MORRISONS

News Release

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INTERIM RESULTS FOR THE HALF YEAR TO 2 AUGUST 2009

Strategy bearing fruit for Morrisons

Financial summary

- Turnover up 5.0% to £7.5bn (2008/9: £7.1bn)
- Like for like sales (ex VAT and fuel) up 7.8% (2008/9: 7.7%)
- Profit before tax £449m (2008/9: £309m)
- Underlying profit before tax up 22% to £359m (2008/9: £295m)
- Net debt £885m (2008/9: £458m) after capital investment of £572m
- Gearing of 19% (2008/9: 10%) and interest cover of 18 times
- Interim dividend up 35% to 1.08p

Operating highlights

- 22 new stores opened in the period
- New Sittingbourne regional distribution centre open ahead of schedule
- Optimisation Plan outperformance confirmed
- 5,000 new jobs created

Sir Ian Gibson, Non Executive Chairman, said:

"We are pleased with these interim results which reflect our broad appeal as the food specialist for everyone. Morrisons has gained over one million new customers in the past two years, and the management team's priority is to build on this success by continuing to offer outstanding day to day value to all our customers as the pressure on consumer spending continues through 2009."

Marc Bolland, Chief Executive, said:

"This has been an excellent first half performance from Morrisons, continuing our run of market beating sales growth. We offer great value to our customers, particularly our offers on fresh food delivered through our own preparation facilities, which have been hugely popular with a growing number of customers. The business is performing well in all parts of the country and we are making good progress on our plans to move from National to Nationwide."

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Outlook

We expect market growth to slow in the second half as inflationary pressures ease. The business' performance to date, the successful implementation of the Optimisation Plan and our continuing customer gains give the Board confidence that we will deliver our profit expectations for the year.

Overview

This report covers trading for the 26 weeks ended 2 August 2009.

Total turnover was £7.5bn, up 5.0% on the prior period. Excluding fuel, turnover was up 9.2%, comprising a like for like increase of 7.8% and a further 1.4% contribution from new stores.

Profit before tax was £449m, including £3m of gains from property disposals (2008/9: £6m) and an exceptional pensions credit of £91m. Underlying profit before tax was £359m, compared to £295m in the prior period, an increase of 22%. The underlying operating margin of 5.1% was strongly ahead of the prior period, reflecting the benefit of the Group's growth on supply chain efficiency and pleasing outperformance against our Optimisation Plan targets. Reduced pump prices at our forecourts also had the effect of reducing fuel turnover, thereby increasing overall margins.

Following successful consultation with our pension scheme members, we concluded the process of putting our defined benefit pension schemes onto a sound financial footing for the long term. Previously, we have injected £200m into the schemes; reduced – in consultation with the Trustees – the funds' exposure to equity investments and put the actuarial valuation on a very prudent basis of assumptions, particularly mortality rates. During the second half of the year, all future benefit accrual will move onto a career average basis, such that it will grow in line with inflation rather than being linked to final salary. At the same time, members' entitlements to commutation payments on retirement will increase, by an average of 10%. The resultant actuarial recalculation of future liabilities of the Schemes has reduced total liabilities by £91m. As a result, an exceptional pensions credit (which is non cash) has been recognised in the income statement as required under IAS19 and annual service costs will reduce by £8m with effect from October 2009.

Cash flow was again strong in the period, with £533m generated from operations compared with £521m in the prior period. Capital expenditure increased, as anticipated, to £572m (2008/9: £238m), with the completion of the acquisition of a batch of stores from the Co-operative Group and the development of our new distribution centre at Sittingbourne. As a result of these investments in future growth, net debt increased to £885m (2008: £458m), to leave gearing at 19%, significantly below that of most companies of a comparable nature and scale. Revolving credit facilities of £650m, available until 2012, remained undrawn at the half year. The Group's bonds were upgraded in March 2009, by Moody's, to A3 - a solid investment grade in line with our conservative balance sheet principles.

The Group has made good progress in its plans to move from being a national presence to a truly nationwide retailer. In the period, 22 new stores were opened, one of which was a replacement, and 19 of which were acquisitions from the Cooperative Group. Net selling space increased by 0.3 million square feet, to bring the total to 11.4 million.

Last year we announced an enhanced dividend policy, which was to target progressive dividend growth, over and above earnings growth, in order to bring dividend cover to a level in line with the rest of our sector this year. The Board is pleased to confirm its intention to increase the interim dividend by 35% to1.08 pence per share. This will be paid on 9th November 2009 to shareholders on the register on 2nd October 2009.

The UK grocery retail market

The consumer environment in the first half of 2009 remained difficult, with disposable incomes continuing to be under pressure and unemployment and the fear of unemployment affecting consumer behaviour. In the grocery market, consumers continued to experience food price inflation, driven mainly by the effects of the weak pound, which pushed up the costs of imported products and those domestically produced products that have a ready export market. These pressures began to moderate towards the end of the period.

A number of measures of grocery market performance are published, all of which are broadly consistent. One such, from Taylor Nelson Sofres, showed grocery market growth in the first half of 2009 at 5.9%, which is similar to the growth in the equivalent prior year period. This reflects the impact of food commodity and oil price inflation in recent times – the average growth rate in the previous five years was 3.8%.

The grocery sector continues to be under a close focus from the Office of Fair Trading (OFT), despite the findings of the Competition Commission that the sector is highly competitive. We always cooperate fully with such inquiries. In the case of the OFT investigation into milk, which began in 2004, we continue to believe strongly that Morrisons has no case to answer and have made representations in detail to this effect. Our view is unchanged by the Supplementary Statement of Objections issued by the OFT in July 2009. In the case of the tobacco inquiry which started in early 2003, there is a complex legal question as to whether well established industry practices represented a breach of competition law. It is likely that this can only be settled clearly through a formal judicial process, although the OFT have indicated an intention to reach their own conclusion in the first quarter of 2010.

Trading

Our like for like store sales growth of 7.8% continued the strong momentum we have been reporting since 2007, and reflected increased customer numbers and strong basket spend, as well as the effects of food price inflation. Over a 24 month period, we have added 1.1 million weekly customers drawn from all our major competitors, and we seek to continue growing the number of customers experiencing Morrisons every week in the coming year.

Like for like fuel sales were down 10.0%, reflecting the welcome effect of much reduced prices at the pumps. Average unleaded prices per litre were 94.9p in the period, compared with 109.7p in the previous year. Our reputation for strong value on fuel resulted in total volume growth, measured in litres, of 2.9% in the period.

The economic downturn continued to weigh heavily on consumers in the period, and our strong focus on value was maintained. Market Street performed particularly well, both because of our very sharp everyday pricing and because we are able to offer deeper, more attractive promotions on fresh products, supported by our own preparation facilities, than competitors who do not have this capability. We continue to lead the market, not just on fresh value, but also on quality and provenance, and we remain the only major British retailer to offer 100% British pork, beef, lamb and poultry. Our customers strongly endorse this policy, which supports British farming, reduces food miles and means that we sell only fresh meat raised to British standards of animal welfare.

The Group's like for like volume momentum, which has led our sector over a sustained period, has allowed us to invest strongly in value for our customers, ensuring that we maintain a very competitive position in the market. We continue to target annual sales growth ahead of market growth. Over and above our investment in customer value, our volume growth delivered supply chain benefits which allowed us to continue the process of recovering our margins which began with the first Optimisation Plan in 2006. Overall, the Group's Underlying Operating Margin increased from 4.3% to 5.1%, a total of 80 basis points, although half of this was accounted for by the effect of forecourt prices coming down year on year. Approximately two thirds of the remaining uplift related to the supply chain benefits, and a further third from over-performance on other elements of the Optimisation Plan, which are highlighted below.

Optimisation Plan progress

Our first Optimisation Plan, launched in 2006, achieved higher benefits than originally projected, and we are pleased that Optimisation Plan II, launched in 2007, is similarly expected to outperform by the time of its completion in January 2010.

During the period, our continuing work on store ranging and segmentation delivered good benefits, with all our major categories showing solid growth. Additionally, our in-store efficiency started to benefit from the queue management and self-checkout systems which we began rolling out in 2008.

The Plan included significant investment in infrastructure, and a milestone was the opening, after the period end, of our new Regional Distribution Centre (RDC) for the South East, at Sittingbourne in Kent. Having acquired the freehold of the site in 2008, the total site investment will be £108m and the opening period will incur first year costs of c£6m, which were included in the Optimisation Plan. Going forward, the operation of this site will ease capacity issues created by our growth and will substantially reduce the miles travelled in serving our South Eastern stores. We have now submitted a planning application for a further RDC in the South West, at Bridgwater, which will provide further capacity when needed in 2011/12 to support our National to Nationwide expansion.

The Optimisation Plan included a major programme of systems renewal, which will run for a number of years. During the period, we successfully delivered the first phase of the new financial systems, continued the roll-out of the new HR and payroll systems (now covering two thirds of our staff) and implemented a new stock picking system in two of our distribution centres. The roll-out of this will continue in the second half, which will also see the commencement of a pilot for the new Epos system in stores.

Co-Operative / Somerfield store acquisition and conversion

As originally announced in November 2008, we acquired 38 stores from the Co-Operative Group during the period, and also obtained clearance from the OFT for conversion to Morrisons. At the half year stage, 19 of these stores had been converted and opened, and a further 15 will open in the second half.

Included in the original package were 4 further stores which do not, naturally, fit the Morrisons operating model. As planned, they will remain closed until we are in a position to evaluate the results of other stores.

Excluding these “non-conforming” stores, this acquisition will add 480,000 square feet of net new store space and we anticipate the final acquisition and development costs will total £320m. As well as these capitalised costs, full year one-off costs of c£30m (H1 £21m) relating to pre-opening activities will be charged to Operating Profit. This is below our initial projection of £40m due to tight cost control and the timely manner in which the OFT approvals were granted.

Although early days, we are pleased with the customer response to the new stores, many of which were community stores operating with a limited range and high prices under the Somerfield fascia. As Morrisons, these stores offer a full weekly shop, with a strong fresh offer, all at the normal nationwide prices charged by Morrisons.

The combination of our organic store opening programme and the Co-Operative/Somerfield acquisition has given us a great next step in our move from National to Nationwide.

Corporate Social Responsibility

We continue to work hard on our CSR agenda. During the period, we again issued free “bags for life” to our customers, and as a result of this and other initiatives we reduced carrier bag consumption by 71m bags. We substantially completed the conversion of our filling station pumps to highly efficient “vapour recovery” pumps which emit much reduced levels of fuel vapour into the atmosphere, a £16m investment in improved environmental performance.

As the Food Specialist for Everyone, Morrisons understands where food comes from. To build further on our food specialist credentials, we announced a ground-breaking joint venture to farm 700 acres on the Dumfries House Estate in East Ayrshire. The Morrisons Farm will aim to become a leading centre of excellence for farming research, working in a new partnership with the Scottish Agricultural College to drive research into sustainable and commercial farming models and share best practice throughout the industry.

During the period, we launched a major initiative to help educate our customers and the general public in better food management. Called “Great Taste, Less Waste” the programme provides easy, practical tips to improve the storage of food and dispels some myths. For example, it highlights that tomatoes are best kept at room temperature and apples in the fridge – the reverse of how most consumers store these items.

Colleagues

Our continued growth resulted in job creation, with colleague numbers increasing from 124,000 to 131,000 over the period. We welcomed over 2,300 colleagues formerly employed by the Co-Operative Group or Somerfield, and wish them great success in their careers with Morrisons. The busy process of converting these stores has only been achieved so effectively through the great efforts of many colleagues.

We were delighted that our staff have again been recognised for their achievements of the past few years with success in further prestigious industry awards including Retail Week’s “Retailer of the Year” for the second consecutive year and The Grocer’s Service and Availability awards.

Wm Morrison Supermarkets PLC
Condensed consolidated financial statements

Consolidated statement of comprehensive income

26 weeks ended 2 August 2009

	Note	**26 weeks ended 2 August 2009 £m**	26 weeks ended 3 August 2008 £m	52 weeks ended 1 February 2009 £m
Turnover	2	**7,458**	7,105	14,528
Cost of sales		**(6,940)**	(6,669)	(13,615)
Gross profit		**518**	436	913
Other operating income		**31**	19	37
Administrative expenses		**(167)**	(152)	(281)
Pensions credit	6	**91**	-	-
Profits arising on property transactions		**3**	6	2
Operating profit		**476**	309	671
Analysed as:				
Operating profit before pensions credit		385	309	671
Pensions credit	6	91	-	-
Operating profit		**476**	**309**	**671**
Finance costs	3	**(34)**	(28)	(60)
Finance income	3	**7**	28	44
Profit before taxation		**449**	309	655
Taxation		**(140)**	(91)	(195)
Profit for the period attributable to the owners of the Company		**309**	218	460
Other comprehensive income:				
Actuarial gain /(loss) arising in the pension scheme		**6**	-	(101)
Write-off pension asset		**-**	(42)	-
Foreign exchange movements		**(1)**	-	6
Cash flow hedging movement		**(7)**	2	6
Tax in relation to components of other comprehensive income		**-**	12	31
Other comprehensive expense for the period, net of tax		**(2)**	(28)	(58)
Total comprehensive profit for the period attributable to the owners of the Company		**307**	**190**	**402**
Earnings per share (pence)	4			
- basic		**11.83**	8.21	17.39
- diluted		**11.76**	8.09	17.16

Consolidated balance sheet

2 August 2009

	Note	2 August 2009 £m	3 August 2008 £m	1 February 2009 £m
Assets				
Non-current assets				
Property, plant and equipment	5	**6,985**	6,302	6,587
Lease prepayments		**260**	239	250
Investment property		**241**	236	242
Financial assets		**67**	49	81
Pension surplus	6	**51**	-	-
		7,604	6,826	7,160
Current assets				
Stocks		**493**	451	494
Debtors		**221**	191	245
Financial assets		**-**	25	-
Cash and cash equivalents		**308**	339	327
		1,022	1,006	1,066
Non-current assets classified as held for sale		**-**	4	-
		1,022	1,010	1,066
Liabilities				
Current liabilities				
Creditors		**(1,895)**	(1,903)	(1,915)
Other financial liabilities		**(236)**	(96)	(1)
Current tax liabilities		**(148)**	(64)	(108)
		(2,279)	(2,063)	(2,024)
Non-current liabilities				
Other financial liabilities		**(1,024)**	(775)	(1,049)
Deferred tax liabilities		**(481)**	(463)	(472)
Pension liabilities	6	**-**	-	(49)
Provisions		**(108)**	(118)	(112)
		(1,613)	(1,356)	(1,682)
Net assets		**4,734**	4,417	4,520
Shareholders' equity				
Called up share capital		**265**	267	263
Share premium		**87**	60	60
Capital redemption reserve		**6**	2	6
Merger reserve		**2,578**	2,578	2,578
Retained earnings and hedging reserve		**1,798**	1,510	1,613
Total equity attributable to owners of the Company		**4,734**	4,417	4,520

Consolidated cash flow statement

26 weeks ended 2 August 2009

	Note	**2 August 2009 £m**	3 August 2008 £m	1 February 2009 £m
Cash flows from operating activities				
Cash generated from operations	7	**533**	521	964
Interest paid		**(12)**	(16)	(70)
Taxation paid		**(92)**	(67)	(104)
Net cash inflow from operating activities		**429**	438	790
Cash flows from investing activities				
Interest received		**4**	19	29
Proceeds from the sale of property, plant and equipment		**4**	17	22
Purchase of property, plant and equipment		**(572)**	(238)	(678)
Net cash outflow from investing activities		**(564)**	(202)	(627)
Cash flows from financing activities				
Proceeds from the issue of ordinary shares		**28**	3	3
Shares repurchased for cancellation		**-**	(50)	(146)
Finance lease principal repayments		**-**	(1)	(2)
New borrowings		**200**	-	250
Repayment of borrowings		**(2)**	(1)	(2)
Decrease in long term cash on deposit		**-**	49	74
Dividends paid to equity shareholders	8	**(131)**	(110)	(131)
Net cash inflow/(outflow) from financing activities		**95**	(110)	46
Net (decrease)/increase in cash and cash equivalents		**(40)**	126	209
Cash and cash equivalents at start of period		**327**	118	118
Cash and cash equivalents at end of period		**287**	244	327

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

	Note	**26 weeks ended 2 August 2009 £m**	26 weeks ended 3 August 2008 £m	52 weeks ended 1 February 2009 £m
Net (decrease)/increase in cash and cash equivalents		**(40)**	126	209
Cash outflow from decrease in debt and lease financing		**2**	2	4
Cash inflow from increase in loans		**(200)**	-	(250)
Decrease in long term cash on deposit		**-**	(49)	(74)
Other non cash movements		**(5)**	6	12
Opening net debt		**(642)**	(543)	(543)
Closing net debt	9	**(885)**	(458)	(642)

Consolidated statement of changes in equity

	Attributable to the owners of the Company						
	Share capital £m	Share premium £m	Capital redemption reserve £m	Merger reserve £m	Hedging reserve £m	Retained earnings £m	Total equity £m
Current half year							
At 1 February 2009	**263**	**60**	**6**	**2,578**	**12**	**1,601**	**4,520**
Profit for the period	**-**	**-**	**-**	**-**	**-**	**309**	**309**
Other comprehensive income:							
Actuarial gain arising in the pension scheme	**-**	**-**	**-**	**-**	**-**	**6**	**6**
Cash flow hedging movement	**-**	**-**	**-**	**-**	**(7)**	**-**	**(7)**
Foreign exchange movements	**-**	**-**	**-**	**-**		**(1)**	**(1)**
Tax in relation to components of other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**(7)**	**314**	**307**
Employees share options schemes:							
Share options charge	**-**	**-**	**-**	**-**	**-**	**9**	**9**
Share options exercised	**2**	**27**	**-**	**-**	**-**	**-**	**29**
Dividends	**-**	**-**	**-**	**-**	**-**	**(131)**	**(131)**
Total transactions with owners	**2**	**27**	**-**	**-**	**-**	**(122)**	**(93)**
At 2 August 2009	**265**	**87**	**6**	**2,578**	**5**	**1,793**	**4,734**
Prior half year							
At 3 February 2008	269	57	-	2,578	6	1,468	4,378
Profit for the period	-	-	-	-	-	218	218
Other comprehensive income:							
Write-off pension asset	-	-	-	-	-	(42)	(42)
Cash flow hedging movement	-	-	-	-	2	-	2
Tax in relation to components of other comprehensive income	-	-	-	-	-	12	12
Total comprehensive income for the period	-	-	-	-	2	188	190
Employees share options schemes:							
Share options charge	-	-	-	-	-	6	6
Share options exercised	-	3	-	-	-	-	3
Shares purchased for cancellation	(2)	-	2	-	-	(50)	(50)
Dividends	-	-	-	-	-	(110)	(110)
Total transactions with owners	(2)	3	2	-	-	(154)	(151)
At 3 August 2008	267	60	2	2,578	8	1,502	4,417

Consolidated statement of changes in equity (continued)

	Attributable to the owners of the Company						
	Share capital £m	Share premium £m	Capital redemption reserve £m	Merger reserve £m	Hedging reserve £m	Retained earnings £m	Total equity £m
Prior year							
At 3 February 2008	267	57	-	2,578	6	1,468	4,378
Profit for the period	-	-	-	-	-	460	460
Other comprehensive income:							
Actuarial loss arising in the pension scheme	-	-	-	-	-	(101)	(101)
Cash flow hedging movement	-	-	-	-	6	-	6
Foreign exchange movements	-	-	-	-	-	6	6
Tax in relation to components of other comprehensive income	-	-	-	-	-	31	31
Total comprehensive income for the period	-	-	-	-	6	396	402
Employees share options schemes:							
Share options charge	-	-	-	-	-	14	14
Share options exercised	-	3	-	-	-	-	3
Shares purchased for cancellation	(6)	-	6	-	-	(146)	(146)
Dividends	-	-	-	-	-	(131)	(131)
Total transactions with owners	(6)	3	6	-	-	(263)	(260)
At 1 February 2009	263	60	6	2,578	12	1,601	4,520

Notes to the condensed financial statements

26 weeks ended 2 August 2009

1 Underlying earnings

The Directors consider that the underlying earnings and underlying adjusted earnings per share measures referred to in the Interim management report provide useful information for shareholders on underlying trends and performance. The adjustments are made to reported profit to (a) remove the impact of pension interest income volatility on the income statement; (b) remove profits arising on property transactions; (c) remove the one-off pensions credit as a result of the move from final salary to CARE (note 6); and (d) apply an effective tax rate of 30%, being an estimated normalised tax rate.

	26 weeks ended 2 August 2009 £m	26 weeks ended 3 August 2008 £m	52 weeks ended 1 February 2009 £m
Profit after tax	**309**	218	460
Add back: tax charge for the period [1]	**140**	91	195
Profit before tax	**449**	309	655
Adjustments for:			
Net pension interest cost/(income) [1]	**4**	(8)	(17)
Pensions credit [1]	**(91)**	-	-
Profits arising on property transactions [1]	**(3)**	(6)	(2)
Underlying earnings before tax	**359**	295	636
Normalised tax charge at 30% [1]	**(108)**	(88)	(195)
Underlying earnings after tax charge	**251**	207	441

1 Adjustments marked [1] equal £58m (3 August 2008: £11m, 2 February 2009: £19m), as shown in reconciliation of earnings disclosed in note 4.

2 **Turnover**	**26 weeks ended 2 August 2009 £m**	26 weeks ended 3 August 2008 £m	52 weeks ended 1 February 2009 £m
Sale of goods in stores	**6,009**	5,514	11,378
Fuel	**1,405**	1,559	3,069
Total store based sales	**7,414**	7,073	14,447
Direct manufacturing sales	**20**	14	33
Income from concessions and commission	**24**	18	48
Total turnover	**7,458**	7,105	14,528

Notes to the condensed financial statements (continued)

26 weeks ended 2 August 2009

3 **Finance costs and income**	**26 weeks ended 2 August 2009 £m**	26 weeks ended 3 August 2008 £m	52 weeks ended 1 February 2009 £m
Interest payable on short term loans and bank overdrafts	**(4)**	(1)	(3)
Interest payable on bonds	**(22)**	(22)	(45)
Interest capitalised	**1**	2	4
Total interest payable	**(25)**	(21)	(44)
Fair value movement of derivative instruments	**(4)**	(3)	(8)
Other finance costs	**(5)**	(4)	(8)
Finance costs	**(34)**	(28)	(60)
Bank interest received	**3**	12	17
Amortisation of bonds	**7**	7	8
Other finance income	**1**	1	2
Pension liability interest cost	**(56)**	(49)	(113)
Expected return on pension assets	**52**	57	130
Net pension interest (cost)/income	**(4)**	8	17
Finance income	**7**	28	44
Net finance income	**(27)**	-	(16)

Notes to the condensed financial statements (continued)

26 weeks ended 2 August 2009

4 Earnings per share

Basic earnings per share are calculated by dividing earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period, excluding those held by the Group as treasury shares, which are treated as cancelled.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all potentially issuable dilutive ordinary shares.

Underlying earnings per share

It is the Directors' view that Underlying earnings per share is a fairer reflection of the underlying results of the business.

	26 weeks ended 2 August 2009 pence		26 weeks ended 3 August 2008 pence		52 weeks ended 1 February 2009 pence	
	Basic	**Diluted**	Basic	Diluted	Basic	Diluted
Basic earnings per share	**11.83**	**11.76**	8.21	8.09	17.39	17.16
Underlying earnings per share	**9.59**	**9.53**	7.75	7.64	16.67	16.45

	£m		£m		£m	
	Basic	**Diluted**	Basic	Diluted	Basic	Diluted
Basic earnings						
Earnings attributable to ordinary shareholders	**309**	**309**	218	218	460	460
Underlying earnings						
Earnings attributable to ordinary shareholders	**309**	**309**	218	218	460	460
Adjustments to determine underlying profit (see note 1)	**(58)**	**(58)**	(11)	(11)	(19)	(19)
Underlying earnings attributable to ordinary shareholders	**251**	**251**	207	207	441	441

	Millions		Millions		Millions	
	Basic	**Diluted**	Basic	Diluted	Basic	Diluted
Weighted average number of shares						
Ordinary shares in issue/diluted ordinary shares*	**2,615**	**2,631**	2,664	2,702	2,665	2,681

* The weighted average ordinary shares in issue is adjusted for potentially dilutive shares and share options.

5 Property, plant and equipment	**2 August 2009 £m**	3 August 2008 £m	1 February 2009 £m
Net book value			
At beginning of the period	**6,587**	6,205	6,205
Additions at cost	**547**	233	684
Interest capitalised	**1**	2	4
Transfers to/from investment property, long lease land premiums and assets held for sale	**-**	-	(2)
Disposals	**(3)**	(11)	(20)
Depreciation charge for the period	**(147)**	(127)	(284)
At end of the period	**6,985**	6,302	6,587

In addition to the depreciation charge above of £147m, £4m (3 August 2008: £3m, 2 February 2009:£6m) is charged on Investment properties.

Contracts placed for future capital expenditure not provided in the financial statements amount to £120m (3 August 2008:£103m, 2 February 2009:£321m).

Notes to the condensed financial statements (continued)

26 weeks ended 2 August 2009

6 Pension

Following consultation with members and approval by the Board and Trustees, the Group became committed to the final proposals from the Pension Review on 2 July 2009.

The move from a final salary basis to Career Average Revalued Earnings (CARE) represents an accounting curtailment of certain pension liabilities. In accordance with IAS 19 *Employee Benefits*, the Defined Pension Schemes' obligations were revalued by the schemes actuaries immediately prior to the change and assumptions reviewed at that date.

Comparative information is given for the prior year end (1 February 2009) where it is considered helpful to the understanding of the movement in the period.

a) Income statement

The change from final salary basis resulted in a pensions credit of £91m which is presented in the Consolidated statement of comprehensive income in this half year.

b) Assumptions

The major assumptions used in the valuation at this date were updated to reflect changes in the markets and revised assumptions. The assumptions used at the half year were the same as those used at the valuation date of 2 July 2009. All assumptions remained the same as the prior year end (1 February 2009) apart from the discount rate, which reduced from 6.25% to 6.00%..

c) Valuations

The movement in the present value of the defined benefit obligation from the prior year end to the interim reporting date was as follows:

	2 August 2009 £m	1 February 2009 £m
Net pension liability at start of period	**(49)**	(68)
Employers contributions	**22**	141
Current service cost	**(15)**	(38)
Expected return on scheme assets	**52**	130
Interest on defined benefit obligation	**(56)**	(113)
Actuarial gain recognised in Other comprehensive income	**6**	(101)
Pensions credit	**91**	-
Net pension asset/(liability) at end of period	**51**	(49)

Notes to the condensed financial statements (continued)

26 weeks ended 2 August 2009

7	Cash flows from operating activities	26 weeks ended 2 August 2009 £m	26 weeks ended 3 August 2008 £m	52 weeks ended 1 February 2009 £m
	Profit for the period	**309**	218	460
	Adjustments for:			
	Taxation	**140**	91	195
	Depreciation and amortisation	**151**	130	290
	Profit on disposal of property, plant and equipment	**(3)**	(6)	(2)
	Net finance cost	**27**	-	16
	Other non-cash changes	**8**	6	17
	Pensions credit	**(91)**	-	-
	Excess of contributions over pension service cost	**(7)**	(107)	(103)
	Decrease/(increase) in stocks	**1**	(9)	(52)
	Decrease/(increase) in debtors	**26**	7	(44)
	(Decrease)/increase in creditors	**(24)**	212	214
	Decrease in provisions	**(4)**	(21)	(27)
	Cash generated from operations	**533**	521	964

8	Dividends	26 weeks ended 2 August 2009 £m	26 weeks ended 3 August 2008 £m	52 weeks ended 1 February 2009 £m
	Equity dividends paid in the period	**131**	110	131

The dividend paid in the period represents the cash payment of the final dividend from the 52 weeks ended 2 February 2009.

The Directors are proposing an interim dividend of 1.08p per share which will be paid on 9 November 2009 to shareholders who are on the register of members on 2 October 2009. The interim dividend will absorb an estimated £30m of shareholders' funds. This amount will be charged to retained earnings when paid.

Notes to the condensed financial statements (continued)

26 weeks ended 2 August 2009

9 Analysis of net debt	2 August 2009 £m	3 August 2008 £m	1 February 2009 £m
Cash and cash equivalents	**308**	339	327
Bank overdrafts	**(21)**	(95)	-
Cash and cash equivalents per cash flow	**287**	244	327
Long term cash on deposit	**-**	25	-
Interest and cross-currency swaps	**67**	49	81
Financial assets	**67**	74	81
Bonds	**(201)**	-	-
Finance lease obligations	**(1)**	(1)	(1)
Derivative financial instruments	**(13)**	-	-
Current financial liabilities (excluding bank overdrafts)	**(215)**	(1)	(1)
Bonds	**(561)**	(760)	(784)
Floating credit facility	**(450)**	-	(250)
Other unsecured loans	**(13)**	(14)	(15)
Finance lease obligations	**-**	(1)	-
Non-current financial liabilities	**(1,024)**	(775)	(1,049)
Net debt	**(885)**	(458)	(642)

10 Contingent liabilities

The investigation by the Office of Fair Trading into the alleged collusion in the setting of prices for certain dairy products continues. The Board strongly believes that Morrisons has no case to answer and have made representations in detail to this effect. Our view is unchanged by the Supplementary Statement of Objections issued by the OFT in July 2009. The Board does not consider it probable that the Company will ultimately incur a fine and, accordingly, have made not provision for such a liability.

The OFT also continues to investigate the market for the sale of tobacco, and in this case there is a complex legal question as to whether well established industry practices represented a breach of competition law. It is likely that this can only be settled clearly through a formal judicial process. The Board has not made a provision for such a liability.

Responsibility statement

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the European Union;
- the Interim management report includes a fair review of the information required by DTR 4.2.7R and DTR 4.2.8R of the *Disclosure and Transparency Rules*.

By order of the Board

9 September 2009

<u>The Board</u>
The Board of Directors that served during the 26 weeks to 2 August 2009 and their respective responsibilities are:

Sir Ian Gibson – Chairman*
Marc Bolland – Chief Executive
Richard Pennycook – Group Finance Director
Mark Gunter – Group Retail Director
Martyn Jones – Group Trading Director
Philip Cox *
Brian Flanagan *
Paul Manduca *
Susan Murray *
Nigel Robertson *

* Non-Executive Director

Philip Cox joined the Board on 1 April 2009.

Principal risks and uncertainties
The principal risks and uncertainties set out in Wm Morrison Supermarkets PLC's Annual report and financial statements for the 52 weeks ended 1 February 2009 remain the same for the Half-yearly financial report 2009/10. Those risks and uncertainties can be summarised as follows:

Operational risks that may affect reputation, market share and financial results:
Business strategy
Product quality and safety
Regulation
Corporate Social Responsibility
Business interruption
Stores
Systems and infrastructure

Financial risks that may affect financial results or the financial position of the company:
Foreign currency risk
Liquidity risk.
Credit risk

More information on the principal risks and how we mitigate those risks can be found on page 22 of the Annual report and financial statements 2009. You can view the Annual report and financial statements 2009 online on our corporate website, www.morrisons.co.uk/annual report09 .

Accounting policies

Basis of preparation

This Half-yearly financial report 2009/10 is the condensed consolidated financial information of the Group for the 26 weeks ended 2 August 2009. It has been prepared in accordance with the Disclosure and Transparency Rules of the UK Financial Services Authority and the requirements of IAS 34 *Interim Financial Reporting* as adopted by the European Union.

The Half-yearly financial report 2009/10 was approved by the Board of Directors on 9 September 2009.

The Half-yearly financial report 2009/10 does not constitute financial statements and does not include all of the information and disclosures required for full annual financial statements. It should be read in conjunction with the Annual report and financial statements for the 52 weeks ended 1 February 2009 which is available either on request from the company's registered office or to download from www.morrisons.co.uk/annualreport09 .

The financial information contained in the Half-yearly report 2009/10 in respect of the 52 weeks ended 1 February 2009 has been extracted from the Annual report and financial statements 2009 which have been filed with the Registrar of Companies. The auditors report on these financial statements was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under Section 237(2) or (3) of the Companies Act 1985.

The half-yearly results for the current and comparative periods are unaudited. The auditors have carried out a review of the Half-yearly financial report 2009/10 and their report is set out below.

Significant accounting policies

Except as described below, the accounting policies applied by the Group in these condensed consolidated financial statements are consistent with those set out in Wm Morrison Supermarkets PLC Annual report and financial statements for the 52 weeks ended 1 February 2009.

In preparing the condensed consolidated financial statements, management are required to make accounting assumptions and estimates. The assumptions and estimation methods were consistent with those applied to the Annual report and financial statements for the 52 weeks ended 1 February 2009.

Presentation of financial statements

IAS 1(revised) *Presentation of financial statements* is mandatory for the first time for the financial year beginning 2 February 2009. The standard requires that all owner changes in equity are presented in the consolidated statement of changes in equity and non-owner changes in equity to be presented in the consolidated statement of comprehensive income. The Group adopts this policy and there is no impact to the financial statements other than presentation.
The Group has elected to present one statement of comprehensive income.

Comparative information has been re-presented so that it is also in conformity with the revised standard.

Segmental reporting

IFRS 8 *Operating segments* is mandatory for the first time for the financial year beginning 2 February 2009. The standard requires that the segments should be reported on the same basis as the internal reporting information that is provided to the chief operating decision –maker. The Group adopts this policy and the chief operating decision-maker has been identified as the CEO.

The Directors' consider there to be one business segment, being that of grocery and related activities. The Group's main activity is supermarket retailing and the CEO's focus is on the performance and growth of this activity. Internal reports reviewed regularly by the CEO provide information to allow the chief operating decision-maker to allocate resources and make decisions about the operations. The internal reporting focuses on the operations of the Group as a whole and does not identify individual operating segments. This set of condensed financial statements is therefore presented as a single reportable segment.

The following new standards, amendments to standards and interpretations are mandatory for the first time for the financial year beginning 2 February 2009, but have no material effect on the Group's financial statements.
IFRS 2 *Share based payment: Vesting conditions and cancellations**
IAS 23 *Borrowing costs**
IFRSs *Annual improvement to IFRSs**

*These standards and interpretations have been endorsed by the European Union.

Retirement benefits

The accounting policy in respect of retirement benefits remains the same as those set out in Wm Morrison Supermarkets PLC Annual report and financial statements for the 52 weeks ended 1 February 2009.
The pensions credit referred to throughout the interim management report is in respect of the change to the pension schemes from final salary to CARE, resulting in a reduction in the pension liabilities. In accordance with IAS 19, the reduction in the liabilities is treated as a curtailment and the change to the pension benefits requires the Defined Pension Schemes obligations to be revalued by the schemes actuaries and the assumptions reviewed at that date. We have carried out these procedures for the half year.

Independent review report to Wm Morrison Supermarkets PLC

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the Half-yearly financial report 2009/10 for the 26 weeks ended 2 August 2009 which comprises the Consolidated statement of comprehensive income, the Consolidated balance sheet, the Consolidated statement of charges in equity, the Consolidated cash flow statement, and the related explanatory notes.. We have read the other information contained in the Half-yearly financial report 2009/10 and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the Disclosure and Transparency Rules ("the DTR") of the UK's Financial Services Authority ("the UK FSA"). Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

The Half-yearly financial report 2009/10 is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the Half-yearly financial report 2009/10 in accordance with the DTR of the UK FSA.

The annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the EU. The condensed set of financial statements included in the Half-yearly financial report 2009/10 has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the Half-yearly financial report 2009/10 based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the Half-yearly financial report 2009/10 for the 26 weeks ended 2 August 2009 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FSA.

Chris Hearld Audit Director

For and on behalf of

KPMG Audit Plc
Chartered Accountants
1 The Embankment
Neville Street
Leeds
LS1 4DW
9 September 2009