Wm Morrison Supermarkets plc

Interim Report 2005/06

Financial Highlights

Wm Morrison Supermarkets plc
Interim results and trading update
25 weeks to 24 July 2005

Commenting on the results, Sir Ken Morrison, Chairman, said

"The conversion of Safeway stores to Morrisons, and disposal of those that do not fit our operating model, has continued at pace. Converted stores saw a 23% increase in customers, emphasising the strength of Morrisons service and value. Optimising our performance in the newly converted stores and throughout the business will provide real opportunities for material improvement."

£5,847.5m
Group turnover up 4.7%

£82.1m
Loss before tax (2004: profit of £80.1m)

£50.7m
Operating profit, pre Safeway integration down 71%

£1,101.0m
Net debt (2004: £1,599.5m)

£118.8m
Integration costs (2004: £61.8m)

£326.6m
Operating cash flow down 2.0%

Chairman's Statement

25 weeks ended 24 July 2005

This statement covers trading for the 25 weeks to 24 July 2005, with results presented in accordance with International Financial Reporting Standards.

25 weeks to 24 July 2005

The Group continues to move towards its chosen business model of operating large supermarkets under the Morrisons brand name. We began the period with 498 stores, 190 of which traded as Morrisons. Two new stores opened, at Hamilton and Auchinlea, and 88 converted from Safeway to Morrisons. A further 67 Safeway stores were divested leaving 433 stores at the end of the period, including 280 Morrisons.

Group turnover, excluding VAT, was £5,847.5m, a year-on-year increase of 4.7%. This included a full 25 weeks' trading from Safeway. The previous year's result contained only the 20 weeks post-acquisition. After divestments, 442 stores on average were traded in the period, compared with an average estate of 602 in the prior year (both figures excluding the BP joint venture). Approximately 50 store weeks were lost as a result of closures for conversion.

Inevitably, in a period of great change, the underlying trading picture has been difficult to read. The business has been impacted by the forced divestment of 52 stores required by the OFT as part of its clearance for the acquisition of Safeway, the further divestment of 129 stores that did not fit the Morrisons model and the unavoidable disruption to trading caused by the stores conversion programme. In addition, the market backdrop has been exceptionally competitive. Despite these factors, total like-for-like sales were up 5% year-on-year, or 2.6% excluding fuel. High footfall has driven our success over many years and it is pleasing to report that stores converted to Morrisons saw a 23% increase in customer numbers post-conversion.

Operating profit before Safeway integration was £50.7m, compared to £172.9m in the prior half year. Margins were 24.4%, down by 0.4%, reflecting both the full effect of moving premium-priced Safeway stores to Morrisons value and the impact of strong, lower margin fuel sales. Staff costs rose by 0.5% of sales and overheads by 1.2%, as the costs of integrating the two businesses were felt.

Safeway integration costs were £118.8m, compared with £61.8m in the prior half year; the largest component being store conversion costs, including rebranding, refurbishing and retraining.

Cash flow was strong and net debt was much reduced in the period, closing at £1,101.0m compared with £1,599.5m a year previously. The reduction reflects proceeds from store disposals, which more than offset investment in the store conversion programme. As a result, net interest payable was £15.3m compared with £29.1m in the previous year.

The Board has maintained the interim dividend at 0.625p per share. This will be paid on 5 December 2005 to shareholders on the register on 28 October 2005.

Chairman's Statement continued

25 weeks ended 24 July 2005

Conversion process

With the conversion teams performing sterling work, progress in the first half confirmed that we would achieve our goal of presenting a single face of Morrisons to the customer by the end of 2005. Converting four stores per week is an exacting task. More fundamental than 'rebadging', it entails training staff in Morrisons standards and processes, refurbishing, completing deferred routine maintenance, implementing Morrisons back office systems, changing signage and literature, and switching distribution and replenishment into the Morrisons network.

The store disposal process has been equally intense. In order to maximise proceeds, a competitive process saw 67 stores disposed of in the period, realising £154m and bringing to 181 the number of disposals made since the acquisition in March 2004. Approximately £2.1bn of annual turnover has been divested and we remain on track to realise over £1.3bn from this process, with associated savings on rents.

The uplift in customer numbers immediately after conversion confirms that the Morrisons format is being well received, yet the process of perfecting our game in these stores is just beginning. The Morrisons culture has now to be rooted in the new, bigger business. As the conversion phase ends, this optimisation phase will begin, representing the challenge for all areas of the business in 2006/07 and 2007/08.

As the business settles towards 360 large Morrisons stores, the process of optimising the supply chain and support functions can begin. We are in consultation with the distribution workforce about the necessary network rationalisation and this may lead to the closure of a number of depots. The new regional distribution facility at Kettering opened in October. Safeway's previous head office in Hayes will close by the financial year end. We are also consulting with 230 staff in the Safeway shared service centre in South Shields, which we anticipate will be much reduced in size. Our new head office in Bradford is set to open in Spring 2006, bringing together approximately 1,500 staff from three separate locations.

Intense operational activity since the acquisition has put colleagues across the business under significant pressure. They have risen to the challenge and we are most grateful to them. They can be proud to have won the Grocer Gold Awards for Best Customer Service and Product Availability at a time when there was great scope for distraction.

For the 37-week period to 16 October 2005, sales per square foot are cumulative £18.20. This breaks down as follows: for those 35 stores in the second year of conversion, cumulative sales per square foot are £19.53 and for those 161 stores converted for less than a year, cumulative sales per square foot are £18.11.

Board

Richard Pennycook took up his post as Group Finance Director on 1 October and four independent non-executive directors were appointed to support David Jones, the Deputy Chairman, providing balance and strength to the Board. Brian Flanagan, Paul Manduca, Susan Murray and Nigel Robertson have all begun to contribute positively to the workings of the Board.

Looking further ahead to the next three to five years, and in order for us to have sufficient time to make an appropriate appointment, the search for a new Chief Executive Officer is commencing. Bob Stott will remain in post until succession is determined and handover can be smoothly and efficiently dealt with. Due consideration will be given to both internal and external candidates.

During the period, the Board agreed terms of reference for its operation and for the Audit, Remuneration and Nomination Committees. The Chairmanships and memberships of these Committees were also agreed. Paul Manduca will chair the Audit Committee and Susan Murray the Remuneration Committee.

The immediate task for the Board will be to oversee and approve a medium term ‘optimisation plan’ for the business, which will provide clear goals for extracting maximum value from the Safeway acquisition. Richard Pennycook will lead this process and the plan will be approved by the Board ahead of the preliminary results in March 2006, when further details will be provided.

Trading update for 12 weeks to 16 October 2005 (as provided to the market on 20 October 2005)

Since 24 July 2005, a further 48 stores have converted from Safeway to Morrisons and 31 stores have been divested.

Like-for-like sales for the continuing business increased by 5.4%, or 1.7% excluding fuel.

Stores now converted to Morrisons (from Safeway) saw like-for-like sales for the period post conversion increase by 13.7%, or 11.0% excluding fuel. The commensurate increase in customer numbers was 14.2%.

Continuing Safeway stores awaiting conversion saw like-for-like sales increase by 4.7%, or 2.8% excluding fuel.

Like-for-like sales in the core Morrisons estate decreased by 0.6% and excluding fuel were down 5.2%. This continues to be driven by the one-time impact of divesting large stores to competitors as required by the OFT, creating some cannibalisation of core stores’ turnover as neighbouring Safeways convert to Morrisons.

Outlook

As previously reported, KPMG have assisted in the review of the Group’s financial forecasting procedures. Based on the completion of this work, the Board confirms that its previous profit guidance for 2005/06 remains appropriate, albeit with an expectation that profit before tax, exceptional items and goodwill will be towards the lower end of the range.

We remain confident that the optimisation process will deliver significant financial benefit. Perfecting our game in the newly converted stores, being able to focus again on our core business, rationalising the supply chain and bringing the head office together in one place will provide real opportunities for material improvement.

17 November 2005

Accounting policies

25 weeks ended 24 July 2005

Basis of preparation

These half year interim consolidated financial statements for the 25 weeks ended 24 July 2005 have been prepared on the basis of International Financial Reporting Standards (IFRS) and IFRIC interpretations adopted for use in the European Community that the directors expect to be in issue and effective at 29 January 2006, the Group's first annual reporting date in accordance with IFRS. Future developments by the International Accounting Standards Board, or endorsements by the European Community, may affect the scope of the standards in force and, consequently, the accounting policies derived from them as described below. The results for the 52-week period ended 30 January 2005 are based on an abridged version of the UK GAAP Group accounts which carry an unqualified auditor's report and which have been filed with the Registrar of Companies. The interim results for current and comparative periods are unaudited.

The Group's accounting policies as set out in the 2005 Financial Statements (prepared under UK GAAP) have been revised where applicable to conform with IFRS. The significant restated accounting policies are laid out below. In future years these policies will not form part of this interim document, as the interim financial statements will be based on the accounting policies in the previous full year's financial statements prepared under IFRS (unless otherwise stated). The accounting policies have been applied consistently to all periods presented, with the exception of financial instruments.

The Group has taken advantage of an exemption under IFRS 1 *First-time Adoption of International Financial Reporting Standards* not to restate comparative data in respect of IAS 39 *Financial Instruments: Recognition and Measurement*.

Financial instruments have been measured in accordance with UK GAAP for the comparative period. In accordance with transitional provisions, financial instruments have been re-measured as a change of accounting policy as at 31 January 2005 and the appropriate adjustment taken to equity as shown in Note 9 'First-time adoption of IAS 39 *Financial Investments: Recognition and Measurement*'.

Significant accounting policies

Morrisons directors consider the following to summarise the more important accounting policies:

Turnover

Turnover represents sales to customers outside the Group excluding value added tax, intra-group transactions, staff discounts, coupons and the free element of multi-save transactions.

Supplier income

Supplier incentives, rebates and discounts are recognised on an accruals basis based on management expectations of the performance criteria that will be met by the end of each relevant supplier contract.

Business combinations and goodwill

On the acquisition of a business, fair values are attributed to the net assets acquired. Goodwill arises where the fair value of the consideration given for a business exceeds the fair value of such net assets. Goodwill arising on acquisitions is capitalised and subject to impairment reviews annually.

Property, plant and equipment

a. Land and buildings are carried at cost less accumulated depreciation. Properties in the course of construction are carried at cost. Costs include directly attributable costs and borrowing costs. Property assets held under a finance lease are written-off over their estimated useful life or the life of the lease, whichever is shorter. Land is not depreciated and land under a lease is classified as an operating lease.

b. Plant, equipment and vehicles are written-off over their estimated useful lives. Annual reviews are made of estimated useful lives and material residual values.

c. Depreciation rates used by the Group for the assets described above are:

Freehold land	0%
Freehold and long leasehold buildings	2.5%
Short lease buildings	Over lease period
Plant, equipment and vehicles	15-33%

Borrowing costs

Finance costs which are directly attributable to the construction of a property are capitalised gross of taxation relief. All other borrowing costs are recognised in the Group's income statement on an accruals basis.

Impairment of non-financial assets

The carrying value of property, plant and equipment is reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset impaired is written down to the higher of value in use or its net selling price.

Inventories

Inventories are valued at the lower of cost and net realisable value. Cost is calculated using the weighted average cost. Inventories comprise primarily goods for resale.

Leases

Finance leases: Rental payments are apportioned between the finance charge and the outstanding obligation so as to produce a constant rate of charge on the remaining balance.

Operating leases: Rental payments are taken to the income statement on a straight-line basis over the life of the lease.

Provisions

Onerous contracts: Provision is created for the net present obligation of onerous contracts based on the Group's best estimate of the committed net cash flows.

Other provisions: These are created where the Group has a present obligation (legal or constructive) as a result of a past event, where it is probable that it will result in an outflow from the Group, and where it can be reliably measured.

Accounting policies continued

25 weeks ended 24 July 2005

Taxation

Taxation is based on the profits or losses for the period and takes into account deferred taxation arising on temporary differences between the taxation and accounting carrying amounts of certain assets and liabilities. Full provision is made for the tax effects of these differences.

Foreign currencies

On consolidation, the assets and liabilities of the Group's overseas operations are translated at the rates of exchange at the balance sheet date. Income and expense items are translated at the average exchange rates for the period.

Retirement benefits

The Group operates defined benefit retirement schemes in respect of which the obligations are measured at discounted present value, whilst scheme assets are recorded at fair value. The operating and financing costs of such schemes are recognised separately in the income statement; service costs are spread systematically over the lives of employees, and financing costs are recognised in the periods in which they arise. Actuarial gains and losses are recognised immediately in the statement of recognised income and expense upon valuation.

Share-based payments

The Group has applied the requirements of IFRS 2 *Share-based Payment* to all grants of equity instruments and shadow equity instruments after 7 November 2002 which were unvested as of 1 January 2005.

The Group issues equity share-based payments to certain employees. The cost is measured at fair value at the date of grant, which is expensed on a straight-line basis over the vesting period, based on the Group's estimate of share options that will eventually vest.

Fair value is measured by use of a stochastic model. The expected life used in the model has been adjusted, based on management's best estimate, for effects of non-transferability, exercise restrictions and behavioural considerations.

Financial instruments

Financial assets and liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Derivative financial instruments are measured at fair value. If they are designated to be part of a cash flow hedge, the effective part of any gain or loss is recognised through the statement of income and expense. Any ineffective part, or instrument not designated as a cash flow hedge, is recognised directly to the Group's income statement.

Cash and cash equivalents

Cash and cash equivalents include cash-in-hand, cash at bank and bank overdrafts together with short term, highly-liquid investments that are readily convertible into known amounts of cash, with an insignificant risk of a change in value, within three months from the date of acquisition.

Net debt

Net debt is cash and cash equivalents, bank and other current loans, bonds and derivative financial instruments stated at current fair value.

Consolidated income statement (unaudited)

	Note	25 weeks ended 24 July 2005 £m	25 weeks ended 25 July 2004 £m	Year ended 30 January 2005 £m
Sales including VAT	1	**6,339.0**	6,025.1	13,029.1
Total turnover	1	**5,913.9**	5,663.2	12,283.7
Less share of BP Joint Venture		**(66.4)**	(78.9)	(180.0)
Group turnover		**5,847.5**	5,584.3	12,103.7
Operating profit before Safeway integration costs	3	**50.7**	172.9	395.4
Safeway integration costs	4	**(118.8)**	(61.8)	(139.2)
		(68.1)	111.1	256.2
Share of post-tax BP Joint Venture profit		**2.2**	0.9	2.2
Finance income	5	**10.5**	7.3	21.1
Finance costs	5	**(26.7)**	(39.2)	(86.5)
(Loss)/profit before taxation		**(82.1)**	80.1	193.0
Tax credit/(charge)		**14.9**	(55.5)	(88.0)
(Loss)/profit for financial period		**(67.2)**	24.6	105.0
Earnings per share:				
Basic		**(2.54)p**	1.02p	4.17p
Diluted		**(2.54)p**	1.01p	4.15p

Consolidated balance sheet (unaudited)

	Note	24 July 2005 £m	25 July 2004 £m	30 January 2005 £m
Non-current assets				
Intangible assets	7	**103.2**	103.2	103.2
Property, plant and equipment		**6,139.1**	6,796.3	5,699.6
Investment properties		**82.8**	84.9	83.8
Other non-current assets:				
Investment in BP Joint Venture		**–**	76.2	78.4
Long lease land premium		**231.4**	232.8	232.1
Non-current assets classified as held for sale	8	**387.2**	272.0	725.7
		6,943.7	7,565.4	6,922.8
Current assets				
Inventories		**440.0**	410.6	424.6
Trade and other receivables		**221.9**	116.6	222.6
Derivative financial instruments	9	**43.8**	37.8	37.0
Cash and cash equivalents		**134.6**	478.3	93.5
		840.3	1,043.3	777.7
Current liabilities				
Bank overdrafts		**(15.7)**	(89.9)	(122.1)
Other financial liabilities		**(252.3)**	(1,003.2)	(152.6)
Trade and other payables		**(1,705.3)**	(1,551.6)	(1,435.0)
Current tax liabilities		**–**	(20.1)	(0.5)
		(1,973.3)	(2,664.8)	(1,710.2)
Non-current liabilities				
Financial liabilities		**(1,011.4)**	(1,022.5)	(1,016.7)
Retirement benefit obligation		**(324.4)**	(266.1)	(408.1)
Deferred tax liabilities		**(508.9)**	(555.8)	(501.6)
Provisions		**(55.2)**	(62.6)	(58.0)
		(1,899.9)	(1,907.0)	(1,984.4)
Net assets		**3,910.8**	4,036.9	4,005.9
Shareholders' equity				
Ordinary shares		**265.9**	265.6	265.8
Share premium		**20.6**	16.8	20.1
Merger reserve		**2,578.3**	2,578.3	2,578.3
Retained earnings		**1,046.0**	1,176.2	1,141.7
Total equity		**3,910.8**	4,036.9	4,005.9

Consolidated cash flow statement (unaudited)

	Note	25 weeks ended 24 July 2005 £m	25 weeks ended 25 July 2004 £m	Year ended 30 January 2005 £m
Cash generated from operations	10	**326.6**	332.4	442.9
Taxation paid		**(4.3)**	(90.2)	(171.5)
Net cash inflow from operating activities		**322.3**	242.2	271.4
Cash flows from investing activities				
Interest received		**8.7**	7.3	21.1
Subsidiary undertakings and businesses acquired		**–**	(820.4)	(831.4)
Purchase of property, plant and equipment		**(338.2)**	(212.8)	(428.3)
Subsidiary undertakings and businesses disposed		**49.1**	–	–
Proceeds of sale of property, plant and equipment		**109.8**	209.9	903.0
Net cash outflow from investing activities		**(170.6)**	(816.0)	(335.6)
Cash flows from financing activities				
Net proceeds from the issue of ordinary share capital		**0.5**	0.4	8.9
Sale of own shares		**–**	0.9	12.0
New borrowings		**100.0**	1,000.0	1,000.0
Interest paid		**(20.0)**	(22.8)	(96.9)
Finance lease principal repayments		**(1.5)**	(1.6)	(3.4)
Repayment of bonds, loans and loan notes		**(2.0)**	(150.1)	(1,003.9)
Equity dividends paid	6	**(81.2)**	(71.2)	(87.7)
Net cash used in financing activities		**(4.2)**	755.6	(171.0)
Net increase in cash and cash equivalents		**147.5**	181.8	(235.2)
Opening cash and cash equivalents		**(28.6)**	206.6	206.6
Closing cash and cash equivalents		**118.9**	388.4	(28.6)

Statement of recognised income and expense (unaudited)

	25 weeks ended 24 July 2005 £m	25 weeks ended 25 July 2004 £m	Year ended 30 January 2005 £m
Actuarial gain/(loss) on defined benefit pension schemes	**70.4**	62.7	(80.5)
Tax on items recognised directly in equity	**(21.1)**	(19.0)	24.0
Net gain recognised directly in equity	**49.3**	43.7	56.5
(Loss)/profit for the period	**(67.2)**	24.6	105.0
Total recognised income and expense for the period	**(17.9)**	68.3	48.5

Analysis of net debt (unaudited)

	25 weeks ended 24 July 2005 £m	25 weeks ended 25 July 2004 £m	Year ended 30 January 2005 £m
Net increase/(decrease) in cash and cash equivalents	**147.5**	181.8	(235.2)
Cash outflow from the repayment of loans and finance leases	**3.5**	151.7	1,007.3
Cash inflow from the receipt of loans	**(100.0)**	(1,000.0)	(1,000.0)
Other non-cash movements	**8.9**	11.6	11.6
Loans and finance leases acquired with subsidiary	**–**	(1,149.8)	(1,149.8)
Movement in net debt in the period	**59.9**	(1,804.7)	(1,366.1)
Opening (net debt)/net cash	**(1,160.9)**	205.2	205.2
Closing net debt	**(1,101.0)**	(1,599.5)	(1,160.9)

Statement of changes in equity (unaudited)

	25 weeks ended 24 July 2005 £m	25 weeks ended 25 July 2004 £m	Year ended 30 January 2005 £m
Opening shareholders' funds under IFRS	**4,005.9**	1,397.2	1,397.2
(Loss)/profit for the period	**(67.2)**	24.6	105.0
Dividends	**(81.2)**	(71.2)	(87.7)
As reported in the SORIE	**49.3**	43.7	(56.5)
Conversion of preference share capital	**0.1**	1.0	1.0
Investment in own shares	**–**	(43.8)	(43.7)
New share capital subscribed	**0.5**	2,686.5	2,690.0
Share option charge	**–**	(1.1)	0.6
First-time adoption of IAS 39 (net of deferred tax)	**3.4**	–	–
Closing net assets under IFRS	**3,910.8**	4,036.9	4,005.9

Notes to the interim report

1 Turnover	25 weeks ended 24 July 2005 £m	25 weeks ended 25 July 2004 £m	Year ended 30 January 2005 £m
Stores	**5,147.9**	5,036.5	10,927.0
Fuel	**1,191.1**	988.6	2,102.1
Total sales including VAT	**6,339.0**	6,025.1	13,029.1
VAT	**(488.9)**	(452.0)	(1,003.6)
Share of BP Joint Venture	**66.4**	78.9	180.0
Other turnover and adjustments	**(2.6)**	11.2	78.2
Total turnover	**5,913.9**	5,663.2	12,283.7

2 Departmental analysis of the like-for-like increase/(decrease) in supermarket takings	Core Morrison %	Converted stores %	Safeway %	Total %
Food	(2.6)	16.1	2.7	2.9
Off licence	(0.9)	8.9	4.1	3.1
	(2.4)	15.0	2.9	2.9
Home and leisure	(7.6)	24.8	(11.5)	(1.9)
Total excluding forecourt	(2.7)	15.6	2.0	2.6
Forecourt	22.5	16.3	7.6	16.8
Total	1.1	15.7	3.0	5.0

3 Operating profit before Safeway integration	25 weeks ended 24 July 2005 £m	25 weeks ended 25 July 2004 £m	Year ended 30 January 2005 £m
Includes:			
Net (loss)/profit on sale of fixed assets	**(1.3)**	(1.7)	14.5

Notes to the interim report continued

4 Safeway integration costs	25 weeks ended 24 July 2005 £m	25 weeks ended 25 July 2004 £m	Year ended 30 January 2005 £m
Acquisition costs	–	0.8	0.3
Redundancy costs	9.9	17.6	23.8
Divestment costs	0.5	0.5	2.7
Store conversion costs	90.7	2.9	57.5
Retired Safeway brand	–	40.0	40.0
Fixtures written off on conversion	17.7	–	14.9
Total	**118.8**	61.8	139.2

5 Interest			
Interest receivable	8.7	7.3	21.1
Fair value movements on financial instruments	1.8	–	–
Finance income	10.5	7.3	21.1
Interest payable	(24.0)	(36.4)	(80.3)
Other finance costs	(2.7)	(2.8)	(6.2)
Finance costs	(26.7)	(39.2)	(86.5)
Note: Net interest payable	(15.3)	(29.1)	(59.2)

6 Dividends			
Dividends paid in the period	81.2	71.2	87.7

The directors propose an interim dividend of 0.625p per share and dividend warrants will be paid on 5 December 2005 to those members registered in the books of the Company on 28 October 2005.

Participants in the dividend reinvestment plan will receive their statements and, if applicable, share certificates by 13 December 2005.

7 Goodwill reconciliation	£m
Goodwill as reported under UK GAAP at 30 January 2005	(262.9)
Employee benefits	21.4
Deferred tax	413.9
Business combinations – including previous goodwill amortisation	(58.2)
Financial instruments	(10.7)
Other	(0.3)
Goodwill as reported under IFRS at 24 July 2005	103.2

8 Non-current assets classified as held for sale	25 weeks ended 24 July 2005 £m	25 weeks ended 25 July 2004 £m	Year ended 30 January 2005 £m
Divestment stores	**329.7**	272.0	725.7
Ex BP Joint Venture assets	**57.5**	–	–
	387.2	272.0	725.7

Divestment properties are stated at the lower of carrying amount or fair value.

9 First-time adoption of IAS 39 *Financial Instruments: Recognition and Measurement*

The adoption date for conversion of financial instruments to IFRS is 31 January 2005. Below is a reconciliation of the adjustments at that date, movements for the period and closing balance sheet.

	Closing 24 July 2005 £m	Movements £m	Opening 31 January 2005 £m
Derivatives included within Bonds under UK GAAP	**23.7**	(2.6)	26.3
Hindsight adjustment	**10.7**	–	10.7
Adjustment to fair value under IFRS	**9.4**	4.4	5.0
Derivative financial instruments under IFRS	**43.8**	1.8	42.0
Bonds under UK GAAP	**(999.9)**	4.6	(1,004.5)
Adjustment to IFRS	**(0.6)**	(0.5)	(0.1)
Total under IFRS (included within Financial Liabilities)	**(1,000.5)**	4.1	(1,004.6)

10 Reconciliation of profit before tax to cash generated from operations	25 weeks ended 24 July 2005 £m	25 weeks ended 25 July 2004 £m	Year ended 30 January 2005 £m
(Loss)/profit before tax	**(82.1)**	80.1	193.0
Net interest payable	**15.3**	29.1	59.2
Fair value movements on financial instruments	**(1.8)**	–	–
Other finance costs	**2.7**	2.8	6.2
Net loss/(profit) on the sale of fixed assets	**1.3**	1.7	(14.5)
Depreciation and other fixed asset adjustments	**157.2**	172.8	314.1
Share of post-tax BP Joint Venture profit	**(2.2)**	(0.9)	(2.2)
Share option charge	**1.0**	0.4	0.9
Excess of contributions over pension service cost	**(15.9)**	(2.3)	(7.5)
	75.5	283.7	549.2
Net movements in working capital	**251.1**	48.7	(106.3)
Cash generated from operations	**326.6**	332.4	442.9

11 IFRS Reconciliations of Net Assets and Profit

The following tables supplement the information contained in the press release dated 17 November 2005 that describes the detail of the conversion to IFRS for each of the periods shown below. Details can be obtained from either www.morrisons.co.uk or by writing to the investor relations department.

	£m
Opening net assets at 1 February 2004	
Net assets per UK GAAP	1,317.4
Share-based payments	3.8
Employee benefits	(6.6)
Leases	6.5
Dividends	71.6
Other	4.5
Net assets per IFRS	1,397.2

	25 weeks ended 24 July 2005 £m	25 weeks ended 25 July 2004 £m	Year ended 30 January 2005 £m
Profit for the period			
(Loss)/profit per UK GAAP	**(59.6)**	65.1	205.7
Share-based payments	**(2.6)**	(0.2)	(2.6)
Employee benefits	**(1.2)**	(1.2)	(2.8)
Leases	**0.5**	0.4	0.9
Business combinations	**(8.3)**	(40.0)	(98.2)
Financial instruments	**3.9**	–	–
Taxation	**0.8**	1.0	3.4
Other items	**(0.7)**	(0.5)	(1.4)
(Loss)/profit per IFRS	**(67.2)**	24.6	105.0
Closing net assets			
Net assets per UK GAAP	**3,989.7**	4,054.1	4,017.5
Share-based payments	**(0.2)**	2.3	2.1
Employee benefits	**(20.4)**	(20.4)	(22.4)
Leases	**7.9**	7.0	7.4
Business combinations	**(88.6)**	(22.3)	(80.3)
Financial instruments (IAS 32/39)	**6.2**	–	–
Dividends	**16.6**	16.6	82.0
Other items	**(0.4)**	(0.4)	(0.4)
Closing net assets per IFRS	**3,910.8**	4,036.9	4,005.9

12 Explanation of differences

These half year interim consolidated financial statements for the 25 weeks ended 24 July 2005 have been prepared in accordance with International Financial Reporting Standards (IFRS). Listed below are the various options that were chosen from those available under IFRS 1 *First-time Adoption of IFRS* with a brief description of material differences:

IFRS 1 First-time adoption options

IAS 19 *Employee Benefits* – all cumulative actuarial gains and losses are recognised at date of transition. This is similar to the UK GAAP approach.

IFRS 2 *Share-based Payment* – recommended approach of only valuing post-November 2002 share-based payments has been followed.

IAS 39 *Financial Instruments: Recognition and Measurement* – implementation deferred to 31 January 2005. Comparative figures for 25 weeks ended 25 July 2004 and 52 weeks ended 30 January 2005 are under UK GAAP.

IFRS 3 *Business Combinations* – not applicable as the only material acquisition to be considered was the Safeway acquisition on 8 March 2004 which is after the date of first-time adoption.

IAS 21 *Foreign Exchange* – nil balance brought forward on translation of foreign subsidiaries at the transition date.

Material differences

Share-based Payments – fair value is charged to the income statement for executive share options and share-based incentive payments to employees.

Pensions – the liability and charge will differ due to different treatment of death in service costs and the use of the bid value under IAS 19 compared to market value under FRS 17.

Leases – premiums for long leasehold land are now recognised as operating lease prepayments rather than fixed assets. The effect on the income statement is a reduced charge.

Business combinations – goodwill is not amortised under IFRS. There are primarily two adjustments – the reversal of negative goodwill amortisation and the retirement of the Safeway brand – plus the variations in valuations that arise from the application of IFRS standards compared to UK GAAP.

Financial instruments – derivative instruments are recognised at market value at each balance sheet date. The change in fair value from date of transition (31 January 2005) has been taken to the Income Statement as hedge accounting has not been adopted.

Taxation – provision is required under IAS 12 *Income Taxes* for the potential capital gains tax arising on the fair value uplift of properties acquired from Safeway, even though this is commercially remote. This accounts for almost all of the IFRS adjustment set out in Note 7.

Dividends – proposed dividends are not allowed to be recognised until authorised or paid. Authorisation is normally at an Annual General Meeting.

Reclassifications – the format of financial statements and classification of items is slightly different. Under IFRS, items are generally shown gross and not netted-off. This results in some reclassifications.

Subsidiary and Joint Venture information

25 weeks ended 24 July 2005

	Principal Activity	% Equity Holding
Subsidiaries of Wm Morrison Supermarkets plc:		
BOS BROTHERS FRUIT AND VEGETABLES B.V.	Produce wholesaler	100
FARMERS BOY LIMITED	Manufacture and distribution of fresh food products	100
FAROCK INSURANCE COMPANY LIMITED	Insurance	100
HOLSA LIMITED	Polythene bag manufacturer	100
NATHANSPIRE LIMITED	Financial services	100
NEEROCK LIMITED	Fresh meat processor	100
Wm MORRISON PRODUCE LIMITED	Produce packers	100
SAFEWAY LIMITED	Holding company	100
RATHBONE KEAR LIMITED	Bakery	80
Subsidiaries of Safeway Limited:		
SAFEWAY OVERSEAS LIMITED	Grocery retailing	100
SAFEWAY STORES LIMITED	Grocery retailing	100
SAFEWAY STORES (Ireland) LIMITED	Grocery retailing	100
SAFEWAY STORES (Card Services) LIMITED	Financial services	100

All the above companies are registered in England and Wales except Bos Brothers Fruit and Vegetables B.V. which is incorporated in The Netherlands, and Farock Insurance Company Limited which is incorporated in the Isle of Man.

The principal area of trading for all the above companies is the United Kingdom, apart from Bos Brothers Fruit and Vegetables B.V. and Safeway Overseas Limited who also trade in the rest of Europe.

In addition to the above, the company has a number of other subsidiary companies, particulars of which will be annexed to the next annual return.

The Joint Venture with BP was dissolved on 7 June 2005.

Shareholders' Information

Financial Calendar

Interim dividend pay date	5 December 2005
Financial year end	29 January 2006
Results announcement	23 March 2006
Final dividend record date	28 April 2006
Annual Report posted	20 April 2006
AGM and trading statement	25 May 2006
Final dividend pay date	30 May 2006
Half year end	23 July 2006
Interim results announcement	21 September 2006

Online Information for Shareholders

The company maintains an Investor Relations section on its website www.morrisons.co.uk which allows investors to access share price data and copies of company reports, including the Annual Report and Financial Statements 2004/5 and this Interim Report 2005/6.

Secretary and Registered Office

Jonathan Burke
Wm Morrison Supermarkets plc
Hilmore House, Thornton Road
Bradford BD8 9AX
Telephone: 01274 494166

Registrar and Shareholding Enquiries

Administrative enquiries about the holding of Morrisons shares and enquiries in relation to the dividend reinvestment plan should be directed to:
Capita Registrars
Northern House, Woodsome Park
Fenay Bridge
Huddersfield HD8 0LA
Telephone: 0870 162 3131

Share Dealing

The company has arranged a share dealing service through Hoare Govett Limited. You can buy or sell Morrisons shares by telephoning:
020 7678 8300

Customer Services

Customer Services Department
Wm Morrison Supermarkets plc
Parry Lane
Bradford BD4 8TD
Telephone: 01274 356000

Investor Relations

Investor Relations Department
Wm Morrison Supermarkets plc
Hilmore House, Thornton Road
Bradford BD8 9AX
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www.morrisons.co.uk
Wm Morrison Supermarkets plc