October 2021	2,450	245	252	**497**

All issued shares are fully paid and have a par value of 10p per share (31 January 2021: 10p per share). The Group did not acquire any of its own shares for cancellation in the 39 weeks ended 31 October 2021 or the 52 weeks ended 31 January 2021. The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at the meetings of the Company.

Trust shares

Included in retained earnings is a deduction of £nil (31 January 2021: £19m) in respect of own shares held at the reporting date. In the prior year this represented the cost of 8,720,882 of the Group's ordinary shares (nominal value of £0.9m). Previously these shares were 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 trust has waived its right to dividends. These shares were not treasury shares as defined by the London Stock Exchange.

During the period, the Group acquired 1,455,420 (31 January 2021: none) of its own shares for a consideration of £3m (31 January 2021: nil) and issued 7,997,629 (31 January 2021: none) new shares at nominal value to hold in trust. The Group utilised 3,841,275 (31 January 2021: 5,494,159) trust shares to satisfy awards under the Group's employee share plans. As a result of the takeover of the Company, the remaining trust shares were transferred to CD&R on 28 October 2021.

Proceeds from exercise of share awards

The Group issued 32,228,906 (31 January 2021: 4,751,802) new shares to satisfy options exercised by employees during the period in respect of the Group's Sharesave schemes. Proceeds received on exercise of these shares amounted to £55m (31 January 2021: £9m), which has been presented as a £4m addition to share capital and a £51m addition to share premium in the period. In addition, the Group issued 7,997,629 (31 January 2021: nil) shares under the Group's Long Term Incentive Plan (LTIP) scheme for nominal value, which were held in trust to satisfy awards under the Group's employee share plans.

Settlement of share awards

During the 39 weeks ended 31 October 2021, the Group has settled 3,880,655 of share options out of trust shares which have vested during the period. The Group paid £8m (31 January 2021: £10m) in cash in the period on behalf of employees to settle the employees' tax liability on vesting of share options with a further £25m paid in cash after the end of the financial period. The cash payment of £23m in respect of the final share-based payment settlement was also made to employees (net of employees' tax liabilities) after the end of the financial period.

6.7 Reserves

	31 October 2021 £m	31 January 2021 £m
Capital redemption reserve	**39**	39
Merger reserve	**2,578**	2,578
Hedging reserve	**122**	(3)
Retained earnings*	**948**	1,160
Total	**3,687**	3,774

* Included in retained earnings is £28m relating to a gain on trust shares made when the trust shares were transferred to CD&R for proceeds of £41m on the takeover.

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.

6 Capital and borrowings (continued)

6.7 Reserves (continued)

Hedging reserve

In the 39 weeks ended 31 October 2021, various energy forward contracts previously taken out were closed early, realising cash earlier than expected. This gain of £118m has been recognised through the hedging reserve and will be released to the income statement based on the initial maturity dates of the contracts, on the basis that new replacement forward contracts have been reopened and therefore hedge accounting is still applied. At 31 October 2021, a total of £113m of this reserve related to these contracts.

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 objective is to safeguard its viability taking into consideration the risks that it faces. During the financial period to the point of the takeover by CD&R, the Group did this by maintaining an investment grade credit rating and having adequate liquidity headroom in line with its Treasury Policy, along with managing the capital structure by controlling the balance of debt and shares outstanding. Following the takeover, the debt profile of the Group has changed, with a larger quantum of secured and unsecured debt. Managing the Group's credit rating, maintaining liquidity headroom and monitoring cash generation will continue to be key elements of the Group's capital management activity. As set out in the Governance Report on page 32, the Company is subject to an Initial Enforcement Order, which requires that Morrisons and CD&R businesses are held separate until the Competition and Markets Authority has finalised its merger investigation. The Board will, therefore, review its capital management objectives in more detail in due course once the investigation is complete.

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 are recognised in other comprehensive income.

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

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

Notes to the Group financial statements (continued)

7 Financial risk and hedging (continued)

7.2 Financial risk management

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

The Board retains ultimate responsibility for treasury activity and is involved in key decision making, providing governance and oversight to treasury activity.

Liquidity risk

The Group policy is to maintain an appropriate maturity profile across its borrowings and a sufficient level of committed headroom to meet obligations. The Group finances its operations using 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 October 2021 was £1,078m (31 January 2021: £1,078m) across a number of banks and platforms. The level of utilisation is dependent on the individual supplier requirements and varies significantly over time, dependent on suppliers' requirements (see note 5.4).

Following the takeover of the Group by CD&R, the Group entered into discussions with various banks and platform providers to ensure the continued availability of the supply chain finance facilities. At the point of signing these consolidated financial statements, the supply chain finance facilities remain in place and suppliers utilising the facilities continue to receive payments earlier than their contractual terms. These discussions are ongoing, with an expectation that sufficient facilities will continue to be available going forward.

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

Cash and committed facilities

As at 31 October 2021, the Group has £296m (31 January 2021: £240m) of cash and cash equivalents and £2,650m (31 January 2021: £2,850m) of total committed facilities, comprising bond debt of £1,100m (31 January 2021: £1,100m) and £1,550m (31 January 2021: £1,750m) of committed bank facilities. As at 31 October 2021, the Group had £710m (31 January 2021: £870m) of undrawn committed bank facilities available.

As at 31 October 2021, the Group had a syndicated committed revolving credit facility of £1,350m, which had a contractual maturity date of June 2025. The revolving credit facility incurred committed fees and interest charges at a spread above LIBOR. The Group had £510m (31 January 2021: £470m) of undrawn committed headroom available on this facility as at 31 October 2021. On 8 November 2021 the syndicated committed revolving credit facility of £1,350m was repaid in full and cancelled by the Group (see note 10.3).

In the 39 weeks ended 31 October 2021 the maturity dates of three £100m 364 day committed revolving credit facilities were extended to September 2021 (£200m) and March 2022 (£100m). In addition, the Group had a further £100m revolving credit facility with an original maturity date of July 2020, which was extended to mature in July 2022. These committed facilities were undrawn as at 31 October 2021 (31 January 2021: undrawn). On 8 November 2021, all four £100m revolving credit facilities were cancelled by the Group.

All committed bank facilities in place at 31 October 2021 had 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). In the event of default of covenants, the principal amounts of borrowings and any interest accrued would be 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 October 2021, the Group had no borrowings on uncommitted facilities (31 January 2021: £54m). As at 31 October 2021, Wm Morrison Supermarkets Limited's senior unsecured debt obligations continued to be rated Baa2 with Moody's, but with the rating on review following the announcement of the takeover offer. Moody's then issued a rating action on 13 December 2021 downgrading to Ba1, with the rating remaining on review.

On 21 October 2021, Market Bidco Limited launched invitations to holders of each series of notes outstanding under the Company's £3bn Euro Medium Term Note Programme, to tender their Existing Notes at par plus an early tender premium, and to consent to certain amendments and waivers of the terms and conditions of the bonds on the terms and subject to the conditions set out in the tender offer and consent solicitation memorandum, dated 21 October 2021. Following the settlement of the Tender and Consent process on 2 December 2021, £265m of the Group's bonds remained outstanding. The purchase of the bonds tendered pursuant to the Tender Offers and related put rights was financed by the proceeds of additional drawdowns under the Term Loan B2 facilities. See note 10.3.

7 Financial risk and hedging (continued)

7.2 Financial risk management (continued)

Cash and committed facilities (continued)

The bond debt is presented as a non-current liability as at 31 October 2021. A Change of Control Waiver was signed during November 2021, meaning that upon completion of the takeover by CD&R, and in the event of a rating downgrade, the bond noteholders would not have the right to require the Company to redeem or purchase notes pursuant to the relevant condition.

On 8 November 2021, CD&R obtained £6,600m of debt facilities to finance the takeover of the Group. These comprise £2,400m Senior Secured Bridge Facility, £1,200m (equivalent, comprising £500m and EUR828m tranches) Senior Bridge Facility, EUR1,064m Term Loan B1, £1,100m Term Loan B2 facilities (equivalent, comprising £500m and EUR710m tranches), and £1bn multicurrency Senior Revolving Credit Facility. The Senior Secured Bridge Facility, Senior Bridge Facility and Term Loan B1 were drawn in full as at 8 November 2021. The £1,000m Revolving Credit Facility is for working capital purposes and is accessible by the Group and was drawn £100m as at 8 November 2021.

The Group policy is to maintain an appropriate maturity profile across its borrowings and a sufficient level of committed headroom to meet obligations. The Group finances its operations using a diversified range of funding providers including banks and bondholders. The Treasury Committee compares the committed liquidity available to the Group against the forecast requirements including policy headroom. This policy includes a planning assumption that supply chain finance facilities are not available.

Interest rate risk

The 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, 57% (31 January 2021: 54%) of the Group's borrowings are at a fixed interest rate. The reduction in the proportion of borrowings at fixed interest rates was 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 £10m post-tax profit or loss exposure in relation to the euro (31 January 2021: £8m) and £5m in relation to the US dollar (31 January 2021: £3m), 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 £31m for the hedged amount (31 January 2021: £34m).

Commodity price risk

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

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

A change of +/-10% in the market value of the commodity price at the reporting date would affect other comprehensive income by £31m (31 January 2021: £15m) for the hedged amount.

Notes to the Group financial statements (continued)

7 Financial risk and hedging (continued)

7.3 Derivative financial assets and liabilities

Derivative financial assets	31 October 2021 Fair Value £m	31 October 2021 Notional Value £m	31 January 2021 Fair Value £m	31 January 2021 Notional Value £m
Current				
Foreign exchange forward contracts	**2**	**122**	1	46
Fuel and energy price contracts	**31**	**99**	12	49
	33	**221**	13	95
Non-current				
Foreign exchange forward contracts	**–**	**7**	–	1
Fuel and energy price contracts	**43**	**79**	9	67
	43	**86**	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	31 October 2021 Fair Value £m	31 October 2021 Notional Value £m	31 January 2021 Fair Value £m	31 January 2021 Notional Value £m
Current				
Foreign exchange forward contracts	**7**	**306**	17	435
Fuel and energy price contracts	**12**	**71**	1	11
	19	**377**	18	446
Non-current				
Foreign exchange forward contracts	**–**	**–**	1	25
Fuel and energy price contracts	**2**	**25**	1	15
	2	**25**	2	40

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.

	31 October 2021 £m		31 January 2021 £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				
Forward contracts – cash flow hedges:				
Outflow	**(411)**	**(7)**	(462)	(23)
Inflow	**405**	**7**	445	23
Derivatives settled on a net basis				
Energy price contracts – cash flow hedges:				
Inflow	**19**	**41**	11	9

Cash flow hedges

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

Notes to the Group financial statements (continued)

8 Retirement benefits

8.1 Accounting policies

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

8.1.1 Defined benefit schemes

Retirement scheme assets are valued at fair market value as required by 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 retirement benefit 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 is as follows:

	31 October 2021 £m	31 January 2021 £m
CARE Schemes	**995**	754
RSP	**(28)**	(36)
Net retirement benefit surplus	**967**	718

The disclosures below show the details of the schemes combined:

Statement of financial position	**31 October 2021 CARE £m**	**31 October 2021 RSP £m**	31 January 2021 CARE £m	31 January 2021 RSP £m
Fair value of scheme assets	**5,259**	**417**	5,111	407
Present value of obligations	**(4,264)**	**(445)**	(4,357)	(443)
Net retirement benefit surplus/(deficit)	**995**	**(28)**	754	(36)

8 Retirement benefits (continued)

8.2 Defined benefit schemes: summary and description (continued)

Consolidated income statement:	39 weeks ended 31 October 2021 CARE £m	39 weeks ended 31 October 2021 RSP £m	52 weeks ended 31 January 2021 CARE £m	52 weeks ended 31 January 2021 RSP £m
Administrative costs paid by the Schemes – recognised in administrative expenses[2]	**2**	**2**	2	1
Settlement and curtailment gain	**(1)**	**–**	(3)	–
Net interest on net retirement benefit surplus/deficit – finance (income)/expense[2]	**(8)**	**–**	(16)	–
Total expense (credited)/charged to income statement	**(7)**	**2**	(17)	1
Consolidated statement of other comprehensive income:				
Remeasurements in other comprehensive income – (credit)/charge[1]	**(233)**	**(3)**	225	22

1 In the 39 weeks ended 31 October 2021, there was a £nil charge (31 January 2021: £1m) for the write off of a receivable balance relating to retirement benefits which was not part of the Net retirement benefit surplus.
2 Included within exceptional items, see note 1.4.

The Schemes are registered schemes under the provisions of Schedule 36 of the Finance Act 2004 and the assets are held in legally separate, trustee-administered funds. The 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 five 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:

	31 October 2021 CARE £m	31 October 2021 RSP £m	31 January 2021 CARE £m	31 January 2021 RSP £m
Equities (quoted)	**360**	**115**	560	126
Corporate bonds (quoted)	**900**	**28**	519	–
Diversified growth funds (quoted)	**–**	**–**	–	31
Credit funds (unquoted)	**385**	**–**	441	–
Liability driven investments (unquoted)*	**2,504**	**271**	2,628	249
Annuity policies (unquoted)	**1,087**	**–**	936	–
Cash (quoted)	**23**	**3**	27	1
	5,259	**417**	5,111	407

* Liability Driven Investments includes investments that are debt securities, cash, derivatives and pooled investment vehicles. It has been classed as unquoted because the investment has derivatives and pooled investment vehicles which are unquoted.

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 in the LDI portfolios.

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

8 Retirement benefits (continued)

8.3 Scheme assets (continued)

Annuity policies

During the 39 weeks ended 31 October 2021, the Safeway Scheme entered into a new buy-in policy that provides insurance for a proportion of the pensioner population. This policy is in addition to the three buy-in policies previously entered into by the Safeway Scheme and the one buy in policy previously entered into by the Morrison 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.

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:

	31 October 2021 CARE £m	**31 October 2021 RSP £m**	31 January 2021 CARE £m	31 January 2021 RSP £m
Fair value of scheme assets at start of period	**5,111**	**407**	5,013	389
Interest income	**57**	**5**	84	7
Return on scheme assets excluding interest	**170**	**6**	126	17
Employer contributions	**1**	**7**	2	3
Benefits paid	**(78)**	**(6)**	(112)	(8)
Administrative expenses	**(2)**	**(2)**	(2)	(1)
Fair value of scheme assets at end of period	**5,259**	**417**	5,111	407

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 until 2033 subject to certain conditions.

During the 52 weeks ended 31 January 2021, the Group and the Schemes' Trustees agreed to reorganise the limited partnership structure, so that future distributions were made to the RSP. The pension funding partnership structure was amended to permanently cease fixed distributions to the CARE Schemes. On the same day, the Group and the RSP entered into a new pension funding partnership. As a partner, the RSP is entitled to receive a fixed distribution of £7m per annum from the profits of the partnership for 13 years from 2020, subject to certain conditions. The fixed distribution is comparable to the distributions that would have been made under the previous partnership structure.

The fixed distributions made to the RSP are reflected in the consolidated financial statements as employer retirement benefit contributions. £7m of distributions were made in the 39 weeks ended 31 October 2021 (31 January 2021: £3m). The RSP's interest in the partnership reduces the scheme's deficit on a funding basis, although the agreement does not affect the position directly on an IAS 19 accounting basis, because the investment held by the RSP does not qualify as a scheme asset for Group IAS 19 purposes.

The Trustees of the Pension Schemes were concerned that the takeover by CD&R may weaken the Group's covenant and so sought protection in a downside scenario. CD&R worked quickly to address Trustee concerns and a legally binding agreement was signed well ahead of the auction process. The Memorandum of Understanding committed the Group to providing additional property security into the Schemes, which would cover the estimated s75 deficit, taking the total value of property security to at least £660m. No additional annual cash flows will be payable as a result of the agreement with CD&R and the security is only triggered in the event of an insolvency of the sponsoring employers. Implementation has progressed well and completed in February 2022.

8 Retirement benefits (continued)

8.4 Present value of obligations

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

	39 weeks ended 31 October 2021 CARE £m	39 weeks ended 31 October 2021 RSP £m	52 weeks ended 31 January 2021 CARE £m	52 weeks ended 31 January 2021 RSP £m
Defined benefit obligation at start of period	**(4,357)**	**(443)**	(4,053)	(405)
Interest expense	**(49)**	**(5)**	(68)	(7)
Actuarial gain/(loss) – demographic assumptions	**134**	**–**	(32)	–
Actuarial (loss)/gain – financial assumptions	**(57)**	**1**	(371)	(49)
Actuarial (loss)/gain – experience	**(14)**	**(4)**	52	10
Settlement and curtailment gain	**1**	**–**	3	–
Benefits paid	**78**	**6**	112	8
Defined benefit obligation at end of period	**(4,264)**	**(445)**	(4,357)	(443)

The durations of the defined benefit obligations at the end of 31 October 2021 reporting period are: RSP 18 years; Morrison CARE 21 years; Safeway CARE 18 years (31 January 2021: RSP 20 years; Morrison CARE 23 years; Safeway CARE 20 years). The weighted average duration of all the Schemes is 19 years (31 January 2021: 21 years).

8.4.1 Significant actuarial assumptions

The following are the principal actuarial assumptions at the reporting date:

Financial assumptions	**31 October 2021**	31 January 2021
Discount rate applied to scheme liabilities (% p.a.)		
Safeway CARE Scheme	**1.9%**	1.5%
Morrison CARE Scheme	**1.9%**	1.5%
RSP	**1.9%**	1.5%
Inflation assumption (RPI) (% p.a.)		
Safeway CARE Scheme	**3.6%**	3.0%
Morrison CARE Scheme	**3.5%**	3.0%
RSP	**3.5%**	3.0%
Life expectancies (CARE)		
Longevity in years from age 65 for current pensioners		
Male	**21.0**	21.1
Female	**22.5**	22.5
Longevity in years from age 65 for current members aged 45		
Male	**22.6**	22.8
Female	**24.4**	24.4

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 39 weeks ended 31 October 2021 are the S2PMA/S2PFA-Heavy tables (males/females) based on year of birth with a scaling factor of 110% applied to the mortality rates in both the Morrison and Safeway Schemes, with CMI 2020 core projections and a long-term rate of improvement of 1.5% pa. The mortality tables used for the 52 weeks ended 31 January 2021 are the S2PMA/S2PFA-Heavy tables (males/females) based on year of birth with a scaling factor of 110% applied to the mortality rates in both the Morrison and Safeway Schemes, with CMI 2019 core projections and a long-term rate of improvement of 1.5% pa.

Notes to the Group financial statements (continued)

8 Retirement benefits (continued)

8.4.1 Significant actuarial assumptions (continued)

Related actuarial assumptions

	31 October 2021	31 January 2021
Rate of increase of retirement benefits in payment: RPI inflation capped at either 2.5% p.a. or 5% p.a. (% p.a.)		
Safeway CARE Scheme	**2.2%/3.4%**	2.0%/2.9%
Morrison CARE Scheme	**2.2%/3.3%**	2.0%/2.9%
RSP	**–**	–
Rate of increase of retirement benefits in deferment: CPI inflation capped at either 2.5% p.a. or 5% p.a. (% p.a.)		
Safeway CARE Scheme	**–/3.0%**	–/2.3%
Morrison CARE Scheme	**–/2.9%**	–/2.3%
RSP	**2.3%/–**	2.3%/–
CPI inflation (% p.a.)	**2.30%**	2.30%/–
Safeway CARE Scheme	**3.0%**	2.3%
Morrison CARE Scheme	**2.9%**	2.3%
RSP	**2.9%**	2.3%

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.

		31 October 2021 CARE £m	**31 October 2021 RSP £m**	31 January 2021 CARE £m	31 Janaury 2021 RSP £m
Discount rate applied to Scheme obligations	+/- 0.1% p.a.	**-/+80**	**-/+8**	-/+90	-/+9
Inflation assumption (RPI and associated assumptions)	+/- 0.1% p.a.	**+/-60**	**–**	+/-70	+/-9
Longevity	+ one year	**+150**	**–**	+150	–

8.5 Funding

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

The latest 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 October 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 October 2021, schemes in surplus have been disclosed within the assets in the consolidated statement of financial position. The Group has obtained updated legal advice with regard to the recognition of a retirement benefit surplus and also recognition of a minimum funding requirement under IFRIC 14 'IAS19 – The limit on a defined benefit asset, minimum funding requirement and their interaction'. This advice concluded that recognition of a surplus is appropriate on the basis that the Group has an unconditional right to a refund of a surplus. In respect of the RSP this is on the basis that paragraph 11(a) of IFRIC 14 applies, enabling a refund of surplus during the life of the RSP. In respect of the Morrison Scheme, it is on the basis that paragraph 11(b) or 11(c) of IFRIC 14 applies, enabling a refund of surplus assuming the gradual settlement of the scheme liabilities over time until all members have left the scheme or the full settlement of the Scheme's liabilities in a single event (i.e. as a scheme wind up). In respect of the Safeway Scheme, a refund is available on the basis that paragraph 11(b) of IFRIC14 applies.

Notes to the Group financial statements (continued)

8 Retirement benefits (continued)

8.5 Funding (continued)

The current best estimate of Group contributions to be paid to the defined benefit schemes for the accounting period commencing 31 October 2021 is £9m (period commencing 31 January 2021: £8m). This estimate includes amounts payable from the Scottish Limited Partnership.

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 contribution paid, investment returns, and the form of benefit chosen at retirement. During the 39 weeks ended 31 October 2021, the Group paid contributions of £73m to the MPRS (31 January 2021: £97m), and expects to contribute £96m for the following period.

9 Share-based payments

9.1 Accounting policy

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

The fair value of share options was measured by use of the Black-Scholes model. The expected life used in the model was adjusted, based on management's best estimate, for effects of non-transferability, exercise restrictions and behavioural considerations. The charge in the period for share-based payments was £29m (31 January 2021: £20m).

9.2 Sharesave schemes

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

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

Grant date	14 May 2021	19 May 2020	17 May 2019	15 May 2018
Share price at grant date	£1.84	£1.88	£2.11	£2.55
Fair value of options granted	£6.8m	£6.8m	£6.3m	£13.2m
Exercise price	£1.45	£1.52	£1.78	£1.87
Dividend yield	5.90%	5.59%	4.6%	3.96%
Annual risk-free interest rate	0.18%	0.40%	0.71%	0.56%
Expected volatility[1]	21.25%	19.35%	20.61%	24.9%

1 The volatility measured at the standard deviation of expected share price returns was 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 had to save in order to purchase shares under the Sharesave plan was a non-vesting condition. This feature was incorporated into the fair value at grant date by applying a discount to the valuation obtained from the Black-Scholes option pricing model. The discount was determined by estimating the probability that the employee would stop saving based on expected future trends in the share price and employee behaviour. At 31 October 2021, the Sharesave plan is no longer applicable following the takeover of the Group by CD&R and the subsequent delisting of the Company's shares from the London Stock Exchange. All outstanding Sharesave schemes were cash settled with colleagues as a result of the takeover, after the reporting period.

Notes to the Group financial statements (continued)

9 Share-based payments (continued)

9.2 Sharesave schemes (continued)

	39 weeks ended 31 October 2021		52 weeks ended 31 January 2021	
	Weighted average exercise price in £ per share	**Options thousands**	Weighted average exercise price in £ per share	Options thousands
Movement in outstanding options				
Outstanding at start of period	**1.68**	**54,526**	1.83	51,306
Granted	**1.45**	**25,891**	1.52	28,060
Exercised	**1.70**	**(32,228)**	1.84	(4,752)
Forfeited	**1.53**	**(47,499)**	1.79	(20,088)
Outstanding at end of period	**–**	**690**	1.68	54,526
Exercisable at end of period	**–**	**690**	1.84	199

	39 weeks ended 31 October 2021			52 weeks ended 31 January 2021		
	Weighted average share price at date of exercise £	**Weighted average option price at date of exercise £**	**Number of shares thousands**	Weighted average share price at date of exercise £	Weighted average option price at date of exercise £	Number of shares thousands
Share options exercised in the financial period	**2.77**	**1.70**	**32,228**	1.90	1.84	4,752

	39 weeks ended 31 October 2021	52 weeks ended 31 January 2021
Share options outstanding at the end of the period		
Range of exercise prices	**n/a**	£1.52 to £1.87
Weighted average remaining contractual life	**n/a**	1.62 years

9.3 Long Term Incentive Plans (LTIPs)

Prior to the takeover by CD&R, the LTIP awards had no exercise price and accrued the value of dividends over the vesting period with the exception of senior employees within the schemes granted in 2020. The schemes granted in 2020 were due to vest in 2023 and 2024.

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

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

Grant date	19 March 2021	6 Oct 2020	31 March 2020	14 Oct 2019	19 April 2019	18 Sept 2018	22 March 2018	24 Oct 2017	22 March 2017	25 Oct 2016
Option fair value at grant date	£1.77	£1.71	£1.79	£1.96	£2.23	£2.62	£2.09	£2.34	£2.37	£2.28
Fair value of share awards	£28.4m	£3.2m	£29.3m	£1.0m	£27.2m	£0.9m	£27.3m	£2.0m	£29.4m	£9.2m

	39 weeks ended 31 October 2021	52 weeks ended 31 January 2021
	Share awards thousands	Share awards thousands
Movement in outstanding share awards		
Outstanding at start of period	**37,586**	33,985
Granted	**16,085**	18,273
Exercised	**(16,827)**	(8,920)
Forfeited	**(36,844)**	(5,752)
Outstanding at end of period	**–**	37,586
Exercisable at end of period	**–**	–

The weighted average remaining contractual life of the share awards is nil years (31 January 2021: 1.3 years).

9 Share-based payments (continued)

9.3 Long Term Incentive Plans (LTIPs) (continued)

At 31 October 2021, LTIP awards are no longer relevant following the takeover of the Group by CD&R and the subsequent delisting of its shares from the London Stock Exchange. All invested LTIP schemes were cash settled on a pro-rata basis after the period end.

9.4 Deferred share bonus plan

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

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

Grant date	**2021/22 scheme**	2020/21 scheme
Share price at grant date	**£1.75**	£1.80
Exercise price	**£nil**	£nil
Fair value of share awards granted	**£3.2m**	£1.3m

	39 weeks ended 31 October 2021	52 weeks ended 31 January 2021
	Share awards thousands	Share awards thousands
Movement in outstanding share awards		
Outstanding at start of period	**2,821**	3,373
Granted	**1,800**	695
Exercised	**(4,621)**	(1,247)
Outstanding at end of period	**–**	2,821

The weighted average remaining contractual life of the share awards is nil years (31 January 2021: 0.9 years).

At 31 October 2021, share awards are no longer relevant following the takeover of the Group by CD&R and the subsequent delisting of its shares from the London Stock Exchange. All deferred share bonus plan awards were cash settled after the period end.

10 Other

10.1 Related party transactions

The Group's related party transactions in the period include the remuneration of the senior managers, the Directors' emoluments and retirement benefit entitlements, share awards and share options (see note 1.6).

Following the takeover of Wm Morrison Supermarkets Limited by Market Bidco Limited on 27 October 2021, the ultimate parent undertaking and controlling party of the Wm Morrison Supermarkets Limited Group is Market Topco Limited. Market Bidco Limited and Market Topco Limited were incorporated by Clayton, Dubilier and Rice's Fund XI for the purposes of acquiring Wm Morrison Supermarkets Limited. The investment into Market Topco Limited was made by a vehicle owned by Clayton, Dubilier & Rice Fund XI, L.P. and certain commonly-managed parallel and related investment vehicles thereof. During the 39 weeks ended 31 October 2021 there were no transactions with these entities.

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

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 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 £30m (31 January 2021: £29m).

Equal pay claim

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

Notes to the Group financial statements (continued)

10 Other (continued)

10.2 Guarantees, contingent liabilities and contingent assets (continued)

Interchange fee claim

The Group, along with other claimants, has had an ongoing claim against Mastercard in respect of bank interchange fees. The Supreme Court determined the fixing of interchange fees by Mastercard over many years was an unlawful infringement of competition law. The Supreme Court's definitive decision means that the case continues towards a quantum hearing to determine what level of damages will be payable to the Group. The quantum trial is currently listed to be heard in January 2023. 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 39 weeks ended 31 October 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 which were recognised in the prior period.

Wholesale customer risk

The Group is aware of the recent market updates made by its wholesale customer, McColl's Retail Group plc, concerning deteriorating financial position, which could impact the recoverability of ongoing accounts receivable balances and the Group's ability to recover value from assets associated with the related wholesale supply contract. Given we continue to trade with this customer, and a payment plan is in place, no liability has been recognised in these financial statements for an exposure at this stage but there exists a contingent liability at the date of signing. Should the relationship be terminated, Morrisons may potentially remain subject to continuing contractual commitments. As disclosed in note 5.3, £97m of the £97m of the wholesale accounts receivable as at 31 October 2021 has been recovered.

The ongoing potential exposure based on the normal level of trade receivables, the other assets on the balance sheet and the potentially onerous contract could be in the region of £65m to £130m.

Other

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

10.3 Post-balance sheet events

Employee incentive schemes

All long term incentive plans and other employee share incentive schemes automatically vested on the takeover and therefore a full vest has been accounted for in the financial period to 31 October 2021. These awards were settled in cash through Wm Morrison Supermarkets Limited's payroll on 19 November 2021, for a cash value of £42m.

Sharesave ('SAYE')

Up until the takeover by CD&R, the Group's Sharesave participants were able to buy shares at the option price for the schemes. Where participants provided their instruction by 17 October 2021, their share options were exercised following Court Approval on 26 October 2021, with CD&R transferring funds to the participants on 10 November 2021. This was accounted for in the financial period ended 31 October 2021. In addition to the above, a goodwill cash payment of £6m was made to employees on 19 November 2021, which represented the profit that Sharesave participants would have made for an additional three month period, also accounted for in the financial period ended 31 October 2021.

Repayment of the Revolving Credit Facility

The Group's revolving credit facilities were paid back during November 2021, after the reporting date. These facilities were replaced by interest free intercompany funding provided by Market Bidco Limited, the intermediate parent company. The value of the loan entered into is £1,576m.

Repayment of bonds

A bond repurchase process was held on 2 December 2021, where bondholders were given the opportunity to sell their bonds and receive accrued interest, along with an incentive premium. £805m of bonds were repaid early, in addition to £9m of accrued interest and a further £3m of premium. On 8 December 2021, there was a further bond repurchase. £31m of the bonds were repaid early, in addition to £1m accrued interest. There was no additional premium awarded on this repurchase.

Competition and Markets Authority

On 24 March 2022, the CMA issued its Phase 1 decision finding that the merger between Morrisons and CD&R gives rise to a realistic prospect of a substantial lessening of competition with regards to the retail supply of road fuel (petrol and diesel) in 121 local areas within the UK. The companies have until 31 March 2022 to offer undertakings to the CMA, subsequent to which the CMA will give consideration as to whether to accept the companies' undertakings in lieu of a reference to a Phase 2 investigation. Any Phase 2 process would take up to 24 weeks - extendable by a further 8 weeks (see page 11 for more details).

Wm Morrison Supermarkets Limited
Company statement of financial position

	Note	31 October 2021 £m	31 January 2021 £m
Fixed assets			
Intangible assets	11.6	**304**	309
Property, plant and equipment	11.7	**2,414**	2,450
Right-of-use assets	11.8	**1,019**	1,090
Investment property	11.9	**25**	22
Investments	11.10	**307**	307
Investment in joint venture	11.11	**31**	31
		4,100	4,209
Current assets			
Inventories		**568**	514
Debtors – amounts falling due within one year	11.12	**9,450**	5,319
Debtors – amounts falling due after more than one year	11.13	**8**	8
Pension asset due after more than one year	11.20	**367**	291
Derivative financial assets due within one year	11.17	**33**	13
Derivative financial assets due after more than one year	11.17	**43**	9
Current tax asset		**94**	137
Cash and cash equivalents		**200**	156
		10,763	6,447
Creditors – amounts falling due within one year	11.14	**(8,751)**	(3,667)
Lease liabilities due within one year	11.16	**(94)**	(99)
Derivative financial liabilities due within one year	11.17	**(19)**	(18)
		(8,864)	(3,784)
Net current assets		**1,899**	2,663
Total assets less current liabilities		**5,999**	6,872
Creditors – amounts falling due after more than one year	11.15	**(1,107)**	(1,986)
Lease liabilities due after more than one year	11.16	**(1,307)**	(1,331)
Derivative financial liabilities due after more than one year	11.17	**(2)**	(2)
Deferred tax liabilities	11.18	**(205)**	(109)
Provisions for liabilities	11.19	**(51)**	(46)
		(2,672)	(3,474)
Net assets		**3,327**	3,398
Shareholders' equity			
Share capital	11.21	**245**	241
Share premium	11.21	**252**	201
Capital redemption reserve	11.22	**39**	39
Merger reserve	11.22	**940**	940
Retained earnings and other reserves[1]	11.22	**1,851**	1,977
Total shareholders' funds		**3,327**	3,398

1 Included within Retained earnings and other reserves is loss after tax of £173m (31 January 2021: £45m profit). After adjusting for exceptionals, profit before exceptionals after tax is £40m (31 January 2021: £28m).

The accounting policies on pages 114 to 116 and the notes on pages 116 to 131 form part of these financial statements.
The financial statements on pages 112 to 131 were approved by the Board of Directors and authorised for issue on 29 March 2022.
They were signed on its behalf by:

Michael Gleeson, Chief Financial Officer
Company registration number: 00358949

Wm Morrison Supermarkets Limited
Company statement of changes in equity

	Note	Share capital £m	Share premium £m	Capital redemption reserve £m	Merger reserve £m	Hedging reserve £m	Retained earnings £m	Total shareholders' funds £m
Current period								
At 1 February 2021		**241**	**201**	**39**	**940**	**(3)**	**1,980**	**3,398**
Loss for the period		**–**	**–**	**–**	**–**	**–**	**(173)**	**(173)**
Other comprehensive income/(expense):								
Cash flow hedging movement		**–**	**–**	**–**	**–**	**167**	**–**	**167**
Remeasurement of defined benefit schemes	11.20	**–**	**–**	**–**	**–**	**–**	**76**	**76**
Tax in relation to components of other comprehensive income	11.18	**–**	**–**	**–**	**–**	**(42)**	**(32)**	**(74)**
Total comprehensive income/(expense) for the period		**–**	**–**	**–**	**–**	**125**	**(129)**	**(4)**
Employee share option schemes:								
Share-based payments charge	11.5	**–**	**–**	**–**	**–**	**–**	**16**	**16**
Settlement of share awards	6.6	**–**	**–**	**–**	**–**	**–**	**(56)**	**(56)**
Share options exercised	6.6	**4**	**51**	**–**	**–**	**–**	**–**	**55**
Sale of trust shares	6.7	**–**	**–**	**–**	**–**	**–**	**41**	**41**
Dividends	1.7	**–**	**–**	**–**	**–**	**–**	**(123)**	**(123)**
Total transactions with owners		**4**	**51**	**–**	**–**	**–**	**(122)**	**(67)**
At 31 October 2021		**245**	**252**	**39**	**940**	**122**	**1,729**	**3,327**

		Attributable to the owners of the Company						
	Note	Share capital £m	Share premium £m	Capital redemption reserve £m	Merger reserve £m	Hedging reserve £m	Retained earnings £m	Total shareholders' funds £m
Prior period								
At 3 February 2020		240	192	39	940	(37)	2,282	3,656
Profit for the period		–	–	–	–	–	45	45
Other comprehensive income/(expense):								
Cash flow hedging movement		–	–	–	–	41	–	41
Remeasurement of defined benefit schemes	11.20	–	–	–	–	–	(103)	(103)
Tax in relation to components of other comprehensive income/(expense)	11.18	–	–	–	–	(7)	16	9
Total comprehensive income/(expense) for the period		–	–	–	–	34	(42)	(8)
Employee share option schemes:								
Share-based payments charge	11.5	–	–	–	–	–	10	10
Settlement of share awards	6.6	–	–	–	–	–	(9)	(9)
Share options exercised	6.6	1	9	–	–	–	–	10
Dividends	1.7	–	–	–	–	–	(261)	(261)
Total transactions with owners		1	9	–	–	–	(260)	(250)
At 31 January 2021		241	201	39	940	(3)	1,980	3,398

The accounting policies on pages 114 to 116 and the notes on pages 116 to 131 form part of these financial statements.

Wm Morrison Supermarkets Limited
Company accounting policies

11 Company financial statements

11.1 General information

The principal activity of Wm Morrison Supermarkets Limited (the 'Company'), formerly known as Wm Morrison Supermarkets PLC, is the operation of retail supermarket stores under the Morrisons brand and associated activities. The Company is incorporated and domiciled in the United Kingdom and following the delisting of its shares from the London Stock Exchange on 28 October 2021 was re-registered as a private limited company on 17 November 2021. The address of its registered office is Hilmore House, Gain Lane, Bradford, BD3 7DL, United Kingdom.

11.2 Basis of preparation

The financial statements have been prepared for the 39 weeks ended 31 October 2021 (52 weeks ended 31 January 2021).
In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the UK (UK-adopted international accounting standards), but makes amendments where necessary in order to comply with the Companies Act 2006 and to take advantage of FRS 101 disclosure exemptions.

On 31 December 2020, EU-adopted IFRS was brought into UK law and became UK-adopted international accounting standards, with future changes to IFRS being subject to endorsement by the UK Endorsement Board. In preparing these financial statements in accordance with FRS 101, the Company financial statements transitioned to UK-adopted international accounting standards (as described above) from the start of the financial period. There is no impact on recognition, measurement or disclosure in the period reported as a result of this change. The disclosure exemptions adopted by the Company in preparation of these financial statements in accordance with FRS 101 are as follows:

a) IFRS 2 'Share-based payment' (paragraphs 45(b) and 46 to 52) – details of the number and weighted-average exercise prices of share options, and how the fair value of goods or services received was determined;

b) IFRS 7 'Financial Instruments: Disclosures';

c) IFRS 13 'Fair value measurement' (paragraphs 91 to 99) – disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities;

d) IFRS 16 'Leases':
   (i) paragraph 52 (single lease disclosure note);
   (ii) paragraph 58 (maturity analysis); and
   (iii) the second sentence of paragraph 89, paragraphs 90-91, 93 (lessor disclosures);

e) IAS 1 'Presentation of financial statements' (paragraph 38) – comparative information requirements in respect of:
   (i) paragraph 79(a)(iv) of IAS 1;
   (ii) paragraph 73(e) of IAS 16 'Property, plant and equipment';
   (iii) paragraph 118(e) of IAS 38 'Intangible assets' – reconciliations between the carrying amount at the beginning and end of the period; and
   (iv) paragraphs 76 and 79(d) of IAS 40 'Investment property';

f) The following paragraphs of IAS 1 'Presentation of financial statements':
   (i) 10(d) (statement of cash flows);
   (ii) 111 (cash flow statement information); and
   (iii) 134-136 (capital management disclosures);

g) IAS 7 'Statement of cash flows';

h) IAS 8 'Accounting policies, changes in accounting estimates and errors' (paragraphs 30 and 31) – requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective;

i) The following requirements of IAS 24 'Related party disclosures':
   (i) paragraph 17 – key management compensation; and
   (ii) the requirements to disclose related party transactions entered into with two or more wholly owned members of a group.

In addition to the FRS 101 exemptions above, the Company has taken advantage of the exemption available under section 408 of the Act and not presented a profit and loss account for the Company.

The financial statements have been prepared on a going concern basis under the historical cost convention except as disclosed in the Summary of accounting policies in note 11.3. The Company's accounting policies have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Wm Morrison Supermarkets Limited
Company accounting policies (continued)

11 Company financial statements (continued)

11.2 Basis of preparation (continued)

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are the same for the Company as they are for the Group. For further details, see page 69 and 70.

New accounting standards, amendments and interpretations adopted by the Company

There have been no new standards, interpretations and amendments to standards which are mandatory for the Company for the first time for the 39 weeks ended 31 October 2021, which have a material impact on the Company's financial statements.

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

There are a number of standards and interpretations issued by the IASB that are effective for financial statements after this reporting period. Of these new standards, amendments and interpretations, there are none that are expected to have a material impact on the Company's financial statements.

Accounting reference date

The Company has changed its accounting reference date from 31 January to 31 October. Consequently these financial statements cover the 39 week period to 31 October 2021. The comparative period covers the 52 weeks to 31 January 2021. The accounting period of the Company ends on a Sunday not more than seven days before or after the accounting reference date of 31 October.

11.3 Summary of accounting policies

The accounting policies listed below are the same for the Company as for the Group. As such, for further detail see the following notes:

a) Revenue recognition (1.1);
b) Cost of sales (1.1);
c) Promotional funding and commercial income (1.1);
d) Other operating income (1.1);
e) Taxation (2.1);
f) Intangible assets (3.1);
g) Property, plant and equipment (3.1);
h) Right-of-use assets (3.1);
i) Investment property (3.1);
j) Impairment of non-financial assets (3.1);
k) Lease – Group is the lessor (3.1);
l) Inventories (5.1);
m) Trade and other receivables (5.1);
n) Cash and cash equivalents (5.1);
o) Trade and other payables (5.1);
p) Provisions (5.1);
q) Borrowings and borrowing costs (6.1);
r) Lease liabilities (6.1);
s) Share capital (6.1);
t) Derivative financial instruments and hedge accounting (7.1);
u) Pensions (8.1); and
v) Share-based payments (9.1).

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

Investments

Investments in subsidiary undertakings and joint ventures are stated at cost less provision for impairment.

All other equity instruments are held for long-term investment and are measured at fair value. Gains or losses arising from changes in the fair value are presented in the profit and loss account within finance income or expenses in the period in which they arise.

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

Wm Morrison Supermarkets Limited
Company accounting policies (continued)

11 Company financial statements (continued)

11.3 Summary of accounting policies (continued)

Amounts owed to/by Group undertakings
Amounts owed to/by Group undertakings are initially recorded at fair value, which is generally the proceeds received. They are subsequently carried at amortised cost. The amounts are non-interest bearing and repayable on demand.

Contingent liabilities
Contingent liabilities are possible obligations whose existence will be confirmed only on the occurrence or non-occurrence of uncertain future events outside the Company's control, or present obligations that are not recognised because it is not probable that an outflow of economic benefits will be required to settle the obligation or the amount cannot be measured reliably. The Company does not recognise contingent liabilities but does disclose any such balances (see note 11.24). 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. The Company and various of its subsidiaries are, from time to time, parties to legal proceedings and claims which arise in the ordinary course of business. The directors do not anticipate that the outcome of these proceedings, actions and claims, either individually or in aggregate, will have a material adverse effect upon the Group's financial position.

Financial guarantees
Where the Company enters into financial contracts to guarantee the indebtedness of other companies within its Group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

Notes to the Company financial statements

11.4 Profit and loss account
The loss after tax for the Company for the 39 weeks ended 31 October 2021 was £173m (31 January 2021: £45m profit). After adjusting for exceptional items, profit before exceptionals after tax is £40m (31 January 2021: £28m). The profit before exceptionals after tax in the 39 weeks ended 31 October 2021 includes dividends received from subsidiary undertakings of £nil (31 January 2021: £nil).

	39 weeks ended 31 October 2021 £m	52 weeks ended 31 January 2021 £m
Employee benefit expense for the Company during the period		
Wages and salaries	**712**	963
Social security costs	**54**	76
Other pensions costs	**46**	60
Share-based payments	**1**	10
	813	1,109

In the 39 weeks ended 31 October 2021, there was £15m of exceptional costs in addition to the employee benefit expenses shown in the table above.

The average monthly number of people, including Directors, employed by the Company is 59,447 (31 January 2021: 61,734).

The Company's auditor, PricewaterhouseCoopers LLP charged £0.7m (31 January 2021: £0.7m) for audit services in the year and £0.2m (31 January 2021: £0.2m) for other services.

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

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

The charge in the period for share-based payments was £16m (31 January 2021: £10m) of which £15m was classified as an exceptional cost as it was associated with the acceleration of incentive scheme following the takeover.

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

11 Company financial statements (continued)

11.5 Share-based payments (continued)

Further details of the Company's share schemes are disclosed in note 9, including:

a) a description of the type of share-based payment arrangements that existed during the reporting period, including general terms and conditions, maximum terms of options granted, and the method of entitlement;

b) weighted average share price information in respect of options exercised during the reporting period; and

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

At 31 October 2021, all share-based payment incentive schemes are no longer relevant following the takeover of the Group by CD&R and the subsequent delisting of the Company's shares from the London Stock Exchange. All outstanding schemes were cash settled with colleagues after the period end.

11.6 Intangible assets

	£m
Cost	
At 1 February 2021	**564**
Additions	**62**
Interest capitalised	**1**
Disposals	**(15)**
Fully written down assets	**(36)**
At 31 October 2021	**576**
Accumulated amortisation and impairment	
At 1 February 2021	**255**
Amortisation charge for the period	**59**
Impairment	**10**
Impairment write back	**(1)**
Disposals	**(15)**
Fully written down assets	**(36)**
At 31 October 2021	**272**
Net book amount at 31 October 2021	**304**

Intangibles include software development costs and licences. Within this asset class, there are assets under construction of £14m (31 January 2021: £13m). The net book amount of licences at 31 October 2021 totals £10m (31 January 2021: £11m).

The Company 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 have been retained in the Company's fixed asset register. In order to provide greater understanding of the Company's annual amortisation charge, assets which have become fully amortised in the year have been removed from both cost and accumulated amortisation.

The cost of financing asset developments prior to them being ready for use has been included in the cost of the project. The cumulative amount of interest capitalised in the total cost above amounts to £23m (31 January 2021: £44m). Interest is capitalised at the effective interest rate of 4% (31 January 2021: 4%) incurred on borrowings.

11 Company financial statements (continued)

11.7 Property, plant and equipment

	Freehold land £m	Freehold buildings £m	Leasehold property improvements £m	Plant, equipment, fixtures and vehicles £m	**Total £m**
Cost					
At 1 February 2021	880	1,567	521	1,140	**4,108**
Additions	3	12	1	119	**135**
Interest capitalised	–	–	–	1	**1**
Transfers from right-of-use assets	–	–	–	10	**10**
Disposals	(4)	(1)	–	(19)	**(24)**
Fully written down assets	–	–	–	(59)	**(59)**
At 31 October 2021	879	1,578	522	1,192	**4,171**
Accumulated depreciation and impairment					
At 1 February 2021	120	755	276	507	**1,658**
Depreciation charge for the period	–	28	10	108	**146**
Impairment	8	11	16	28	**63**
Impairment write back	(20)	(10)	(6)	(6)	**(42)**
Transfers from right-of-use assets	–	–	–	5	**5**
Disposals	(3)	(1)	–	(10)	**(14)**
Fully written down assets	–	–	–	(59)	**(59)**
At 31 October 2021	105	783	296	573	**1,757**
Net book amount at 31 October 2021	774	795	226	619	**2,414**

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

Included in the table above is a cost of £879m (31 January 2021: £880m) relating to non-depreciable land and £6m (31 January 2021: £2m) of assets under construction.

The cost of financing asset developments prior to them being ready for use has been included in the cost of the project. The cumulative amount of interest capitalised in the total cost above amounts to £71m (31 January 2021: £71m). Interest is capitalised at the effective interest rate of 4% (31 January 2021: 4%) incurred on borrowings.

The Company considers that each store location is a separate cash generating unit (CGU) and therefore considers every location for impairment at each period end. The Company calculates each location's recoverable amount and compares this amount to its book value. The recoverable amount is determined as the higher of 'value in use' and 'fair value less costs of disposal'. If the recoverable amount is less than the book value, an impairment charge is recognised. The methodology applied by the Company is the same methodology as applied by the Group, see note 3.3 for further details. Consistent with the Group, the methodology applied by the Company changed in the previous period ended 31 January 2021 to include cash flows from online store pick as part of the store location CGU assessment, where a reliable store pick trading history has been established. This has been included on the basis that the expansion in online store pick is serviced from store locations to the same pool of customers directly serviced by the store.

Having applied the methodology and assumptions, the Company has recognised a net impairment charge of £21m (£63m impairment charge offset by £42m impairment write-back) during the period in respect of property, plant and equipment (31 January 2021: net £49m impairment write back; £64m impairment write back offset by £15m impairment charge). This movement reflects fluctuations from store level trading performance and local market conditions and maturity of online store pick locations.

At 31 October 2021, the assumptions to which the value in use calculation is most sensitive to are the discount and cash flow growth rates. The Company has estimated a possible change of +1% discount rate or -1% growth rate would result in a c.£9m loss and a -1% discount rate or +1% growth rate would result in a c.£4m gain. The impairment model is also sensitive to the inclusion of store pick in individual CGUs which could impact future impairment assessments.

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

11 Company financial statements (continued)

11.8 Right-of-use assets

	Leasehold land and buildings £m	Leased plant, equipment, fixtures and vehicles £m	**Total £m**
Cost			
At 1 February 2021	2,097	128	**2,225**
Additions	12	34	**46**
Transfer to property, plant and equipment	–	(10)	**(10)**
Disposals	(5)	–	**(5)**
Fully written down assets	(1)	(33)	**(34)**
At 31 October 2021	2,103	119	**2,222**
Accumulated depreciation and impairment			
At 1 February 2021	1,053	82	**1,135**
Depreciation charge for the period	54	15	**69**
Net impairment charge	60	–	**60**
Impairment write back	(17)	–	**(17)**
Transfer to property, plant and equipment	–	(5)	**(5)**
Disposals	(5)	–	**(5)**
Fully written down assets	(1)	(33)	**(34)**
At 31 October 2021	1,144	59	**1,203**
Net book amount at 31 October 2021	959	60	**1,019**

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

Impairment

Having applied the methodology and assumptions set out in section 11.7, the Company has recognised a net impairment charge of £43m (£60m impairment charge offset by £17m impairment write back) during the period in respect of right-of-use assets (31 January 2021: net £29m impairment write back; £43m write back of impairment offset by £14m impairment charge). This movement reflects fluctuations from store level trading performance and local market conditions.

At 31 October 2021, the assumptions to which the value in use calculation is most sensitive to are the discount and cash flow growth rates. The Company has estimated a change of +1% discount rate or -1% growth rate would result in a c.£2m loss and a -1% discount rate or +1% growth rate would result in a c.£3m gain. The impairment model is also sensitive to the inclusion of store pick in individual CGUs which could impact future impairment assessments.

11 Company financial statements (continued)

11.9 Investment property

	Freehold £m	Leasehold £m	**Total £m**
Cost			
At 1 February 2021 and at 31 October 2021	23	74	**97**
Accumulated depreciation and impairment			
At 1 February 2021	13	62	**75**
Depreciation charge	–	1	**1**
Impairment write back	–	(4)	**(4)**
At 31 October 2021	13	59	**72**
Net book amount at end of period	10	15	**25**

Included in other operating income is £4m (52 weeks ended 31 January 2021: £4m) of rental income generated from investment properties. At the end of the period the fair value of freehold investment properties was £14m (31 January 2021: £14m), with leasehold investment properties supported by their value in use. Freehold investment properties are valued by independent surveyors on a vacant possession basis using observable inputs (fair value hierarchy level 2).

11.10 Investments

	31 October 2021 £m	31 January 2021 £m
Net book amount		
At start of period	**307**	6
Additions	**–**	301
At end of period	**307**	307

The Company continues to hold an investment of £297m in Wm Morrison Property Partnership 4 Limited Partnership as its Capital partner as part of the Scottish Limited Partnership arrangement, as detailed on pages 126 to 127.

In addition to the above, the Company continues to hold a £6m investment in Chippindale Foods Limited, a £4m investment in Lowlands Nursery Limited, and investments in other related undertakings, which in aggregate are less than £1m as at 31 October 2021.

The Directors believe that the carrying value of these investments is supported by their underlying net assets. A list of all of the Company's related undertakings at the reporting date is shown on page 132 to 134.

11.11 Investment in joint venture

The Company's interest in joint venture comprises its interest in MHE JVCo Limited, which is jointly owned and controlled with a third party, Ocado Operating Limited. During the 39 weeks ended 31 October 2021, the Company received £nil (52 weeks ended 31 January 2021: £8m) of dividend income from its investment. The carrying value of the Company's investment in the joint venture at 31 October 2021 is £31m (31 January 2021: £31m). The Company has assessed this investment for impairment as at the reporting date and accordingly recognised no impairment for the period (31 January 2021: an impairment charge of £8m) in respect of its investment. The Directors believe that the carrying value of this investment is supported by its underlying net assets.

11 Company financial statements (continued)

11.12 Debtors – amounts falling due within one year

	31 October 2021 £m	31 January 2021 £m
Trade debtors	**212**	168
Amounts owed by Group undertakings	**9,105**	5,019
Prepayments and accrued income	**92**	132
Other receivables	**41**	–
	9,450	5,319

Amounts owed by Group undertakings are unsecured and repayable on demand.

Provision for impairment of amounts owed by Group undertakings have been assessed based on lifetime expected credit losses. As all balances are repayable on demand, and the Company expects to be able to recover the outstanding intercompany balances if demanded, no provision has been recognised in the 39 weeks ended 31 October 2021 (39 weeks ended 31 October 2021: £nil).

11.13 Debtors – amounts falling due after more than one year

	31 October 2021 £m	31 January 2021 £m
Finance leases – Company is lessor	**8**	8

The Company is the lessor on a diverse portfolio of leases for property – for example retail units located by stores. Most property leases contain rent review terms that require rents to be adjusted upwards on a periodic basis. The rent reassessments are normally based on changes in market rate or capped increase in measures of inflation.

Finance leases
The table below summarises the maturity profile of undiscounted finance lease payments that are due to the Company.

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

No finance lease income has been recognised in the 39 weeks ended 31 October 2021 (52 weeks ended 31 January 2021: £nil).

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

	31 October 2021 £m	31 January 2021 £m
Less than one year	**6**	5
One to two years	**4**	4
Two to three years	**4**	4
Three to four years	**3**	3
Four to five years	**3**	3
More than five years	**15**	13
Total undiscounted lease payments receivable	**35**	32

Operating lease income of £6m has been recognised in the 39 weeks ended 31 October 2021 (52 weeks ended 31 January 2021: £7m). This includes £nil (52 weeks ended 31 January 2021: £nil) relating to variable lease payments that do not depend on an index or rate.

11 Company financial statements (continued)

11.14 Creditors – amounts falling due within one year

	31 October 2021 £m	31 January 2021 £m
Trade creditors	**2,501**	1,936
Other short-term borrowings	**838**	54
Amounts owed to Group undertakings	**4,885**	1,238
Other taxation and social security	**70**	33
Other creditors	**129**	95
Accruals and deferred income	**328**	311
	8,751	3,667

Amounts owed to Group undertakings within one year are unsecured and repayable on demand.

11.15 Creditors – amounts falling due after more than one year

	31 October 2021 £m	31 January 2021 £m
£250m sterling bonds 4.625% December 2023	**250**	249
£250m sterling bonds 3.50% July 2026	**264**	267
£250m sterling bonds 4.75% July 2029	**246**	246
£350m sterling bonds 2.5% October 2031	**347**	347
Revolving credit facility	**–**	877
	1,107	1,986

As at 31 October 2021, there are £676m (31 January 2021: £948m) of contractual, undiscounted creditor payments (including interest) falling due after more than five years. If lease liabilities are included on a consistent basis, the amounts falling due after more than five years are £2,047m (31 January 2021: £2,389m).

In addition to the bonds detailed in the table above, the Company has the following borrowing facilities:

The Company has a syndicated committed revolving credit facility of £1,350m, which has a contractual maturity date of June 2025. The revolving credit facility incurs committed fees and interest charges at a spread above LIBOR. The Company had £510m (31 January 2021: £470m) of undrawn committed headroom available on this facility as at 31 October 2021. On 8 November 2021 the syndicated committed revolving credit facility of £1,350m was repaid in full and cancelled by the Company.

In the 39 weeks ended 31 October 2021 the maturity dates of three £100m 364 day committed credit facilities were extended to September 2021 (£200m) and March 2022 (£100m). In addition the Company 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 11.25). The committed facilities were undrawn as at 31 October 2021 (31 January 2021: undrawn). On 8 November 2021 all four £100m revolving credit facilities were cancelled by the Group.

The Company 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 October 2021, the Company had no borrowings on uncommitted facilities (31 January 2021: £54m).

Wm Morrison Supermarkets Limited

Notes to the Company financial statements (continued)

11 Company financial statements (continued)

11.16 Lease liabilities

	31 October 2021 £m	31 January 2021 £m
Current lease liabilities	**94**	99
Non-current lease liabilities	**1,307**	1,331
	1,401	1,430

The Company is the lessee on a diverse portfolio of leases for property and equipment, with the vast majority of lease liabilities relating to property (see notes 11.8 and 11.9). Certain property leases contain rent review terms that require rents to be adjusted on a periodic basis which may be subject to market rent or capped increases in inflation measurements. In addition, certain property leases contain break clauses that would allow the Company to exit leases early.

	39 weeks ended 31 October 2021 £m	52 weeks ended 31 January 2021 £m
Total cash outflow for lessee leases	**132**	210
Interest expense on lease liabilities	**43**	60
Expense for short-term leases longer than one month	**9**	16
Expense for leases of low-value assets, excluding short-term	**2**	2

11.17 Derivative financial assets and liabilities

Derivative financial assets	31 October 2021 Fair Value £m	31 October 2021 Notional Value £m	31 January 2021 Fair Value £m	31 January 2021 Notional Value £m
Current				
Foreign exchange forward contracts	**2**	**122**	1	46
Fuel and energy price contracts	**31**	**99**	12	49
	33	**221**	13	95
Non-current				
Foreign exchange forward contracts	**–**	**7**	–	1
Fuel and energy price contracts	**43**	**79**	9	67
	43	**86**	9	68
Derivative financial liabilities				
Current				
Foreign exchange forward contracts	**7**	**306**	17	435
Fuel and energy price contracts	**12**	**71**	1	11
	19	**377**	18	446
Non-current				
Foreign exchange forward contracts	**–**	**–**	1	25
Fuel and energy price contracts	**2**	**25**	1	15
	2	**25**	2	40

Further details of the derivative financial instruments are provided in note 7, including significant assumptions underlying the valuation and the amounts recognised in profit and loss.

Wm Morrison Supermarkets Limited

Notes to the Company financial statements (continued)

11 Company financial statements (continued)

11.18 Deferred tax liabilities

	31 October 2021 £m	31 January 2021 £m
Deferred tax liability	**273**	188
Deferred tax asset	**(68)**	(79)
Net deferred tax liability	**205**	109

IAS 12 'Income taxes' requires the offsetting of balances within the same tax jurisdiction where there is a legally enforceable right to offset. All of the deferred tax assets are available for offset against deferred tax liabilities.

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

	Property, plant and equipment £m	Pensions £m	Other short-term temporary differences £m	**Total £m**
Current period				
At 1 February 2021	135	53	(79)	**109**
Charged/(credited) to profit for the period	48	5	(31)	**22**
Charged/(credited) to other comprehensive income and equity	–	32	42	**74**
At 31 October 2021	183	90	(68)	**205**
Prior period				
At 3 February 2020	133	59	(74)	118
Charged to profit for the period	2	10	(12)	–
Charged/(credited) to other comprehensive income and equity	–	(16)	7	(9)
At 31 January 2021	135	53	(79)	109

11.19 Provisions for liabilities

	Onerous contracts £m	Other property provisions £m	**Total £m**
At 31 January 2021	33	13	**46**
Charged to profit for the period	17	1	**18**
Utilised during the period	(8)	(1)	**(9)**
Released during the period	–	(5)	**(5)**
Unwinding of discount	1	–	**1**
At 31 October 2021	43	8	**51**

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

11 Company financial statements (continued)

11.20 Pensions

11.20.1 Defined benefit schemes: summary and description

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

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

	31 October 2021 £m	31 January 2021 £m
CARE Scheme	**328**	249
RSP	**39**	42
Net pension asset	**367**	291

Statement of financial position:	**31 October 2021 CARE £m**	**31 October 2021 RSP £m**	31 January 2021 CARE £m	31 January 2021 RSP £m
Fair value of scheme assets	**1,525**	**484**	1,467	485
Present value of obligations	**(1,197)**	**(445)**	(1,218)	(443)
Net pension asset	**328**	**39**	249	42

Income statement	**39 weeks ended 31 October 2021 CARE £m**	**39 weeks ended 31 October 2021 RSP £m**	52 weeks ended 31 January 2021 CARE £m	52 weeks ended 31 January 2021 RSP £m
Administrative costs paid by Schemes – recognised in administrative expenses	**1**	**2**	1	1
Settlement and curtailment gain	**–**	**–**	(2)	–
Change in Scottish Limited Partnership asset	**–**	**–**	26	–
Net interest on net pension asset – finance income	**(3)**	**(1)**	(6)	(1)
Total expense (credited)/charged to income statement	**(2)**	**1**	19	–
Statement of other comprehensive income:				
Remeasurements in other comprehensive income – (credit)/charge [1]	**(79)**	**3**	96	6

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 pension asset.

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 Company attends Trustee Investment Committee meetings in order to provide the Company's view on investment strategy, but the ultimate power lies with the Trustees. The Deed and Rules of the Morrison Scheme gives the Trustees the power to set contributions, while in the RSP this power is given to the Company, subject to regulatory override.

11 Company financial statements (continued)

11.20 Pensions (continued)

11.20.2 Scheme assets

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

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

Fair value of Scheme assets:

	31 October 2021 CARE £m	**31 October 2021 RSP £m**	31 January 2021 CARE £m	31 January 2021 RSP £m
Equities (quoted)	**159**	**115**	157	126
Corporate bonds (quoted)	**256**	**28**	121	–
Diversified growth funds (quoted)	**–**	**–**	–	31
Credit funds (unquoted)	**151**	**–**	173	–
Liability driven investments (unquoted)	**799**	**271**	852	249
Scottish Limited Partnership (unquoted)	**–**	**67**	–	78
Annuity policies (unquoted)	**150**	**–**	156	–
Cash (quoted)	**10**	**3**	8	1
	1,525	**484**	1,467	485

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

During the 52 weeks ended 31 January 2021, the CARE Scheme entered into a new buy-in policy that provides insurance for a proportion of the pensioner population. The policy pays income to the Scheme that is exactly equal to the benefits paid to the insured population. This has removed all investment, interest rate, inflation and longevity risks in respect of these members.

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

	39 weeks ended 31 October 2021 CARE £m	**39 weeks ended 31 October 2021 RSP £m**	52 weeks ended 31 January 2021 CARE £m	52 weeks ended 31 January 2021 RSP £m
Fair value of scheme assets at start of period	**1,467**	**485**	1,468	389
Interest income	**17**	**5**	25	8
Return on scheme assets excluding interest	**63**	**2**	25	33
Employer contributions	**–**	**–**	–	64
Change in Scottish Limited Partnership assets	**–**	**–**	(26)	–
Benefits paid	**(21)**	**(6)**	(24)	(8)
Administrative expenses	**(1)**	**(2)**	(1)	(1)
Fair value of scheme assets at end of period	**1,525**	**484**	1,467	485

Scottish Limited Partnership

The Company has previously entered into a pension funding partnership structure with the CARE Scheme whereby the partnership structure holds properties which are leased back to the Company in return for rental income payments. The Company retains control over these properties, including the flexibility to substitute alternative properties. The CARE Scheme was entitled to receive fixed distributions of £2.2m p.a. until 2033 subject to certain conditions.

11 Company financial statements (continued)

11.20 Pensions (continued)

11.20.2 Scheme assets (continued)

Scottish Limited Partnership (continued)
During the 52 weeks ended 31 January 2021, the Company and the Schemes' Trustees agreed to reorganise the limited partnership structure, so that future distributions would be made to the RSP. The pension funding partnership structure was therefore amended to permanently cease fixed distributions to both the Company and Safeway Stores Limited CARE Schemes. On the same day, the Company and the RSP entered into a new pension funding partnership. As a new partner, the RSP is entitled to receive a fixed distribution of £6.8m p.a. from the profits of the Scottish Limited Partnership for 13 years from 2020, subject to certain conditions. The fixed distribution is comparable to the distributions that would have been made to the Group's CARE Schemes under the previous partnership structure (see page 105).

The RSP Scheme's interests in the Scottish Limited Partnership increases the net pension asset on the FRS 101 accounting basis because the investments held by the Scheme qualify as an asset for Company FRS 101 purposes.

See page 105 for details of the impact of the takeover on the Scottish Limited Partnership.

11.20.3 Present value of obligations

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

	39 weeks ended 31 October 2021 CARE £m	**39 weeks ended 31 October 2021 RSP £m**	52 weeks ended 31 January 2021 CARE £m	52 weeks ended 31 January 2021 RSP £m
Defined benefit obligation at start of period	**(1,218)**	**(443)**	(1,104)	(405)
Interest expense	**(14)**	**(5)**	(19)	(7)
Actuarial gain/(loss) – demographic assumptions	**34**	**–**	(30)	–
Actuarial (loss)/gain – financial assumptions	**(12)**	**1**	(108)	(49)
Actuarial (loss)/gain – experience	**(8)**	**(4)**	17	10
Settlement and curtailment gain	**–**	**–**	2	–
Benefits paid	**21**	**6**	24	8
Defined benefit obligation at end of period	**(1,197)**	**(445)**	(1,218)	(443)

The durations of the defined benefit obligations at 31 October 2021 are: RSP 18 years; CARE 21 years. The weighted average duration of the Schemes is 20 years.

11.20.4 Significant actuarial assumptions

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

Financial assumptions	**31 October 2021 CARE**	**31 October 2021 RSP**	31 January 2021 CARE	31 January 2021 RSP
Discount rate applied to scheme liabilities	**1.90%**	**1.90%**	1.50%	1.50%
Inflation assumption (RPI)	**3.50%**	**3.50%**	3.00%	3.00%

Life expectancies	**31 October 2021 CARE**	**31 October 2021 RSP**	31 January 2021 CARE	31 January 2021 RSP
Longevity in years from age 65 for current pensioners				
Male	**21.0**	**n/a**	21.1	n/a
Female	**22.5**	**n/a**	22.5	n/a
Longevity in years from age 65 for current members aged 45				
Male	**22.6**	**n/a**	22.8	n/a
Female	**24.4**	**n/a**	24.4	n/a

11 Company financial statements (continued)

11.20 Pensions (continued)

11.20.4 Significant actuarial assumptions (continued)

For deriving discount rates, the Company 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 Company believes that this approach appropriately reflects expected yields on high quality corporate bonds over the duration of the Company's pension schemes, as required by FRS 101.

Assumptions regarding future mortality experience are set based on actuarial advice and in accordance with published statistics. The mortality tables used for the 39 weeks ended 31 October 2021 are the S2PMA/S2PFA-Heavy tables (males/females) based on year of birth with a scaling factor of 110% applied to the mortality rates, with CMI 2020 core projections and a long-term rate of improvement of 1.5% pa. The mortality tables used for the 52 weeks ended 31 January 2021 are the S2PMA/S2PFA-Heavy tables (males/females) based on year of birth with a scaling factor of 110% applied to the mortality rates, with CMI 2019 core projections and a long-term rate of improvement of 1.5% pa.

Related actuarial assumptions (expressed as weighted averages)

	31 October 2021 CARE	**31 October 2021 RSP**	31 January 2021 CARE	31 January 2021 RSP
Rate of increase of pensions in payment: RPI inflation capped at either 2.5% p.a. or 5% p.a	**2.2%/3.3%**	**–**	2.0%/2.9%	–
Rate of increase of pensions in deferment: CPI inflation capped at either 2.5% p.a. or 5% p.a.	**-/2.9%**	**2.5%/-**	-/2.3%	2.3%/-
CPI inflation (% p.a.)	**2.90%**	**2.90%**	2.3%	2.3%

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.

		31 October 2021 CARE £m	**31 October 2021 RSP £m**	31 January 2021 CARE £m	31 January 2021 RSP £m
Discount rate applied to Scheme obligations	+/-0.1% p.a.	**-/+25**	**-/+8**	-/+30	-/+9
Inflation assumption (RPI and associated assumptions)	+/-0.1% p.a.	**+/-20**	**–**	+/-20	+/-9
Longevity	+one year	**+40**	**–**	+40	–

11.20.5 Funding

The CARE Scheme is entirely funded by the Company. The Company along with other subsidiaries of the Company participated in the RSP. There is no contractual agreement or stated policy for charging the net defined benefit cost between the Company and its subsidiaries. The contribution of each participating subsidiary to the RSP is currently calculated in proportion to the number of employees that are members of the RSP.

The latest full actuarial valuations were carried out as at 5 April 2019 for the CARE Scheme and the RSP. The valuations indicated that, on the agreed funding basis, the Morrison and RSP Schemes had surpluses of £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 have been used and updated for FRS 101 purposes for the period to 31 October 2021 by a qualified independent actuary. The Schemes expose the Company to inflation risk, interest rate risk and market investment risk. In addition, the CARE Scheme exposes the Company to longevity risk.

Wm Morrison Supermarkets Limited

Notes to the Company financial statements (continued)

11 Company financial statements (continued)

11.20 Pensions (continued)

11.20.5 Funding (continued)

At 31 October 2021, schemes in surplus have been disclosed within the assets in the Statement of financial position. The Company has taken updated legal advice with regards to the recognition of a pension surplus and also recognition of a minimum funding requirement under IFRIC 14 ‘IAS19 – The limit on a defined benefit asset, minimum funding requirement and their interaction’. This advice concludes that recognition of a surplus is appropriate on the basis that the Company has an unconditional right to a refund of a surplus. In respect of the RSP this on the basis that paragraph 11(a) of IFRIC 14 applies enabling a refund of surplus during the life of the RSP. In respect of the CARE Scheme, this is on the basis that paragraph 11(b) or 11(c) of IFRIC 14 applies enabling a refund of surplus assuming the gradual settlement of the scheme liabilities over time until all members have left the scheme or the full settlement of the Scheme's liabilities in a single event (i.e. as a scheme wind up).

The current best estimate of Company contributions to be paid to the defined benefit schemes for the accounting period commencing 31 October 2021 is £7m (52 weeks to 31 January 2021: £7m). This estimate includes amounts payable from the Scottish Limited Partnership.

11.20.6 Defined contribution scheme

The Group opened a defined contribution retirement benefit scheme called the Morrisons Personal Retirement Scheme (‘MPRS’) for employees during the 53 weeks ended 4 February 2018. The MPRS has become the auto enrolment scheme for the Company. As the MPRS is a defined contribution scheme, the Company is not subject to the same investment, interest rate, inflation or longevity risks as it is for the defined benefit schemes. The benefits that employees receive are dependent on the contribution paid, investment returns, and the form of benefit chosen at retirement. During the 39 weeks ended 31 October 2021, the Company paid contributions of £49m to the MPRS (52 weeks to 31 January 2021: £56m) and expects to contribute £57m for the following financial period to 30 October 2022 (52 weeks to 31 January 2021: £57m).

11.21 Share capital

	Number of shares millions	Called up share capital £m	Share premium account £m	**Total £m**
At 1 February 2021	2,410	241	201	**442**
Share options exercised	40	4	51	**55**
At 31 October 2021	2,450	245	252	**497**

All issued shares are fully paid and have a par value of 10p per share (31 January 2021: 10p per share).

For further details on called up share capital and share premium accounts, see note 6.6.

11.22 Reserves

	31 October 2021 £m	31 January 2021 £m
Capital redemption reserve	**39**	39
Merger reserve	**940**	940
Hedging reserve	**122**	(3)
Retained earnings*	**1,729**	1,980
Total	**2,830**	2,956

* Included in retained earnings is £28m relating to a gain made on the disposal of trust shares for proceeds of £41m to CD&R on 27 October 2021.

Capital redemption reserve

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

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

11 Company financial statements (continued)

11.22 Reserves (continued)

Merger reserve

The merger reserve represents the reserve arising on the acquisition in 2004 of Safeway Limited. This merger reserve was initially considered unrealised on the basis it was represented by investments held by the Company, which is not qualifying consideration in accordance with Tech 02/17 issued by the Institute of Chartered Accountants in England and Wales (ICAEW).

During the 53 weeks ended 4 February 2018, the majority of the Company's investments were transferred to another Group company, Wm Morrison Supermarkets Holdings Limited, in exchange for an intercompany loan. To the extent that this intercompany balance is settled in qualifying consideration, the same proportion of the merger reserve becomes realised. During the 39 weeks ended 31 October 2021 and 52 weeks ended 31 January 2021 none of the intercompany loan balance was settled through a qualifying consideration. As a result, none of the merger reserve balance was realised in the period (52 weeks ended 31 January 2021: £nil).

Hedging reserve

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

11.23 Capital commitments

	31 October 2021 **£m**	31 January 2021 £m
Contracts placed for future capital expenditure not provided in the financial statements (property, plant and equipment, right-of-use assets and intangible assets)	**34**	36
Contracts placed for future leases not provided in the financial statements	**25**	31

11.24 Guarantees, contingent liabilities and contingent assets

Guarantees

The Company has given an unlimited guarantee in respect of the overdraft of all the subsidiary undertakings within the Group's banking offset agreement. The overdraft position at 31 October 2021 was £nil (31 January 2021: £nil).

Where the Company enters into financial contracts to guarantee the indebtedness of other companies within its Group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

Following the disposal of the land and building of its customer fulfilment centre at Dordon to a third party in the 53 weeks ended 4 February 2018, the Company continues to guarantee the lease in respect of this site. If the lessee were to default, their lease obligations could revert back to the Company under the terms of the guarantee and become a liability of the Company. Should the lessee default, the additional future commitment is estimated at up to £30m (31 January 2021: £29m).

Interchange fee claim

The Company, 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 that the fixing of interchange fees by Mastercard over many years was an unlawful infringement of competition law. The details of this case can be found in note 10.2.

Equal pay claim

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

Wholesale customer risk

See the disclosure provided in note 10.2. The potential impact on the Company is the same as that of the Group.

Other

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

11 Company financial statements (continued)

11.25 Post-balance sheet events

Employee incentive schemes

All long term incentive plans and other employee share incentive schemes automatically vested on the takeover and therefore a full vest has been accounted for in the financial period to 31 October 2021. These awards were settled in cash through Wm Morrison Supermarkets Limited's payroll on 19 November 2021.

Sharesave ('SAYE')

Up until the takeover by CD&R, the Group's Sharesave participants were able to buy shares at the option price for the schemes. Where participants provided their instruction by 17 October 2021, their share options were exercised following Court Approval on 26 October 2021, with CD&R transferring funds to the participants on 10 November 2021. This was accounted for in the financial period ended 31 October 2021.

Repayment of the Revolving Credit Facility

The Company's revolving credit facilities were paid back during November 2021, after the reporting date. These facilities were replaced by interest free intercompany funding provided by Market Bidco Limited, the intermediate parent company. The value of the loan entered into is £1,576m.

Repayment of bonds

A bond repurchase process was held on 2 December, where bondholders were given the opportunity to sell their bonds and receive accrued interest, along with an incentive premium. £805m of bonds were repaid early, in addition to £9m of accrued interest and a further £3m of premium. On 8 December, a further bond repurchase process was undertaken, where bondholders were given the option to sell their bonds and receive accrued interest. £31m of bonds were repaid early, in addition to £1m accrued interest. There was no additional premium awarded on this repurchase.

Competition and Markets Authority

Please see the disclosure provided in note 10,3. The potential impact on the Company is the same as that of the Group

11.26 Ultimate parent undertaking

Following the takeover of the Company by Market Bidco Limited on 27 October 2021, the ultimate parent undertaking and controlling party of the Company is Market Topco Limited. Market Bidco Limited and Market Topco Limited were incorporated by Clayton, Dubilier and Rice's Fund XI for the purposes of acquiring the Company. The investment into Market Topco Limited was made by a vehicle owned by Clayton, Dubilier & Rice Fund XI, L.P. and certain commonly-managed parallel and related investment vehicles thereof. During the 39 weeks ended 31 October 2021 there were no transactions with these entities.

In addition to Market Bidco Limited, the following five entities are controlled by Market Topco Limited and form part of the corporate structure above Wm Morrison Supermarkets Limited;

- Market Holdco 1 Limited;
- Market Holdco 2 Limited;
- Market Holdco 3 Limited;
- Market Bidco Finco PLC; and
- Market Parent Finco PLC.

Wm Morrison Supermarkets Limited
Related undertakings

In accordance with section 409 of the Companies Act 2006, a full list of related undertakings including the country of incorporation, the principal activity and the effective percentage of equity owned as at 31 October 2021 is disclosed below. The registered address of all undertakings is Hilmore House, Gain Lane, Bradford, BD3 7DL unless otherwise stated.

Related undertakings of Wm Morrison Supermarkets Limited

Name	Country of incorporation	Principal activity	Interest
Bos Brothers Fruit and Vegetables B.V.[1]	Netherlands	Acquirer of food products	100%
Chippindale Foods Limited	England and Wales	Supplier of eggs	100%
De Mandeville Gate Management Limited	England and Wales	Property maintenance	51%
Dordon SPV Limited[2]	England and Wales	Lease company	100%
Farock Limited[3] (in liquidation)	Isle of Man	Holding company	100%
Flower World Limited	England and Wales	Dormant	100%
Lowlands Nursery Limited	England and Wales	Wholesale of flowers and plants	100%
MHE JVCo Limited[4]	England and Wales	Joint venture with Ocado	51%
Neerock Farming Limited[5]	Scotland	Dormant	100%
Perimeter Holdings Limited	England and Wales	Property development	100%
Wm Morrison (HK) Limited[6]	Hong Kong	Acquirer of non-food products	100%
Wm Morrison Nominee 1 Limited	England and Wales	Dormant	100%
Wm Morrison Nominee 2 Limited	England and Wales	Dormant	100%
Wm Morrison Nominee 3 Limited	England and Wales	Dormant	100%
Wm Morrison Pension Trustee Limited	England and Wales	Dormant	100%
Wm Morrison Property Investments Limited[7]	Scotland	General partner in a partnership	100%
Wm Morrison Supermarkets Holdings Limited	England and Wales	Holding company	100%

1 Registered address 3151, ZJ Hoek van Holland, the Netherlands, Amersgat 17.

2 Registered address 1 Ashley Road, 3rd Floor, Altrincham, WA14 2DT.

3 Registered address 1st Floor, Goldie House, 1-4 Goldie Terrace, Douglas, Isle of Man, IM1 1EB.

4 Registered address Buildings 1 & 2, Trident Place, Mosquito Way, Hatfield, Hertfordshire, AL10 9UL.

5 Registered address Market Hill, Market Hill Road, Turriff, Aberdeenshire, Scotland, AB53 4PA.

6 Registered address 19/F Millenium City 2, No 378 Kwun Tong Road, Kowloon, Hong Kong.

7 Registered address Capella Building (Tenth Floor), 60 York Street, Glasgow, G2 8JX.

Related undertakings of other Group companies

Name	Country of incorporation	Principal activity	Interest
Alliance Property Holdings Limited	England and Wales	Dormant	100%
Amos Hinton & Sons Limited	England and Wales	Dormant	100%
Argyle Securities Limited[8]	Scotland	Dormant	100%
Argyll Foods Limited	England and Wales	Dormant	100%
Argyll Stores (Holdings) Limited	England and Wales	Dormant	100%
Ascot Road Watford Limited	England and Wales	Dormant	100%
Cancede Limited	England and Wales	Property investment	100%
Cordon Bleu Freezer Food Centres Limited	England and Wales	Dormant	100%
Divertigo Limited	England and Wales	Dormant	100%
English Real Estates Limited	England and Wales	Dormant	100%
Erith Pier Company Limited	England and Wales	Property maintenance	100%
Evermere Limited	England and Wales	Dormant	100%
Falfish (Holdings) Limited	England and Wales	Preparation and supply of seafood	100%

Wm Morrison Supermarkets Limited
Related undertakings (continued)

Related undertakings of other Group companies (continued)

Falfish Limited[9]	England and Wales	Preparation and supply of seafood	100%
Farmers Boy Limited	England and Wales	Manufacturer and distributor of fresh food products	100%
Farmers Boy (Deeside) Limited	England and Wales	Dormant	100%
Federated Properties Limited	England and Wales	Dormant	100%
Firsdell Ltd	England and Wales	Dormant	100%
Fisherdale Properties Limited	England and Wales	Dormant	100%
Freehold Investments Limited[9]	Jersey	Property investment	100%
Glowrace Limited	England and Wales	Real estate management	37%
Holsa Limited	England and Wales	Dormant	100%
International Seafoods Limited	England and Wales	Preparation and supply of seafood	100%
Ipsolus Limited	England and Wales	Dormant	100%
J3 Property Limited[8]	Scotland	Dormant	100%
Kiddicare Properties Limited	England and Wales	Dormant	100%
Lease Securities Limited[10]	Jersey	Property investment	100%
Maypole Limited[11]	Guernsey	Investment company	100%
MDW (Eastbourne) Limited	England and Wales	Dormant	100%
MoClo Limited	England and Wales	Dormant	100%
Monument Hill Properties Limited	England and Wales	Dormant	100%
Neerock Limited	England and Wales	Fresh meat processor	100%
Newincco 1072 Limited	England and Wales	Dormant	100%
Oldwest Limited	Scotland	Dormant	100%
Optimisation Developments Limited	England and Wales	Property development	100%
Optimisation Investments Limited	England and Wales	Property investment	100%
Presto Stores (LC) Limited	England and Wales	Dormant	100%
Presto Stores Limited	England and Wales	Dormant	100%
Rathbone Kear Limited	England and Wales	Manufacturer and distributor of morning goods and bread	100%
Rathbones Bakeries Limited	England and Wales	Dormant	100%
RP (No. 37) Limited[10]	Jersey	Property investment	100%
Safeway (Overseas) Limited	England and Gibraltar	Grocery retailer (overseas)	100%
Safeway Development Limited	England and Wales	Dormant	100%
Safeway Food Stores Limited	England and Wales	Dormant	100%
Safeway Limited	England and Wales	Dormant	100%
Safeway Pensions Trustees Company Limited	England and Wales	Dormant	100%
Safeway Pension Trustees Limited	England and Wales	Dormant	100%
Safeway Properties Limited	England and Wales	Property investment	100%
Safeway QUEST Trustees Limited	England and Wales	Dormant	100%
Safeway Stores (Gibraltar) Pension Trustees Limited[12]	Gibraltar	Dormant	100%
Safeway Stores (Ireland) Limited	England and Wales	Dormant	100%

Wm Morrison Supermarkets Limited
Related undertakings (continued)

Related undertakings of other Group companies (continued)

Safeway Stores Limited	England and Wales	Grocery retailer	100%
Safeway Trustee (FURB) Limited	England and Wales	Dormant	100%
Safeway Wholesale Limited	England and Wales	Dormant	100%
Simply Fresh Foods Holdings Limited	England and Wales	Dormant	100%
Stalwart Investments Limited[10]	Jersey	Property investment	100%
Stores Group Limited	England and Wales	Dormant	100%
The Home & Colonial Stores Limited	England and Wales	Dormant	100%
The Medical Hall Limited[13]	Gibraltar	Pharmaceutical licence holder (Gibraltar)	100%
The Morrisons Foundation	England and Wales	Charity	100%
Tower Centre Hoddesdon Limited	England and Wales	Dormant	100%
Trilogy (Leamington Spa) Limited	England and Wales	Dormant	100%
Velligrist Limited	England and Wales	Dormant	100%
Wm Morrison At Source Limited	England and Wales	Technical testing and analysis	100%
Wm Morrison Bananas Limited	England and Wales	Dormant	100%
Wm Morrison GP 1 Limited	England and Wales	Dormant	100%
Wm Morrison GP 2 Limited	England and Wales	Dormant	100%
Wm Morrison GP 3 Limited	England and Wales	Dormant	100%
Wm Morrison Growers Limited	England and Wales	Acquirer of fresh produce	100%
Wm Morrison LP 1 Limited	England and Wales	Dormant	100%
Wm Morrison LP 2 Limited	England and Wales	Dormant	100%
Wm Morrison LP 3 Limited	England and Wales	Dormant	100%
Wm Morrison Produce Limited	England and Wales	Produce packer and purchaser	100%
Wm Morrison Property Partnership LP[8]	England and Wales	Scottish Limited Property Partnership	100%
Wm Morrison Property Partnership 1 Limited Partnership	England and Wales	Dormant	100%
Wm Morrison Property Partnership 2 Limited Partnership	England and Wales	Dormant	100%
Wm Morrison Property Partnership 3 Limited Partnership	England and Wales	Property partnership	100%
Wm Morrison Property Partnership 4 Limited Partnership[8]	England and Wales	Property partnership	100%
Wm Morrison Supermarket Stores Ltd	England and Wales	Dormant	100%

8 Registered address Capella Building (Tenth Floor), 60 York Street, Glasgow, G2 8JX.

9 Registered address Unit 15 Cardew Industrial Estate, Redruth, Cornwall, TR15 1SS.

10 Registered address IFC1, Esplanade, St Helier, Jersey, JE1 2ST.

11 Registered address 1st & 2nd floors, Elizabeth House, Les Ruettes Brayes, St Peter Port, Guernsey, GY1 1EW.

12 Registered address Suites 41/42 Victoria House, 26 Main Street, Gibraltar.

13 Registered address 1st Floor, 5 Secretary’s Lane, Gibraltar GX11 1AA

Glossary

Alternative Performance Measures

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

Measures	Closest equivalent IFRS measure	Definition and purpose	Reconciliation for Group measures[1]
Profit measures			
Like-for-like (LFL) sales growth	Revenue	Percentage change in year-on-year sales (excluding VAT), removing the impact of new store openings and closures in the current or previous financial periods. The measure is used widely in the retail industry as an indicator of ongoing sales performance. It is also a key measure for Director and management remuneration.	**39 weeks ended 31 October 2021 %** Group LFL (exc. fuel) **(1.0)%** Group LFL (inc. fuel) **2.9%** Net new space (inc. fuel) **0.2%** Total revenue year-on-year **2.9%**
Total sales growth	Revenue	*Including fuel:* Percentage change in year-on-year total reported revenue. *Excluding fuel:* Percentage change in year-on-year total sales excluding fuel. This measure illustrates the total year-on-year sales growth. This measure is a key measure for Director and management remuneration.	A reconciliation of total sales including and excluding fuel is provided in note 1.2 of the financial statements.
Profit before tax and exceptionals	Profit before tax	Profit before tax and exceptionals is defined as profit before tax, exceptional items and net retirement benefit credit. This excludes exceptional items which are significant in size and/or nature and net retirement benefit credit. This measure is a key measure used by the Directors. It provides key information on ongoing trends and performance of the Group and is used for Director and management remuneration.	A reconciliation of this measure is provided in note 1.4 of the financial statements.
Profit before exceptionals after tax	Profit after tax	Profit before tax and exceptionals after a normalised tax charge. This measure is used by the Directors as it provides key information on ongoing trends and performance of the Group, including a normalised tax charge.	£94m being profit before tax and exceptionals (£133m) less a normalised tax charge (£39m) (see note 1.4 of the financial statements).
Operating profit before exceptionals	Operating profit[1]	Reported operating profit before exceptional items, which are significant in size and/or nature. This measure is used by the Directors as it provides key information on ongoing trends and performance of the Group.	£211m being reported operating loss of £51m, adjusted for impairment and provisions for onerous contracts (£110m), restructuring costs (£19m), profit/loss on disposal and closure (£28m), transaction costs of (£98m), pension administrative costs (£4m) and other exceptional costs (£3m).
Operating profit before supply chain disruption	Operating profit[1]	Reported operating profit before the supply chain disruption costs, which is significant in size and/or nature.	£21m loss being reported operating loss of £51m, adjusted for supply chain disruption cost (£30m).

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

Glossary (continued)

Alternative Performance Measures (continued)

Measures	Closest equivalent IFRS measure	Definition and purpose	Reconciliation for Group measures[1]
Profit measures (continued)			
Operating profit before exceptionals and supply chain disruption	Operating profit[1]	Reported operating profit before exceptional items and the supply chain disruption costs, which are significant in size and/or nature.	£241 being reported operating loss of £51m, adjusted for impairment and provisions for onerous contracts (£110m), restructuring costs (£19m), profit/loss on disposal and closure (£28m), transaction costs of (£98m), pension administrative costs (£4m) and other exceptional costs (£3m), plus supply chain disruption costs (£30m).
Net finance costs before exceptionals	Finance costs	Reported net finance costs excluding the impact of net retirement benefit interest and other exceptional items, which are significant in size and/or nature. This measure is used by the Directors as it provides key information on ongoing cost of financing excluding the impact of exceptional items.	A reconciliation of this measure is provided in note 6.2 of the financial statements.
Earnings before interest, tax, depreciation and amortisation (EBITDA) before exceptionals	Operating profit[1]	Operating profit before exceptional items including share of profit from joint venture, before depreciation and amortisation. This measure is used by the Directors as it provides key information on ongoing trends and the performance of the Group before capital investment and financing costs.	£640m being operating profit before exceptionals (£211m), plus share of profit from joint venture (£nil), depreciation (£369m) and amortisation (£60m).
EBITDA before exceptionals and supply chain disruption	Operating profit[1]	Operating profit before exceptional items including share of profit from joint venture, before depreciation and amortisation, and before the supply chain disruption costs.	£670m being operating profit before exceptionals (£211m), plus share of profit from joint venture (£nil), depreciation (£369m) and amortisation (£60m) and supply chain disruption costs (£30m).
EBITDA margin before exceptionals	No direct equivalent	EBITDA before exceptional items, as a percentage of revenue. This measure is used by the Directors as it provides key information on ongoing trends and the performance of the Group before capital investment and financing costs.	4.7% being EBITDA before exceptional items (£640m) divided by revenue (£13,483m).
Statutory EBITDA	Operating profit[1]	Operating profit (after exceptional items) including share of profit from joint venture, before depreciation and amortisation.	£378m being operating loss (£51m), plus share of profit from joint venture (£nil), depreciation (£369m) and amortisation (£60m).
Interest cover	No direct equivalent	Operating profit before exceptionals divided by net finance costs before exceptionals. This measure is used by the Directors as a measure of the Group's ability to meet its financing costs.	2.7x being operating profit before exceptionals (£211m) divided by net finance costs before exceptionals (£78m).
Tax measures			
Normalised tax	Effective tax	Normalised tax is the tax rate applied to the Group's principal activities on an ongoing basis. This is calculated by adjusting the effective tax rate for the period to exclude the impact of exceptional items and net retirement benefit credit. This measure is used by the Directors as it provides a better reflection of the normalised tax charge for the Group.	A reconciliation of the tax charge is found in note 2.2.3 of the financial statements.

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

Glossary (continued)

Alternative Performance Measures (continued)

Measures	Closest equivalent IFRS measure	Definition and purpose	Reconciliation for Group measures[1]
Cash flows and net debt measures			
Free cash flow	No direct equivalent	Movement in net debt before dividends. This measure is used by the Directors as it provides key information on the level of cash generated by the Group before the payment of dividends.	£338m inflow being the movement in net debt (£215m) before payment of dividend (£123m).
Net debt	No direct equivalent	Net debt is current and non-current: borrowings, lease liabilities and derivative financial assets and liabilities; net of cash and cash equivalents.	A reconciliation of this measure is provided in note 6.5 of the financial statements.
Gearing	No direct equivalent	Net debt as a percentage of net assets. This measure is used by the Directors as a measure of the capital structure of the Group and its ability to maintain its credit ratings and covenants.	71% being net debt (£2,954m) as a percentage of net assets (£4,184m).
Working capital movement	No direct equivalent	Movement in inventories, trade and other receivables, trade and other payables and provisions.	A reconciliation of this measure is provided in note 5.6 of the financial statements.
Operating working capital movement	No direct equivalent	Working capital movement adjusted for onerous contract charges, onerous payments and other non-operating payments. This measure is used by the Directors as it provides a more appropriate reflection of the working capital movement by excluding certain non-recurring movements.	A reconciliation of this measure is provided in note 5.6 of the financial statements.
Other measures			
Return on Capital Employed (ROCE)	No direct equivalent	ROCE is calculated as return divided by average capital employed. Return is defined as annualised profit before exceptionals after tax adjusted for net finance costs before exceptionals and operating lease rentals (on land and buildings). Capital employed is defined as average net assets excluding net retirement benefit surplus and deficit, less average net debt. This measure is used by the Directors as it is a key ratio in understanding the performance of the Group.	ROCE (3.2%) equals return divided by average capital employed: Return (£207m) = Profit before exceptionals after tax annualised (£102m) adjusted for annualised net finance costs before exceptionals (£105m). Average capital employed (£6,419m) = Average net assets (£4,200m) excluding the net retirement benefit surplus (£843m) and average net debt (£3,062m).
Return on Capital Employed (ROCE) before supply chain costs	No direct equivalent	ROCE before supply chain costs is calculated as return divided by average capital employed. Return is defined as annualised profit before exceptionals and supply chain costs after tax adjusted for net finance costs before exceptionals and operating lease rentals (on land and buildings). Capital employed is defined as average net assets excluding net retirement benefit surplus and deficit, less average net debt.	ROCE (3.7%) equals return divided by average capital employed: Return (£237m) = Profit before exceptionals and supply chain costs after tax annualised (£132m) adjusted for annualised net finance costs before exceptionals (£105m). Average capital employed (£6,419m) = Average net assets (£4,200m) excluding the net retirement benefit surplus (£843m) and average net debt (£3,062m).

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

Company advisors

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Registrars and shareholding enquiries
Administrative enquiries about the holding of Morrisons shares, such as change of address, payment for shares sold during the takeover, dividend payments, 'My Share' Corporate Sponsored Nominee Account, and the dividend reinvestment plan should be directed to:

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Spencer Road
Lancing
West Sussex Telephone: 0333 207 6513
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We are open between 08:30 am – 17:30 pm,
Monday to Friday excluding public holidays
in England and Wales.

Web: www.shareview.co.uk

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Information at your fingertips

Customers

Our website, www.morrisons.com, allows customers to shop online, search thousands of inspirational products and recipes for the food we make and provide, and find out useful information about our stores and the services they offer.

The delivery service of Morrisons.com now covers 97% of Great Britain. The geography that we cover is growing all the time, with more areas in Scotland and England opened up to customers in the last 12 months. A postcode checker makes it easy to see if customers are eligible for our home delivery service.

At Morrisons.com customers can:

- purchase over 20,000 Morrisons grocery products, including over 700 'Best' products and 4,000 General Merchandise branded products;
- navigate from our home page to all our various websites, including our new all year round order and collect service for gatherings and special occasions;
- benefit from competitive 'one-off' delivery charges or purchase a delivery pass for unlimited deliveries for a one-off fee;
- check out latest promotions and seasonal events, including online exclusive deals;
- sign up for our latest offers and our marketing by email;
- find recipes based on our ingredients and inspired by our campaigns and events; and
- read content on healthy eating, reducing food waste and our support for various charitable causes such as Together for Short Lives, CLIC Sargent or the Morrisons Foundation.

Not all products are available online. However, the website is an excellent vehicle for finding out more about things we offer and customers can do this on the website through a desktop, a smartphone (using our App) and even using their voice through an Alexa device.

Customers are also able to preview selected items from ranges such as 'Nutmeg' and Market Street, and our new café offers, in-store services, award wins, pharmacies, glass hire and details of our new store openings online. As standard, Morrisons.com also provides a mobile-friendly online Store Finder where customers can find details of their nearest store, opening times and services it offers.

Corporate

Our corporate website, www.morrisons-corporate.com, is a one-stop portal that exists for the benefit of the public and the media. This site has the following sections:

About Morrisons

Find information about the Group, its operations, strategy and structure, and past financial information.

Jobs

Career opportunities and information about working for Morrisons. For our dedicated recruitment website, go to www.morrisons.jobs

Media centre

Latest releases about the growing estate of Morrisons, along with promotions and product news.

Corporate responsibility

Find out about our corporate responsibility ethos, including how we take good care of our environment, society and how we go about business. https://www.morrisons-corporate.com/morrisons-sustainability/sustainability.

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