News Release

Release date: 15 September 2016

INTERIM RESULTS FOR THE HALF YEAR TO 31 JULY 2016
Improving the shopping trip for customers

Financial summary

- Q2 LFL sales ex-fuel/ex-VAT up 2.0%, the third consecutive positive quarter
- H1 LFL sales ex-fuel/ex-VAT up 1.4%
- Total turnover almost flat, down 0.4% to £8.03bn (2015/16: £8.06bn)
- UPBT up 11% to £157m (2015/16 UPBT before restructuring costs: £141m), or up 34% including last year's restructuring costs (2015/16 UPBT: £117m)
- Underlying EPS up 35% to 5.04p (2015/16: 3.73p)
- Reported PBT up 13.5% to £143m (2015/16: £126m)
- Free cash flow of £558m (2015/16: £479m)
- Operating working capital improvement of £318m, two-and-a-half-year total £872m
- Debt facilities redeemed: $250m USPP and £152m of sterling/euro bonds
- Net debt reduced by £477m to £1,269m, below our year-end target
- Interim dividend up 5.3% to 1.58p (2015/16: 1.50p)

Strategic and operating highlights

- Continuous listening programmes and delivery of the six priorities are improving the customer shopping trip and stabilising LFL sales
- Good progress on plan to Fix, Rebuild and Grow a broader, stronger business
- New strategic partnerships announced with Amazon, Timpson and Ocado
- Disposal of stake in Fresh Direct after period end

Financial targets update

- Cost savings to exceed £1bn target by end of 2016/17
- £2bn free cash flow target exceeded six months ahead of plan
- Working capital improvement target increased from £800m to £1bn
- £5m of the £50m-£100m incremental PBT target delivered in the first six months
- Year-end net debt target lowered from £1.4bn-£1.5bn to around £1.2bn, and net debt expected to fall to less than £1bn by the end of 2017/18

Wm Morrison Supermarkets PLC
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Hilmore House, Gain Lane
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Andrew Higginson, Chairman, said:

"The new team has made a real difference and delivered further good progress across the board in the first half.

"Prices are lower, customers are being served better and quality is improving, as demonstrated by Morrisons winning a number of recent prestigious awards such as the 2016 Meat and Fish Retailer of the Year.

"We remain on track to deliver improved profits and returns for shareholders".

David Potts, Chief Executive, said:

"We are pleased with positive like-for-like sales and 11% underlying profit growth in the first half. Our priorities are unchanged. We have made improvements to the shopping trip for customers and we plan to do more.

"I would like to thank the entire Morrisons team of food makers and shopkeepers who are working very hard to Fix, Rebuild and Grow Morrisons. This turnaround opportunity is in our own hands and I am confident we will succeed."

Outlook

It is too early to know how the recent referendum result could affect the British economy, but customers tell us their food shopping has not changed. We have seen no negative impact on customer sentiment or customer behaviour. There are some uncertainties, especially around the impact on imported food prices if sterling stays at its current lower level. However, our priorities are unchanged, and we will continue to invest in becoming more competitive and improving the shopping trip for customers.

During the first half, we achieved the first £5m of incremental profit from wholesale, services, interest and online, and remain confident of our £50m-£100m medium-term target.

We now expect to exceed our £1bn three-year cost savings target by the end of 2016/17. We have also identified further productivity opportunities beyond 2016/17 in areas such as product ordering, distribution and in-store administration.

At the 2015/16 preliminary results in March we increased our medium-term working capital improvement target to at least £800m, from £600m. In the first half, we delivered several of our separate working capital improvement programmes and have already exceeded the £800m target. We will sustain these improvements and now expect further gains in future. Our medium-term working capital improvement target increases to £1bn.

Net debt is already below the bottom end of our 2016/17 year-end guidance range of £1.4bn-£1.5bn, and we are lowering guidance to around £1.2bn. For 2017/18, we expect net debt to fall further, to less than £1bn.

Figure 1 – First half 2016/17 profit reconciliation

£m	H1 15/16	H1 16/17	Y-on-Y
Reported operating profit	172	224	30.2%
Reported profit before tax	126	143	13.5%
Underlying adjustments:			
– Impairment and provision for onerous contracts	87	-	
– Profit on disposal and exit of properties	-96	-17	
– USPP make whole payment*	-	17	
– Financing charges relating to debt repayment*	-	9	
– Reclassification from cash flow hedge reserve*	-	9	
– Net pension interest income*	-	-4	
Underlying operating profit	163	207	27.0%
Underlying profit before tax	**117**	**157**	**34.2%**
– Restructuring costs	24	-	
Underlying operating profit before restructuring costs	187	207	10.7%
Underlying profit before tax and restructuring costs	**141**	**157**	**11.3%**

** Adjusted in underlying profit before tax but not underlying operating profit*

Figure 2 – Sales performance (ex-VAT)

	2015/16				2016/17	
	Q1	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**
Group LFL:						
Sales ex-fuel*	-2.9%	-2.4%	-2.6%	0.1%	0.7%	2.0%
Sales inc-fuel*	-6.6%	-5.4%	-5.1%	-0.2%	1.2%	2.4%

** For supermarkets, online and convenience stores, reported ex-VAT and in accordance with IFRIC 13*

Figure 3 – Summary of operational key performance indicators (KPIs)

	2015/16				2016/17	
	Q1	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**
LFL Items per Basket *y-on-y change**	-0.1%	-1.1%	-1.9%	-3.4%	-2.8%	-5.0%
LFL Number of Transactions *y-on-y change**	-3.2%	-2.6%	-2.0%	1.6%	3.1%	4.3%

** Excludes online and convenience*

This announcement includes inside information.

Alternative Performance Measures

Guidelines on Alternative Performance Measures issued by the European Securities and Markets Authority came into effect for all communications released on or after 3 July 2016 for issuers of securities on a regulated market. The relevant Alternative Performance Measures identified by the Group are detailed below.

The Directors measure the performance of the Group based on the following financial measures which are not recognised under EU-adopted IFRS and consider these to be important measures in evaluating the Group's results and financial position.

Definitions and additional requirements:

(1) **Like-for-like (LFL) sales:** percentage change in year-on-year sales (excluding VAT and fuel), removing the impact of new store openings and closures in the current or previous financial year.

Total turnover during the period was down slightly year-on-year (0.4%), comprising positive LFL of 1.4% (ex-fuel, ex-VAT), negative net new space of 2.7% as a result of the planned programme of disposals and underperforming store closures, and positive fuel and other sales of 0.9%.

(2) **Underlying profit before tax (UPBT), underlying operating profit and underlying earnings per share (EPS):** include restructuring costs, but exclude profit/loss relating to property disposals and sale of businesses, IAS 19 pension interest, impairment and provisions for onerous contracts, and other items that do not relate to the Group's principal activities on an ongoing basis.

A reconciliation between reported and underlying profit before tax and operating profit is shown in Figure 1 and in Note 2. See Note 7 for a reconciliation between basic and underlying EPS.

(3) **Free cash flow:** movement in net debt before the payment of dividends. Free cash flow for the period is £558m (2015/16: £479m) being the movement in net debt of £477m (2015/16: £254m) adjusted for dividends paid of £81m (2015/16: £225m).

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Management will host an analyst presentation this morning at 09:30. A webcast of this meeting is available at http://www.morrisons-corporate.com/Investor-centre/.

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

Financial overview

Total turnover during the period was £8.03bn, down slightly year-on-year (0.4%), comprising positive like-for-like (LFL[1]) and negative net new space as a result of the planned programme of disposals and underperforming store closures. Turnover of £6.3bn, excluding fuel, was down by 1.3%, with LFL up 1.4% (including online of 1.1% and supermarkets of 0.3%) and -2.7% contribution from net new space.

Sales improved through the first half, and LFL has now been positive for three consecutive quarters. In Q2, ex-fuel LFL was up 2.0% (Q1: 0.7%), with LFL Number of Transactions up 4.3% (Q1: 3.1%).

Fuel performance continued to be strong, with sales up 3.2% to £1.6bn and fuel LFL up 3.5%. Persistent deflation was more than offset by strong volume growth.

Underlying operating profit[2] was up 11% to £207m (2015/16: £187m before restructuring costs), with margin up 26 basis points year-on-year to 2.6%.

Underlying net finance costs were £50m (2015/16: £47m).

Reported profit before tax (PBT) was £143m, and underlying PBT (UPBT[2]) was up 34% to £157m (2015/16: £117m). After adjusting for last year's restructuring costs, UPBT was up 11% (2015/16 UPBT pre-restructuring costs: £141m). UPBT included the first £5m of the incremental £50m-£100m profit target from wholesale, services, interest and online.

Adjustments recognised outside UPBT were -£14m, comprising the previously announced costs of early redemption of the US private placement (USPP) notes of -£17m, other finance costs associated with bond repayments of -£9m, recognition in profit of the movements in hedges relating to redeemed facilities of -£9m, property disposal profits of £17m, and pension interest income of £4m. The net cash outflow relating to these adjustments was £8m.

Underlying basic earnings per share (EPS[2]) was up 35% to 5.04p (2015/16: 3.73p).

Capital expenditure was £163m (2015/16: £139m).

Free cash flow[3] pre-dividend was £558m, which included a further £318m improvement in operating working capital and £55m of property disposal proceeds.

Overall, post-dividend and pre-disposal proceeds, the business was again cash flow positive, generating £396m during the half.

Group net debt fell to £1,269m, down £477m from the end of 2015/16.

The proposed interim dividend is up 5.3% to 1.58p.

The previously announced closure of a further seven stores was completed in the period. One new store was opened. Net space fell by 71,000 square feet.

Return on capital employed (ROCE) is 6.2%.

Strategy update

We have made good initial progress with our strategy to Fix, Rebuild and Grow Morrisons.

During the first half, we continued to focus on listening to customers, improving capability and stabilising LFL sales. The six priorities delivered many improvements.

The customer shopping trip is improving. Queues are down, availability is up, and service is better. Customer satisfaction and colleague engagement are also higher.

First half LFL sales were positive (+1.4%), driven by strong volume growth. LFL transactions were up 3.7% year-on-year as we continued to attract more customers back to Morrisons.

Our plans to build a broader, stronger business are progressing well. During the first half, we achieved the first £5m of the £50m-£100m medium-term incremental profit opportunity that we have identified across wholesale, services, interest and online. We announced partnerships with Amazon and Timpson and, after the period end, a plan for Morrisons.com to grow profitably across Britain with Ocado. In addition, we have recently announced the sale of our stake in US online retailer Fresh Direct.

Cost savings were £189m during the half, and we now expect to exceed our three-year target of £1bn by the end of 2016/17. In addition, we have identified other future productivity opportunities in areas such as product ordering, distribution between Manufacturing and Retail, and in-store administration.

Cash flow remains very strong and working capital again improved significantly. We have exceeded our three-year £2bn free cash flow target six months ahead of plan. Net debt fell to below our £1.4bn-£1.5bn year-end target. We now expect net debt to be around £1.2bn by the end of 2016/17, and less than £1bn by the end of 2017/18. We expect to sustain these strong cash flow and working capital improvements and have again increased our medium-term working capital improvement target, to £1bn.

Our cash flow profile and strong balance sheet provide firm foundations on which to keep developing our strategy.

We see many more ways we can continue to improve the shopping trip for customers. There is still a lot we plan to do to deliver the six priorities and we still have a substantial relative catch-up opportunity. The new productivity benefits will provide the resources to enable us to keep investing in that opportunity.

As we continue to deliver our plan to Fix, Rebuild and Grow Morrisons, we will improve the operational levers - sales, margin and asset intensity - to rebuild profit and ROCE. We will continue to be guided by our capital allocation framework, and growth will be capital light, disciplined and sustainable. We will keep de-leveraging and delivering our cash improvement programmes. This will enable future flexibility and choices around investment and shareholder returns.

Six priorities update

1. To be more competitive

We invested in great value, good quality fresh food in the first half.

We continue to develop the Morrisons price list, focussing on great value in areas we know our customers appreciate most. We are a distinct business with unique skills as food maker and shopkeeper, and our price list utilises that opportunity.

'Price Crunch' is now into its fourth wave, driving down prices on everyday items. '*Morrisons Makes It*' is a fresh range made by our specialist food makers in our stores and factories, combining our unique craft skills with great value.

Category resets and new product ranges continue to be successful. For example, during the period we launched an improved range of Meal Solutions which are proving popular, with sales up 9%. We built on our reset work in Beers, Wines and Spirits with a successful wine festival and new ranges in areas such as Craft Beer. In addition, we have recently reset the Frozen category.

Our successes are beginning to be recognised, with Morrisons winning a series of prestigious awards in the first half. We won Meat and Fish Retailer of the Year at the SuperMeat and Fish Awards, Cheddar Cheese Retailer of the Year at the International Cheese Awards, and International Wine Challenge Supermarket of the Year for the second year running.

2. To serve customers better

Improving customer service will be a continuous journey for Morrisons.

A recent independent survey on queue lengths placed us second, up from fifth a year ago. We aim to do even better and have just announced an ambition to cut queues further by opening more checkouts for customers.

Separate customer service desks have now been installed in 200 stores, greeters have been introduced into larger stores at busier times, and we have invested in store warehouse hours to improve replenishment and availability for customers.

Customers are noticing the improvements and responding. The improvements in our customer satisfaction scores have been sustained. We are also serving more customers, with LFL transactions up 4.3% year-on-year in Q2. We now serve 11.65m customers a week, which is 490,000 more than last year on a like-for-like basis.

3. Find local solutions

Our new local solutions team is now supported by experts in the field in areas such as Scotland and London. Together they are working closely with suppliers to improve local ranging, events and communication. Recent initiatives have included '*Scottish favourites'* and '*Yorkshire Day'*.

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Our Fresh Look programme is on track and helping to better tailor the offer more to local communities, store by store. Fresh Look is also helping us as we work hard to minimise the impact of competitor new store openings. The refit improvements, together with some tailored local solutions before, during and after competitor openings, are delivering some good results.

4. Develop popular and useful services

We made good progress with our existing services during the first half.

Our fuel business is now more competitive, we are trading it better day-to-day, and the forecourts are open longer for customers. Sales have responded very well with LFL volumes remaining strong throughout the first half.

We have modernised almost 80 cafés so far this year and will complete around 130 by year end. The café menu has been improved and a team of specialists has been recruited to improve the customer experience.

In addition, we are developing new popular and useful services.

During the first half we announced a partnership with Timpson. It now operates dry cleaning and photo processing in 120 stores where we previously had a full dry cleaning operation, and is bringing other Timpson services such as shoe repair to the new '*Timpson at Morrisons'* offer.

Pick-up services are becoming increasingly popular. For our customers it is convenient to pick up online orders while visiting Morrisons for a food shop. We are partnering with some of the most popular pick-up providers including Amazon, Doddle, and InPost. We expect to have hundreds more lockers in our stores by year end.

Convenience is an opportunity for Morrisons. We currently operate five '*Morrisons Daily'* franchise pilot stores with Motor Fuel Group. We are also developing an improved convenience format for our own petrol filling station kiosks, with extended trading hours and a broader offer.

We have identified numerous car parks at Morrisons stores where we have the space to develop other popular and useful services with partners. This will provide convenient new services for customers and income for Morrisons.

5. To simplify and speed up the organisation

During the first half, we further improved the in-store and field leadership team structures and capability. This work continues, and we now have a talented, diverse and well-balanced team.

Our work to simplify, speed-up and improve our dealings with our suppliers has progressed very well. Reducing the complexity around the number and types of commercial income is a key part of this, and we have now successfully moved from 37 to three in the last few months.

New initiatives during the first half included the introduction of our first belted self-scan checkouts into 140 stores, which are convenient for customers and a productivity saving for Morrisons.

We are also working on several new initiatives to simplify and speed up that will bring other productivity opportunities. We are trialling a new product ordering system that does not require substantial IT spend. We also have opportunities to improve the efficiency of distribution between Manufacturing and Retail, and reduce in-store administration.

6. To make core supermarkets strong again

The Fresh Look programme is progressing well. We have completed 51 Fresh Look refits so far this year, of which 28 were in the first half. We are on track both for 100 Fresh Look refits for the year and a run-rate of 100 per annum until the end of 2018/19.

We are pleased with the sales uplifts for the Fresh Look stores, and many of our learnings from Fresh Look are being applied across the estate for national benefit. The programme is also helping us introduce new initiatives for customers such as pancake griddles and simple juice bars, and showcase the unique food-making skills of our colleagues by, for example, moving the butcher's block to face the customer.

Morrisons.com

As recently announced, Morrisons has finalised an agreement with Ocado that will allow millions more customers to shop with Morrisons.com and enable Morrisons to grow profitably online across Britain. Morrisons will take space in Ocado's new customer fulfilment centre in Erith, and Ocado will develop a store-pick solution for Morrisons.com. The new agreement at Erith will have significantly lower upfront capital costs than the original operating agreement and includes a Morrisons break option after five years.

In addition, Morrisons has re-negotiated some components of the original contract with Ocado. The principal changes are: the restriction on store pick has been lifted; the profit share clause is removed; and the research and development fee will be reduced.

Wholesale supply

During the first half Morrisons started to wholesale to Amazon, with our first delivery towards the end of the period in June. Although it is still very early days, we are pleased with progress and have been broadening the range we supply. We are also developing further potential opportunities for wholesale supply with other customers.

Financial strategy and update

Capital allocation framework

The capital allocation framework continues to guide all our decisions and is unchanged. Our first priority is to invest in the stores and infrastructure and reduce costs. Second, we will seek to maintain debt ratios that support our target of an investment grade credit rating. Third, we will invest in profitable growth opportunities. Fourth, we will pay dividends in line with our stated policy, and finally, any surplus capital will be returned to shareholders.

Shareholder returns

As announced at the 2015/16 preliminary results, the annual dividend will be sustainable and covered around two times by underlying earnings. The 2016/17 interim dividend will be 1.58p.

As debt continues to fall, our strong balance sheet continues to get stronger. Lowering debt still further remains our focus.

Optimise assets

We made further progress towards improving returns through optimising our assets. As previously announced, we closed seven stores in the period, bringing the total to 28 over the last two years. This is in addition to the disposal of M local last year. Overall, we have now closed or sold around 5% of Morrisons space. We opened one store during the first half, and there will be no new store openings in the second half.

After period end we announced the sale of our 10% stake in US online retailer Fresh Direct for £45m, which was a £14m premium to the £31m holding value. The profit on disposal will be recognised in the second half.

£1bn cost savings

We achieved further cost savings of £189m, bringing the two-and-a-half-year total to £836m. We now expect to exceed our target of £1bn of savings in the three years to the end of 2016/17. In addition, we have identified future cost saving opportunities in areas such as product ordering, improving the efficiency of distribution between Manufacturing and Retail, and reducing in-store administration.

Cash flow and working capital

A focus on cash is firmly embedded. We made further progress both on our cash improvement programmes and day-to-day cash management during the period. We delivered £558m of free cash flow generation. The two-and-a-half-year total is now £2.2bn, exceeding our three-year £2bn target six months ahead of plan.

Working capital again improved substantially, with many improvement programmes delivered during the first half. Working capital generation was £318m and is now £872m over the last two and a half years, meaning we achieved our medium-term plan of at least £800m. In the first half there were a number of successful programmes including: improving our trading performance and commercial dynamics in fuel; extending the supply chain finance programme; and continuing to simplify relationships with suppliers.

The working capital improvements we have achieved so far are structural and sustainable. Although we outperformed our expectations in the first half, we still expect to deliver further working capital improvements in future and our medium-term target is increased to £1bn.

Property disposal proceeds were £55m, bringing the total since the start of the programme to around £850m. The proceeds were from property development and non-core disposals. Profit on disposal was £17m. There was no rent impact from disposals in the period. We still expect to achieve at least £1.1bn of property disposal proceeds in the medium term.

Capital expenditure
Capital expenditure was £163m, up from £139m for the first half of 2015/16. In addition, we incurred £27m of capital payments on onerous contracts and still expect £100m for the full year.

We still expect 2016/17 capital expenditure to be around £450m, and future annual capital expenditure to be sustained in the range £400m-£450m. In addition, we will continue to pursue opportunities to buy freeholds or exit onerous lease commitments for stores that are already provided for but were not opened. After the balance sheet date we acquired the freeholds of three short-lease stores.

Our guidance for 2016/17 depreciation increases from c.£390m to c.£400m, as we now expect a slightly higher second-half amortisation charge.

Debt
Our successful cash improvement programmes meant debt reduced more quickly than expected. Group net debt ended the half at £1,269m, down £477m since year end and below the low end of our full-year guidance range of £1.4bn-£1.5bn. We expect net debt to fall further, and now target around £1.2bn for the end of 2016/17 and less than £1bn for the end of 2017/18.

Morrisons debt maturity profile and liquidity are strong. The £1.35bn revolving credit facility (RCF) was undrawn during the first half and, since period end, has been extended by a further year to 2021.

As opportunities have arisen we have been retiring surplus facilities on terms that have an attractive payback. During the first half we redeemed $250m USPP notes, completed a £152m tender offer across three sterling/euro bonds, and did not renew a £150m RCF that expired.

Interest
The underlying net finance charge was £50m. After interest savings from the bond repurchases, we now expect the 2016/17 charge to be £95m-£100m, down slightly from c.£100m previously guided.

Pension
The pension surplus increased from £186m to £249m. The schemes remain well funded and the assumptions prudent. A 130 basis points reduction in the discount rate in the period, to 2.4%, increased liabilities. Interest rate and inflation risks are well hedged, therefore asset performance was strong. In addition, as data has been compiled for the triennial valuation, actual experience is being reflected which has improved the position. Pension interest income was £4m.

People update

As the turnaround will be colleague led, it is vital that colleagues are rewarded well and treated with respect. We have established listening forums in all stores and sites, and respond quickly wherever possible. Colleague engagement has improved further, helping Morrisons to be a better place to work and thereby creating a better shopping trip for customers.

We have been investing in our ways of working programme, with 550 store and regional managers attending a five-day residential leadership course. Our craft skills apprenticeship is enrolling over 300 bakers, butchers and fishmongers, and a new engineering apprenticeship has recently launched in our manufacturing business. We have also introduced a new programme to develop internal talent, with many colleagues experiencing a fast-track programme to become store managers.

In March, we increased in-store colleagues' hourly pay to £8.20, £1 per hour above the National Living Wage. A new bonus scheme has been introduced across the organisation, based solely on rewarding our colleagues on how we serve customers. The colleague discount scheme has also been improved and new recognition reward vouchers have been introduced that enable managers to say 'thank you' to colleagues. In addition, we now provide freshly laundered whites every day for our Market Street colleagues and all our in-store colleagues will receive a newly designed uniform by the end of the year.

Corporate responsibility and community

How we operate is very important. Our corporate responsibility programme ensures we work the right way for our customers, colleagues, suppliers and communities.

Supporting good causes
Morrisons is committed to giving back to the communities we serve and supporting good causes. In the first six months of the year the Morrisons Foundation donated £2.8m to local charities, making a difference to peoples' lives across Britain. Over the same period, and thanks to the generosity of our customers and colleagues, we raised over £1m for our national charity partner, Sue Ryder, and have now raised over £5m in two and a half years. This money is giving more people the care they want at the end of their lives and providing support for their families.

Unsold food to charity programme
We want to ensure that good food in our stores is never wasted. That is why we introduced the unsold food to charity programme, which allows our stores to donate edible surplus food to local community groups of their choice. We are donating on average 200,000 products a month to good causes, which works out at two trolleys of food per store per week.

'For Farmers' Range
Our '*For Farmers'* milk, which ensures that an additional premium goes directly back to dairy farmers, has proved popular with our customers and suppliers. As a result, the '*For Farmers'* range has now been extended to include cream, cheese, butter and bacon. Since October 2015 the '*For Farmers'* range has generated almost £4m extra income for farmers.

Wm Morrison Supermarkets PLC
Condensed consolidated financial statements
Consolidated statement of comprehensive income
26 weeks ended 31 July 2016

	Note	**26 weeks ended 31 July 2016 (unaudited) £m**	26 weeks ended 2 August 2015 (unaudited) £m	52 weeks ended 31 January 2016 (audited) £m
Revenue	3	**8,032**	8,064	16,122
Cost of sales		**(7,727)**	(7,753)	(15,505)
Gross profit		**305**	311	617
Other operating income		**36**	34	72
Profit/loss on disposal and exit of properties and sale of businesses	2	**17**	96	97
Administrative expenses		**(134)**	(269)	(472)
Operating profit		**224**	172	314
Finance costs	4	**(89)**	(54)	(112)
Underlying finance costs		**(54)**	(54)	(112)
Adjustments for:				
Costs associated with the repayment of borrowings	2	**(35)**	-	-
Finance income	4	**8**	7	13
Share of profit of joint venture (net of tax)		**-**	1	2
Profit before taxation		**143**	126	217
Analysed as:				
Underlying profit before taxation	2	**157**	117	242
Adjustments for:				
Impairment and provision for onerous contracts		**-**	(87)	(87)
Profit/loss on disposal and exit of properties		**17**	96	131
		17	9	44
Costs associated with the repayment of borrowings	2	**(35)**	-	-
Loss arising on disposal of businesses	19	**-**	-	(34)
Pension scheme set-up costs	14	**-**	-	(35)
Net pension interest income	2	**4**	-	-
		143	126	217
Taxation	5	**(33)**	(19)	5
Profit for the period attributable to the owners of the Company		**110**	107	222
Other comprehensive income/(expense):				
Items that will not be reclassified to profit or loss:				
Remeasurement of defined benefit pension schemes	14	**62**	61	236
Tax on defined benefit pension schemes		**(12)**	(12)	(47)
		50	49	189
Items that may be reclassified subsequently to profit or loss:				
Cash flow hedging movement		**30**	11	16
Items reclassified from hedging reserve in relation to the repayment of borrowings	2	**9**	-	-
Remeasurement of available-for-sale financial assets	13	**14**	-	-
Tax on items that may be reclassified subsequently to profit or loss		**(11)**	(2)	(4)
Exchange differences on translation of foreign operations		**(2)**	-	1
		40	9	13
Other comprehensive income for the period, net of tax		**90**	58	202
Total comprehensive income for the period attributable to the owners of the Company		**200**	165	424
Earnings per share (pence)				
- basic	7	**4.70**	4.59	9.51
- diluted	7	**4.68**	4.57	9.47

Wm Morrison Supermarkets PLC
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Consolidated balance sheet

31 July 2016

	Note	**31 July 2016 (unaudited) £m**	2 August 2015 (unaudited) £m	31 January 2016 (audited) £m
Assets				
Non-current assets				
Goodwill and intangible assets	8	**453**	536	483
Property, plant and equipment	9	**7,111**	7,158	7,161
Investment property	10	**30**	40	37
Net pension asset	14	**249**	27	186
Investment in joint venture		**63**	69	63
Investments	12	**-**	31	31
Derivative financial assets	17	**48**	13	30
		7,954	7,874	7,991
Current assets				
Stock		**635**	639	616
Debtors		**213**	208	192
Available-for-sale financial assets	13	**45**	-	-
Derivative financial assets	17	**24**	1	12
Cash and cash equivalents	16	**620**	169	496
		1,537	1,017	1,316
Assets classified as held for sale	11	**7**	49	-
		1,544	1,066	1,316
Liabilities				
Current liabilities				
Creditors		**(2,854)**	(2,316)	(2,518)
Short term borrowings	17	**(202)**	(14)	(209)
Derivative financial liabilities	17	**(6)**	(16)	(17)
Current tax liabilities		**(54)**	(42)	(11)
		(3,116)	(2,388)	(2,755)
Non-current liabilities				
Borrowings	17	**(1,750)**	(2,139)	(2,003)
Derivative financial liabilities	17	**(3)**	(100)	(55)
Deferred tax liabilities		**(445)**	(427)	(429)
Net pension liabilities	14	**-**	(14)	-
Provisions		**(302)**	(333)	(309)
		(2,500)	(3,013)	(2,796)
Net assets		**3,882**	3,539	3,756
Shareholders' equity				
Share capital		**234**	234	234
Share premium		**127**	127	127
Capital redemption reserve		**39**	39	39
Merger reserve		**2,578**	2,578	2,578
Retained earnings and other reserves		**904**	561	778
Total equity attributable to the owners of the Company		**3,882**	3,539	3,756

Consolidated cash flow statement

26 w eeks ended 31 July 2016

	Note	**26 weeks ended 31 July 2016 (unaudited) £m**	26 weeks ended 2 August 2015 (unaudited) £m	52 weeks ended 31 January 2016 (audited) £m
Cash flows from operating activities				
Cash generated from operations	15	**708**	471	1,026
Interest paid		**(47)**	(43)	(99)
Taxation received/(paid)		**3**	(2)	(41)
Net cash inflow from operating activities		**664**	426	886
Cash flows from investing activities				
Interest received		**3**	2	4
Dividends received from joint venture		**-**	-	8
Proceeds from sale of property, plant and equipment		**55**	181	300
Proceeds from sale of businesses	19	**-**	-	20
Purchase of property, plant and equipment, investment property and assets classified as held for sale		**(141)**	(72)	(266)
Purchase of intangible assets		**(22)**	(67)	(99)
Net cash (outflow)/inflow from investing activities		**(105)**	44	(33)
Cash flows from financing activities				
Purchase of shares in subsidiary		**-**	-	(3)
Purchase of own shares for trust		**(2)**	-	(13)
Net repayment of revolving credit facility		**-**	(320)	(320)
Repayment of borrowings		**(320)**	(10)	(10)
Costs incurred on repayment of borrowings		**(25)**	-	-
Dividends paid	6	**(81)**	(225)	(260)
Net cash outflow from financing activities		**(428)**	(555)	(606)
Net increase/(decrease) in cash and cash equivalents		**131**	(85)	247
Cash and cash equivalents at start of period		**487**	240	240
Cash and cash equivalents at end of period	16	**618**	155	487

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

	Note	**26 weeks ended 31 July 2016 (unaudited) £m**	26 weeks ended 2 August 2015 (unaudited) £m	52 weeks ended 31 January 2016 (audited) £m
Net increase/(decrease) in cash and cash equivalents		**131**	(85)	247
Cash outflow from decrease in debt		**320**	330	330
Non-cash movements		**26**	9	17
Opening net debt		**(1,746)**	(2,340)	(2,340)
Closing net debt	16	**(1,269)**	(2,086)	(1,746)

Consolidated statement of changes in equity

	Note	Share capital	Share premium	Capital redemption reserve	Merger reserve	Hedging reserve	Fair value reserve	Retained earnings	Total equity
		Attributable to the owners of the Company							
	Note	£m	£m	£m	£m	£m	£m	£m	£m
26 weeks ended 31 July 2016 (unaudited)									
At 1 February 2016		234	127	39	2,578	(10)	-	788	3,756
Profit for the period		-	-	-	-	-	-	110	110
Other comprehensive income/(expense):									
Cash flow hedging movement		-	-	-	-	30	-	-	30
Items reclassified from hedging reserve in relation to repayment of borrowings	2	-	-	-	-	9	-	-	9
Remeasurement of available-for-sale financial assets	13	-	-	-	-	-	14	-	14
Exchange differences on translation of foreign operations		-	-	-	-	-	-	(2)	(2)
Remeasurement of defined benefit pension schemes	14	-	-	-	-	-	-	62	62
Tax in relation to components of other comprehensive income		-	-	-	-	(8)	(3)	(12)	(23)
Total comprehensive income for the period		-	-	-	-	31	11	158	200
Employee share option schemes:									
Purchase of trust shares		-	-	-	-	-	-	(5)	(5)
Share-based payments		-	-	-	-	-	-	12	12
Dividends	6	-	-	-	-	-	-	(81)	(81)
Total transactions with owners		-	-	-	-	-	-	(74)	(74)
At 31 July 2016		**234**	**127**	**39**	**2,578**	**21**	**11**	**872**	**3,882**

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Consolidated statement of changes in equity (continued)

		Attributable to the owners of the Company							
		Share capital	Share premium	Capital redemption reserve	Merger reserve	Hedging reserve	Fair value reserve	Retained earnings	Total equity
	Note	£m	£m	£m	£m	£m	£m	£m	£m
26 weeks ended 2 August 2015 (unaudited)									
At 2 February 2015		234	127	39	2,578	(22)	-	638	3,594
Profit for the period		-	-	-	-	-	-	107	107
Other comprehensive income/(expense):									
Cash flow hedging movement		-	-	-	-	11	-	-	11
Remeasurement of defined benefit pension schemes	14	-	-	-	-	-	-	61	61
Tax in relation to components of other comprehensive income		-	-	-	-	(2)	-	(12)	(14)
Total comprehensive income for the period		-	-	-	-	9	-	156	165
Employee share option schemes:									
Share-based payments		-	-	-	-	-	-	5	5
Dividends	6	-	-	-	-	-	-	(225)	(225)
Total transactions with owners		-	-	-	-	-	-	(220)	(220)
At 2 August 2015		**234**	**127**	**39**	**2,578**	**(13)**	**-**	**574**	**3,539**

		Attributable to the owners of the Company							
		Share capital	Share premium	Capital redemption reserve	Merger reserve	Hedging reserve	Fair value reserve	Retained earnings	Total equity
	Note	£m	£m	£m	£m	£m	£m	£m	£m
52 weeks ended 31 January 2016 (audited)									
At 2 February 2015		234	127	39	2,578	(22)	-	638	3,594
Profit for the period		-	-	-	-	-	-	222	222
Other comprehensive income/(expense):									
Cash flow hedging movement		-	-	-	-	16	-	-	16
Exchange differences on translation of foreign operations		-	-	-	-	-	-	1	1
Remeasurement of defined benefit pension scheme	14	-	-	-	-	-	-	236	236
Tax in relation to components of other comprehensive income		-	-	-	-	(4)	-	(47)	(51)
Total comprehensive income for the period		-	-	-	-	12	-	412	424
Purchase of trust shares		-	-	-	-	-	-	(13)	(13)
Employee share option schemes:									
Share-based payments		-	-	-	-	-	-	11	11
Dividends	6	-	-	-	-	-	-	(260)	(260)
Total transactions with owners		-	-	-	-	-	-	(262)	(262)
At 31 January 2016		**234**	**127**	**39**	**2,578**	**(10)**	**-**	**788**	**3,756**

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1. Segmental reporting

The Executive Committee is considered to be the Group's chief operating decision maker. There are no differences from the 2015/16 Annual report and Financial Statements in the basis of segmentation. The Directors consider there to be one operating segment, that of retailing.

The Executive Committee uses the underlying profit figure to measure performance. A reconciliation of underlying profit to the statutory position can be found in note 2. The Executive Committee also reviews a balance sheet containing assets and liabilities which is as shown within the Consolidated balance sheet.

2. Underlying profit

The definition of underlying profit is consistent with the prior year.

The Directors consider that the underlying profit and underlying adjusted earnings per share measures referred to in the results provide useful information for shareholders on underlying trends and performance. The adjustments are made to reported profit to (a) remove impairment, provision for onerous contracts, or other items that do not relate to the Group's principal activities on an ongoing basis; (b) remove profit/loss arising on disposal and exit of properties and sale of businesses; (c) apply a normalised tax rate of 25% (2 August 2015: 25%, 31 January 2016: 25%) (see note 5) and (d) remove the impact of pension interest volatility.

	26 weeks ended 31 July 2016 (unaudited) £m	26 weeks ended 2 August 2015 (unaudited) £m	52 weeks ended 31 January 2016 (audited) £m
Profit after tax	**110**	107	222
Add back: tax charge/(credit) for the period[1]	**33**	19	(5)
Profit before tax	**143**	126	217
Adjustments for:			
Impairment and provision for onerous contracts[1]	**-**	87	87
Profit/loss arising on disposal and exit of properties[1]	**(17)**	(96)	(131)
	(17)	(9)	(44)
Payment associated with early repayment of US Private Placement[1]	**17**	-	-
Financing charges on redemption of bonds[1]	**9**	-	-
Amounts reclassified from hedging reserve [1]	**9**	-	-
	35	-	-
Loss arising on disposal of businesses[1] (note 19)	**-**	-	34
Pension scheme set-up cost[1] (note 14)	**-**	-	35
Net pension interest income[1] (note 14)	**(4)**	-	-
Underlying profit before tax	**157**	117	242
Normalised tax charge at 25% (2015: 25%)[1]	**(39)**	(30)	(61)
Underlying profit after tax	**118**	87	181

[1] Adjustments marked [1] increase post tax underlying earnings by £8m (2 August 2015: £20m decrease, 31 January 2016: £41m decrease), as shown in the reconciliation of earnings disclosed in note 7.

Net profit on property is £17m (2 August 2015: £9m, 31 January 2016: £44m). This includes profits arising on disposal and exit of properties amounting to £17m (2 August 2015: £96m, 31 January 2016: £131m). There has been no charge (2 August 2015: £87m, 31 January 2016: £87m) for impairment or provisions for onerous contracts. The prior year charge relates to changes in estimates related to provisions for stores in the new space pipeline.

Costs associated with the repurchase of bonds and the early repayment of borrowing facilities total £35m. This includes the payment of £17m relating to the early settlement of the US Private Placement (USPP). The £9m financing charges on redemption of bonds primarily relates to premiums and other fees incurred on the repayment of bonds. The remaining £9m relates to losses which had previously been recognised in reserves and have been reclassified to the income statement on termination of hedging arrangements.

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3. Revenue analysis

	26 weeks ended 31 July 2016 (unaudited) £m	26 weeks ended 2 August 2015 (unaudited) £m	52 weeks ended 31 January 2016 (audited) £m
Sale of goods in-stores and online	**6,302**	6,388	12,811
Fuel	**1,633**	1,583	3,124
Total store based sales and online	**7,935**	7,971	15,935
Other sales	**97**	93	187
Total revenue	**8,032**	8,064	16,122

4. Finance costs and income

	26 weeks ended 31 July 2016 (unaudited) £m	26 weeks ended 2 August 2015 (unaudited) £m	52 weeks ended 31 January 2016 (audited) £m
Interest payable on short term loans and bank overdrafts	**(2)**	(2)	(4)
Interest payable on bonds	**(45)**	(49)	(98)
Interest capitalised	**-**	3	4
Total interest payable	**(47)**	(48)	(98)
Provisions: unwinding of discount	**(6)**	(5)	(11)
Other finance costs	**(1)**	(1)	(3)
Underlying finance costs[1]	**(54)**	(54)	(112)
Costs associated with the repayment of borrowings (note 2)	**(35)**	-	-
Finance costs	**(89)**	(54)	(112)
Bank interest received	**3**	2	5
Amortisation of bonds	**1**	-	1
Other finance income	**-**	5	7
Underlying finance income[1]	**4**	7	13
Net pension interest income (note 2)	**4**	-	-
Finance income	**8**	7	13
Net finance cost	**(81)**	(47)	(99)

[1] Underlying net finance costs marked [1] amount to £50m (2 August 2015: £47m, 31 January 2016: £99m).

5. Taxation

Tax charged within the interim report has been calculated by applying the effective rate of tax which is expected to apply to the Group for the period ending 29 January 2017 using rates substantively enacted by 31 July 2016 as required by *IAS 34 Interim Financial Reporting.*

The normalised rate of tax of 25% (2 August 2015: 25%, 31 January 2016: 25%) has been calculated using the full year projections and has been applied to the half year underlying profit. The standard rate of corporation tax of 20% (2 August 2015: 20%, 31 January 2016: 20%) for the full year has been applied to the adjustments to underlying profit on an item by item basis.

The 2015 Budget announced a reduction in the UK corporation tax rate from 20% to 19% for the Financial Years beginning 1 April 2017, 1 April 2018 and 1 April 2019, with a further reduction from 19% to 18% for the Financial Year beginning 1 April 2020. These changes were substantively enacted on 26 October 2015. Accordingly, deferred tax has been provided at 20%, 19% or 18% depending upon when the temporary difference is expected to reverse.

The 2016 Budget announced a further reduction in the UK corporation tax rate to 17% from 1 April 2020. This change was not substantively enacted at the balance sheet date and is therefore not recognised in the current financial statements. If the 17% rate was recognised in this period the deferred tax asset recognised on the balance sheet would be reduced by £20m.

6. Dividends

Amounts recognised as distributed to equity holders in the period:

	26 weeks ended 31 July 2016 (unaudited) £m	26 weeks ended 2 August 2015 (unaudited) £m	52 weeks ended 31 January 2016 (audited) £m
Final dividend for the year ended 1 February 2015 of 9.62p	**-**	225	225
Interim dividend for the period ended 31 January 2016 of 1.50p	**-**	-	35
Final dividend for the period ended 31 January 2016 of 3.50p	**81**	-	-
	81	225	260

The Directors propose an interim dividend of 1.58p per share which will be paid on 7 November 2016 to shareholders who are on the register on 30 September 2016. The interim dividend will absorb an estimated £37m of shareholders' funds. The dividends paid and proposed during the year are from cumulative realised distributable reserves of Wm Morrison Supermarkets PLC.

7. Earnings per share

Basic earnings per share (EPS) is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period. For diluted EPS, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all potentially dilutive ordinary shares.

The Company has two (2 August 2015 and 31 January 2016: two) classes of instrument that are potentially dilutive; those share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the period and contingently issuable shares under the Group's long term inventive plans (LTIP).

	26 weeks ended 31 July 2016 (unaudited) Pence		26 weeks ended 2 August 2015 (unaudited) Pence		52 weeks ended 31 January 2016 (audited) Pence	
	Basic	**Diluted**	Basic	Diluted	Basic	Diluted
Basic EPS	**4.70**	**4.68**	4.59	4.57	9.51	9.47
Underlying EPS	**5.04**	**5.02**	3.73	3.71	7.77	7.73
	£m		£m		£m	
	Basic	**Diluted**	Basic	Diluted	Basic	Diluted
Basic earnings						
Earnings attributable to ordinary shareholders	**109.5**	**109.5**	107.0	107.0	221.8	221.8
Underlying earnings						
Earnings attributable to ordinary shareholders	**109.5**	**109.5**	107.0	107.0	221.8	221.8
Adjustments to determine underlying profit (note 2)	**8.0**	**8.0**	(20.0)	(20.0)	(40.6)	(40.6)
Underlying earnings attributable to ordinary shareholders	**117.5**	**117.5**	87.0	87.0	181.2	181.2
	Millions		Millions		Millions	
	Basic	**Diluted**	Basic	Diluted	Basic	Diluted
Weighted average number of shares						
Ordinary shares in issue/diluted ordinary shares	**2,331.4**	**2,340.7**	2,333.0	2,342.0	2,332.5	2,341.5

8. Goodwill and intangible assets

	31 July 2016 (unaudited) £m	2 August 2015 (unaudited) £m	31 January 2016 (audited) £m
Net book value			
At beginning of the period	**483**	520	520
Additions	**21**	59	65
Disposals	**-**	-	(10)
Interest capitalised	**-**	3	4
Amortisation	**(51)**	(46)	(96)
At end of the period	**453**	536	483

The carrying value of goodwill and intangible assets principally consists of software development costs of £428m (2 August 2015: £514m, 31 January 2016: £460m). During the period assets costing £20m became fully depreciated (2 August 2015: £23m, 31 January 2016: £34m).

Included within the above are assets under construction of £19m (2 August 2015: £122m, 31 January 2016: £16m). The cumulative amount of interest capitalised in the total cost above amounts to £41m (2 August 2015: £40m, 31 January 2016: £41m).

9. Property, plant and equipment

	31 July 2016 (unaudited) £m	2 August 2015 (unaudited) £m	31 January 2016 (audited) £m
Net book value			
At beginning of the period	**7,161**	7,252	7,252
Additions	**135**	71	288
Disposals	**(17)**	(18)	(89)
Transfers to assets classified as held for sale	**(21)**	(4)	(4)
Depreciation	**(147)**	(143)	(286)
At end of the period	**7,111**	7,158	7,161

During the period assets costing £77m became fully depreciated (2 August 2015: £66m, 31 January 2016: £167m).

Included within the above are leasehold land and buildings held under finance lease with a cost of £308m (2 August 2015: £308m, 31 January 2016: £308m) and accumulated depreciation of £94m (2 August 2015: £93m, 31 January 2016: £94m).

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 £197m (2 August 2015: £197m, 31 January 2016: £197m).

Impairment
The Group considers that each store is a separate cash generating unit (CGU) and therefore considers every store for an indication of impairment. The Group calculates each store's recoverable amount and compares this amount to its book value. The recoverable amount is determined as the higher of 'value in use' and 'fair value less costs of disposal'.

The Directors have considered whether the impact of the result of the EU referendum on 23 June 2016 gives rise to an impairment and concluded the carrying value of assets remains appropriate at the balance sheet date.

Notes to the condensed consolidated financial statements (continued)

26 weeks ended 31 July 2016

10. Investment property

	31 July 2016 (unaudited) £m	2 August 2015 (unaudited) £m	31 January 2016 (audited) £m
Net book value			
At beginning of the period	**37**	68	68
Additions	**-**	3	3
Disposals	**-**	-	(2)
Transfers to assets classified as held for sale	**(7)**	(30)	(30)
Depreciation	**-**	(1)	(2)
At end of the period	**30**	40	37

11. Assets classified as held for sale

	31 July 2016 (unaudited) £m	2 August 2015 (unaudited) £m	31 January 2016 (audited) £m
Net book value			
At beginning of the period	**-**	84	84
Additions	**16**	-	-
Disposals	**(37)**	(69)	(118)
Transfer from property, plant and equipment	**21**	4	4
Transfers from investment property	**7**	30	30
At end of the period	**7**	49	-

12. Investments

	31 July 2016 (unaudited) £m	2 August 2015 (unaudited) £m	31 January 2016 (audited) £m
Net book value			
At beginning of the period	**31**	31	31
Non-current assets reclassified as current available-for-sale financial assets	**(31)**	-	-
At end of the period	**-**	31	31

The above relates to the investment in Fresh Direct Inc. For further details see note 13.

13. Available-for-sale financial assets

	31 July 2016 (unaudited) £m	2 August 2015 (unaudited) £m	31 January 2016 (audited) £m
Net book value			
At beginning of the period	**-**	-	-
Reclassification from non-current investments	**31**	-	-
Fair value adjustment	**14**	-	-
At end of the period	**45**	-	-

The £31m balance previously disclosed as an equity investment in the 52 weeks ended 31 January 2016 and in the 26 weeks ended 2 August 2015 represented the Group's 10% stake in Fresh Direct Inc, a US internet grocer. As at 31 July 2016, the Group has reclassified the non-current investment as a current available-for-sale financial asset, as it has reached an agreement to sell its stake in the entity.

In line with *IAS 39 Financial Instruments: Recognition and Measurement*, the asset has been remeasured to fair value at 31 July 2016, resulting in a £14m gain being recognised within other comprehensive income. This gain will be recognised within profit in the second half of the 52 weeks ended 29 January 2017, net of transaction costs. The sale of the investment was completed on 16 August 2016 (see note 20).

14. Pensions

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 Morrisons and Safeway Schemes provide pension benefits based on either the employee's compensation package or career average revalued earnings (CARE) (the 'CARE Schemes'). The CARE Schemes are not open to new members and have been closed to future accrual since 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.

The latest full actuarial valuations carried out as at 1 April 2013 for the Safeway Schemes and 5 April 2013 for the Morrison Scheme and the RSP have been updated for the period to 31 July 2016 by a qualified independent actuary based on the latest available member data being used as part of the ongoing triennial valuation. Full triennial valuations based on member data as at 1 April 2016 for the Safeway Scheme, 5 April 2016 for the Morrison Scheme and 30 June 2016 for the RSP are in the process of being finalised.

The movement in the net pension asset during the period was as follows:

	26 weeks ended 31 July 2016 (unaudited) £m	26 weeks ended 2 August 2015 (unaudited) £m	52 weeks ended 31 January 2016 (audited) £m
Net pension asset/(liability) at beginning of the period	**186**	(39)	(39)
Net interest income	**4**	-	-
Curtailment gain	**1**	2	3
Remeasurement in other comprehensive income	**62**	61	236
Employer contributions	**33**	40	76
Current service cost	**(35)**	(50)	(86)
Administrative cost	**(2)**	(1)	(4)
Net pension asset at end of the period	**249**	13	186

14. Pensions (continued)

At 31 July 2016, schemes in surplus have been disclosed w ithin assets on the balance sheet. The Group has taken legal advice in respect of the Schemes w ith regard to the recognition of a pension surplus and also recognition of a minimum funding requirement under IFRIC 14 'IAS 19 – The limit on a defined benefit asset, minimum funding requirement and their interaction'. This advice concluded that recognition of a surplus is appropriate on the basis that the Group has an unconditional right to a refund of a surplus. Amendments to the current version of IFRIC 14 are currently being considered. The legal advice received by the Group has concluded that the above accounting treatment should not be affected by the current exposure draft of the revised w ording to IFRIC 14.

The disclosures below show the details of the schemes combined:

	31 July 2016 (unaudited) £m	2 August 2015 (unaudited) £m	31 January 2016 (audited) £m
Safew ay CARE schemes	**193**	20	146
Retirement Saver Plan	**3**	7	8
Morrison CARE scheme	**53**	(14)	32
Net pension asset at end of the period	**249**	13	186

Defined contribution scheme set-up costs

In the prior year the Group announced its intention to open a new defined contribution pension scheme, w hich will become the Auto Enrolment scheme for colleagues, and provided £35m relating to the backdated cost of contributions at 31 January 2016.

15. Cash flow from operating activities

	26 weeks ended 31 July 2016 (unaudited) £m	26 w eeks ended 2 August 2015 (unaudited) £m	52 w eeks ended 31 January 2016 (audited) £m
Profit for the period	**110**	107	222
Net finance costs	**81**	47	99
Taxation charge/(credit)	**33**	19	(5)
Share of profit of joint venture	**-**	(1)	(2)
Operating profit	**224**	172	314
Adjustments for:			
Depreciation and amortisation	**198**	190	384
Profit arising on disposal/exit of properties and sale of businesses	**(17)**	(96)	(97)
Adjustment for non-cash element of pension charges	**(1)**	9	11
Share-based payments	**12**	5	11
Other non-cash charges	**1**	-	1
(Increase)/decrease in stocks[1]	**(18)**	19	40
(Increase)/decrease in debtors[1]	**(2)**	28	30
Increase in creditors[1]	**324**	107	313
(Decrease)/increase in provisions[1]	**(13)**	37	19
Cash generated from operations	**708**	471	1,026

Total w orking capital inflow (the sum of items marked[1] above) is £291m in the period (2 August 2015: £191m, 31 January 2015: £402m). This includes £nil (2 August 2015: £83m, 31 January 2016: £83m) as a result of the current year onerous leases charge and onerous commitments, net of £27m (2 August 2015: £17m, 31 January 2016: £29m) of onerous capital payments. When adjusted to exclude these items, the w orking capital inflow is £318m (2 August 2015: £125m, 31 January 2016: £348m).

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16. Analysis of net debt

	31 July 2016 (unaudited) £m	2 August 2015 (unaudited) £m	31 January 2016 (audited) £m
Cash and cash equivalents per balance sheet	**620**	169	496
Bank overdrafts	**(2)**	(14)	(9)
Cash and cash equivalents per cash flow statement	**618**	155	487
Cross-currency contracts and interest rate swaps	**38**	13	30
Fuel and energy price contracts	**10**	-	-
Non-current financial assets	**48**	13	30
Foreign exchange forward contracts	**21**	1	12
Fuel and energy price contracts	**3**	-	-
Current financial assets	**24**	1	12
Forward foreign exchange contracts	**(1)**	(10)	-
Fuel and energy price contracts	**(5)**	(6)	(17)
Bonds	**(200)**	-	(200)
Current financial liabilities	**(206)**	(16)	(217)
Bonds	**(1,754)**	(1,986)	(1,834)
Private placement loan notes	**-**	(158)	(174)
Revolving credit facility	**4**	5	5
Cross-currency contracts and interest rate swaps	**-**	(94)	(46)
Fuel and energy price contracts	**(3)**	(6)	(9)
Non-current financial liabilities	**(1,753)**	(2,239)	(2,058)
Net debt	**(1,269)**	(2,086)	(1,746)

Cash and cash equivalents include restricted balances of £15m (2 August 2015: £16m, 31 January 2016: £16m) which are held by Farock Insurance Company Limited, a subsidiary of Wm Morrison Supermarkets PLC.

In March 2016, the IFRS Interpretations Committee issued an agenda decision regarding the treatment of offsetting and cash-pooling arrangements in accordance with IAS 32: 'Financial instruments: Presentation'. This provided additional guidance on when bank overdrafts in cash-pooling arrangements would meet the requirements for offsetting in accordance with IAS 32. Following this additional guidance, the Group has reviewed its cash-pooling arrangements and recognised £2m of cash pooling facilities within bank overdrafts and short term borrowings in the current period that would previously have been offset against cash and cash equivalent balances. Comparatives at 2 August 2015 and 31 January 2016 have been restated by £13m and £8m respectively. There is no impact of this change in presentation on cash flows or net debt.

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17. Financial instruments

	31 July 2016 (unaudited) Carrying amount £m	**31 July 2016 (unaudited) Fair value £m**	2 August 2015 (unaudited) Carrying amount £m	2 August 2015 (unaudited) Fair value £m	31 January 2016 (audited) Carrying amount £m	31 January 2016 (audited) Fair value £m
Non-current financial assets						
Derivative financial assets	**48**	**48**	13	13	30	30
Total non-current financial assets	**48**	**48**	13	13	30	30
Current financial assets						
Derivative financial assets	**24**	**24**	1	1	12	12
Available-for-sale financial assets	**45**	**45**	-	-	-	-
Total current financial assets	**69**	**69**	1	1	12	12
Current financial liabilities						
Short term borrowings	**(202)**	**(206)**	(14)	(14)	(209)	(216)
Derivative financial liabilities	**(6)**	**(6)**	(16)	(16)	(17)	(17)
Total current financial liabilities	**(208)**	**(212)**	(30)	(30)	(226)	(233)
Non-current financial liabilities						
Borrowings	**(1,750)**	**(1,841)**	(2,139)	(2,176)	(2,003)	(1,979)
Derivative financial liabilities	**(3)**	**(3)**	(100)	(100)	(55)	(55)
Total non-current financial liabilities	**(1,753)**	**(1,844)**	(2,239)	(2,276)	(2,058)	(2,034)

The fair value of the sterling and euro denominated bonds carried at amortised cost are measured using closing market prices (level 1) (2 August 2015 and 31 January 2016: level 1). The fair value of the USPP carried at amortised cost at 2 August 2015 and 31 January 2016 was estimated by comparing the interest rate to market rates available to the Group at the balance sheet date (level 2).

All derivative financial instruments are categorised as level 2 instruments (2 August 2015 and 31 January 2016: level 2). The fair values for these simple over-the-counter derivatives are calculated by using benchmark observable market interest rates and discounted future cash flows.

The fair value of available for sale financial assets was measured based on the consideration achieved for the sale of the asset following the end of the financial period (level 2). See note 20 for further details.

18. Commercial income

The types of commercial income recognised by the Group and the recognition policies are consistent with those disclosed in the 2015/16 Annual report and Financial Statements.

Commercial income earned in the period, by type of income, is summarised below:

	26 weeks ended 31 July 2016 (unaudited) £m	26 weeks ended 2 August 2015 (unaudited) £m	52 weeks ended 31 January 2016 (audited) £m
Marketing and advertising funding	**19**	109	260
Volume-based rebates	**130**	70	143
Total commercial income	**149**	179	403

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18. Commercial income (continued)

The following table summarises the uncollected commercial income at the balance sheet date at the end of each period:

	31 July 2016 (unaudited) £m	2 August 2015 (unaudited) £m	31 January 2016 (audited) £m
Commercial income trade debtor	**3**	12	13
Accrued commercial income	**42**	30	26
Commercial income due, offset against amounts owed	**23**	42	85
	68	84	124

At 11 September 2016, £1m of the £3m commercial income trade debtor balance had been settled and £26m of the £42m accrued commercial income balance had been invoiced and settled. In addition, £7m of the £23m commercial income due had been offset against payments made. As at 11 September 2016, £124m of the £124m of commercial income held on the balance sheet at 31 January 2016 had been settled.

19. Disposal of Convenience

On 26 October 2015, the Group disposed of its subsidiary Wm Morrison Convenience Stores Ltd and associated assets to MLCG Limited for cash consideration of £20m. This resulted in a loss on disposal of £34m recognised in the 52 weeks ended 31 January 2016.

Following the sale, the Group continues to guarantee leases relating to a number of former convenience stores. At 31 January 2016, the Group made an assessment of the likelihood and amount of future rental commitments should these leases revert and recognised a liability on the balance sheet reflecting the estimated cash outflow. In the event of lessee default the Group will look to minimise its liability by finding alternative occupiers as soon as possible.

On 29 June 2016 MLCG Limited announced it was entering administration. The Group has subsequently reassessed the liability it recognised in the 52 weeks ended 31 January 2016 and considers this still to be appropriate.

20. Post balance sheet events

On 7 July 2016 the Group entered into an agreement to sell its 10% stake in Fresh Direct Inc, a US internet grocer. Subsequent to the balance sheet date, on 16 August 2016 the sale was completed for a consideration of £45m. As a consequence, the £14m fair value adjustment currently recognised in reserves will be reclassified to the income statement, net of transaction costs, in the second half of the 52 weeks ended 29 January 2017.

Following the transaction the undrawn loan facility provided to Fresh Direct Inc ceased.

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Notes to the condensed consolidated financial statements (continued)
26 weeks ended 31 July 2016

Responsibility statement
We confirm that to the best of our knowledge:

- the condensed consolidated set of financial statements has been prepared in accordance with IAS34 *Interim Financial Reporting* as adopted by the European Union;
- the Interim management report includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8 of the *Disclosure and Transparency Rules*.

By order of the Board

Mark Amsden

Company Secretary

14 September 2016

The Board
The Board of Directors that served during the 26 weeks to 31 July 2016 and their respective responsibilities were:

Andrew Higginson – Chairman*
David Potts – Chief Executive Officer
Trevor Strain – Chief Financial Officer
Belinda Richards *
Paula Vennells*
Rooney Anand*
Irwin Lee * (Resigned 31 August 2016)
Neil Davidson*

* Non-Executive Director

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 31 January 2016 remain the same for this Half-yearly financial report. Those risks and uncertainties can be summarised as follows:

- Business Interruption
- Competition
- Customer
- Data
- Financial and treasury
- Food Safety and Product Integrity
- Health and Safety
- People
- Supplier Relationships

The outcome of the EU referendum on 23 June 2016 increases the inherent uncertainty with regards to the outlook for the economy in future periods. Currently customers tell us their food shopping has not changed and we have seen no negative impact on customer sentiment or customer behaviour. There are some uncertainties especially around the impact on imported food prices if Sterling stays at its current lower level. However the Board believes that since the publication of the 2015/16 Annual Report there has been no material change to the Group's principal risks and the existing mitigating actions remain appropriate to manage them.

More information on the principal risks and how the Group mitigates those risks can be found on pages 18 to 19 of the 2015/16 Annual report and Financial Statements. You can view the 2015/16 Annual report and Financial Statements online on our corporate website, www.morrisons-corporate.com/annual-report-2016.

Notes to the condensed consolidated financial statements (continued)

26 weeks ended 31 July 2016

General information

Wm Morrison Supermarkets PLC (the 'Company') is a public limited company incorporated in the United Kingdom (Registration number 358949). The Company is domiciled in the United Kingdom and its registered address is Hilmore House, Gain Lane, Bradford, BD3 7DL, United Kingdom.

The 2016/17 Half-yearly financial report does not constitute financial statements within the meaning of Section 434 of the Companies Act 2006 and does not include all of the information and disclosures required for full annual financial statements.

The condensed consolidated financial statements for the 26 weeks to 31 July 2016 are unaudited. However, the auditor, PricewaterhouseCoopers LLP, has carried out a review of the condensed consolidated financial statements and their report is included in this Half-yearly financial report.

The comparative financial information contained in the condensed consolidated financial statements in respect of the 52 weeks ended 31 January 2016 has been extracted from the 2015/16 Annual report and Financial Statements. Those financial statements have been reported on by PricewaterhouseCoopers LLP, and delivered to the Registrar of Companies. The report was unqualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and did not contain a statement under Section 498 of the Companies Act 2006.

The 2015/16 Half-yearly financial report was approved by the Board of Directors on 14 September 2016.

The Directors' assessment of the Group'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, retail market conditions and the wider economy.

The Group remains able to borrow cash at competitive rates and the Group has negotiated, and has available to it, committed competitive facilities that will meet the Group's needs in the short and medium term.

Having reassessed the principal risks, the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the interim financial information.

Basis of preparation

The condensed consolidated financial statements of the Group for the 26 weeks ended 31 July 2016 have been prepared in accordance with the *Disclosure and Transparency Rules* of the UK Financial Conduct Authority and the requirements of IAS 34 *Interim financial reporting* as adopted by the European Union. It should be read in conjunction with the 2015/16 Annual report and Financial Statements which have been prepared in accordance with IFRSs as adopted by the European Union. This is available either on request from the Company's registered office or to download from www.morrisons-corporate.com/annual-report-2016.

Significant accounting policies

The accounting policies applied by the Group in these condensed consolidated financial statements are consistent with those set out in the 2015/16 Annual report and Financial Statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to the expected total annual profit or loss.

Whilst there have been a number of minor changes to standards which will become applicable for the financial period ended 29 January 2017, none have been assessed as having a significant impact on the Group.

Judgements and estimates

In preparing the condensed consolidated financial statements, management are required to make accounting judgements, assumptions and estimates. The judgements, assumptions and estimation methods are consistent with those applied to the 2015/16 Annual report and Financial Statements.

Forward looking statements

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

Independent review report to Wm Morrison Supermarkets PLC

Report on the condensed consolidated financial statements

Our conclusion

We have reviewed Wm Morrison Supermarkets PLC's condensed consolidated financial statements (the "interim financial statements") in the Half-yearly financial report of Wm Morrison Supermarkets PLC for the 26 week period ended 31 July 2016. Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Rules and Transparency Rules of the United Kingdom's Financial Conduct Authority.

What we have reviewed

The interim financial statements comprise:

- the consolidated balance sheet as at 31 July 2016;
- the consolidated statement of comprehensive income for the period then ended;
- the consolidated cash flow statement for the period then ended;
- the consolidated statement of changes in equity for the period then ended; and
- the explanatory notes to the interim financial statements.

The interim financial statements included in the Half-yearly financial report have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Rules and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in the basis of preparation note to the interim financial statements, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the Group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the directors

The Half-yearly financial report, including the interim financial statements, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the Half-yearly financial report in accordance with the Disclosure Rules and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express a conclusion on the interim financial statements in the Half-yearly financial report based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure Rules and Transparency Rules of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, 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.

Independent review report to Wm Morrison Supermarkets PLC (continued)

What a review of interim financial statements involves

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 United Kingdom. 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.

We have read the other information contained in the Half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants
Leeds
14 September 2016

Notes:

The maintenance and integrity of the Wm Morrison Supermarkets PLC website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.