News Release

Release date: 14 September 2017

INTERIM RESULTS FOR THE HALF YEAR TO 30 JULY 2017
Building a broader, stronger Morrisons

Financial summary

- Group like-for-like[1] (LFL) sales ex-fuel/ex-VAT up 3.0% (2016/17: 1.4%)
- Q2 LFL ex-fuel/ex-VAT up 2.6%, two-year Q2 LFL growth of 4.7%
- Turnover up 4.8% to £8.42bn (2016/17: £8.03bn)
- Underlying profit before tax (UPBT[2]) up 12.7% to £177m (2016/17: £157m)
- Underlying earnings per share (EPS[2]) up 14.9% to 5.79p (2016/17: 5.04p)
- Reported profit before tax (PBT) up 39.9% to £200m (2016/17: £143m)
- Free cash flow of £352m (2016/17: £558m)
- Net debt reduced by a further £262m to £932m since the end of 2016/17, now below our £1bn year-end target
- Interim dividend up 5.1% to 1.66p (2016/17: 1.58p)

Strategic and operating highlights

- Fix, Rebuild and Grow strategy building a broader, stronger Morrisons
- Strong sales, profit, and dividend growth, building on last year's growth
- Total free cash flow generation now £2.7bn since the start of 2014/15
- Further cost savings achieved, above the initial £1bn
- New store-pick online service, extending Morrisons.com into North East England
- New wholesale supply agreement with McColl's announced after period end
- Safeway brand revived and available soon, initially at McColl's

Financial targets update

- Delivered a further £14m incremental profit from wholesale, services, interest and online, taking the total to £32m so far
- Incremental profit target increased to £75m–£125m, up from £50m–£100m
- Further good progress with £1bn working capital target and £1.1bn disposal proceeds target
- Annualised wholesale supply sales to all our partners expected to exceed £700m by the end of 2018, and to be more than £1bn in due course
- Net debt expected to remain less than £1bn for the rest of 2017/18

Andrew Higginson, Chairman, said:

"This is another good performance from Morrisons. Our seventh consecutive quarter of positive like for like means that we are able to report profit growth on growth for the first time in the turnaround.

"With good trading momentum and a strategy to build a broader, stronger Morrisons, the business is well set to continue to deliver consistent and sustainable growth for its stakeholders."

David Potts, Chief Executive, said:

"A new Morrisons is beginning to take shape. The capability of the team continues to improve and we are making strong headway with our plans to Fix, Rebuild and Grow. Our supermarkets continue their focus on improving the customer shopping trip and, in wholesale supply, we are beginning to realise some of the opportunities that our unique team of food makers and shopkeepers bring us."

Outlook

We remain confident we can continue to grow Morrisons.

We expect net debt to remain less than £1bn for the rest of 2017/18.

Following the recently announced supply agreement with McColl's, we expect total annualised wholesale sales to all our partners to exceed £700m (inc. tobacco) by the end of 2018. We expect wholesale supply sales to be more than £1bn in due course.

During the first half, we achieved a further £14m incremental profit from wholesale, services, interest and online, bringing the total to £32m so far. We now expect £75m–£125m of incremental profit before tax from these four areas in the medium term, increased from £50m–£100m previously.

The new profit guidance includes our new wholesale supply agreement with McColl's, which we expect to start making an initial profit contribution from 2018/19.

Figure 1 – H1 2017/18 profit reconciliation

£m	H1 16/17	H1 17/18	Y-on-Y
Reported operating profit	224	233	4.0%
Reported profit before tax	143	200	39.9%
Underlying adjustments:			
– Profit on disposal and exit of properties, and sale of businesses and investments	-17	-13	
– Costs associated with repayment of borrowings*	35	-	
– Pension scheme set-up credit	-	-10	
– Net pension income*	-4	-4	
– Other	-	4	
Underlying operating profit	207	214	3.4%
Underlying profit before tax	**157**	**177**	**12.7%**

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

Figure 2 - LFL sales performance (ex-VAT)

	2016/17					2017/18		
	Q1	Q2	H1	H2	FY	Q1	Q2	H1
Retail contribution to LFL[1]	0.7%	2.0%	1.4%	2.1%	1.7%	3.0%	2.1%	2.5%
Wholesale contribution to LFL[2]	0.0%	0.1%	0.0%	0.3%	0.2%	0.4%	0.5%	0.5%
Group LFL ex-fuel	**0.7%**	**2.1%**	**1.4%**	**2.4%**	**1.9%**	**3.4%**	**2.6%**	**3.0%**
Group LFL inc-fuel	1.2%	2.4%	1.8%	4.2%	3.0%	6.3%	4.1%	5.2%

Reported in accordance with IFRIC 13.

[1] *Includes supermarkets and Morrisons.com sales. Morrisons.com sales through Dordon CFC contributed 0.4% in H1 2017/18*

[2] *Wholesale comprises sales to third parties, including those via our manufacturing business*

Figure 3 - Summary of Retail operational key performance indicators[3]

	2016/17					2017/18		
	Q1	Q2	H1	H2	FY	Q1	Q2	H1
LFL Number of transactions[3]	3.1%	4.3%	3.7%	4.3%	4.0%	4.6%	3.2%	3.9%
LFL Items per basket[3]	-2.8%	-5.0%	-3.9%	-5.4%	-4.6%	-6.9%	-5.5%	-6.2%

[3] *Excludes Morrisons.com sales through Dordon CFC*

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:

A full glossary of terms and alternative performance measures is provided at the end of this announcement. The Directors believe the key metrics are the ones outlined below because: they are used for internal reporting of the performance of the Group; they provide key information on the underlying trends and performance; and they are key measures for director and management remuneration.

(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.

A reconciliation between LFL sales and total turnover is provided in the glossary at the end of this announcement.

(2) **Underlying profit before tax (UPBT), underlying operating profit and underlying earnings per share (EPS):** excludes impairment and provision for onerous contracts, profit/loss on disposal and exit of properties and sale of businesses and investments, the impact of pension volatility, 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. 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 £352m (2016/17: £558m), being the movement in net debt of £262m (2016/17: £477m) adjusted for dividends paid of £90m (2016/17: £81m).

Management will host an analyst presentation this morning at 09:30.

*****   Pre-registration is required to attend the meeting. *****

If you are not already registered and would like to attend, please email Dawn Kershaw by 09:00 this morning (dawn.kershaw@morrisonsplc.co.uk)

A webcast of this meeting is available at http://www.morrisons-corporate.com/Investor-centre/

Dial-in details:

Participant dial in:	+44 (0) 33 3300 0804
Participant pin:	85402158#
Password:	Morrisons

Replay facility available for 7 days:

Replay access number:	+44 (0) 33 3300 0819
Replay access code:	301196735#

- ENDS –

Certain statements in this interim 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

We were again pleased with our sales performance for the period. Total turnover was £8.42bn, up 4.8% year on year, including a -0.4% negative net new space impact from the disposals and underperforming store closures during 2016/17. Turnover excluding fuel was £6.57bn, up 2.6%.

Group LFL excluding fuel was up 3.0%, comprising contributions from Retail of 2.5% (supermarkets 2.1%, online 0.4%) and Wholesale of 0.5%.

LFL was strong throughout, and has now been positive for seven consecutive quarters. Building on a strong year-on-year comparative, Q2 ex-fuel LFL was 2.6%, comprising Retail of 2.1% (supermarkets 1.7%, online 0.4%) and Wholesale of 0.5%. Q2 two-year LFL was 4.7%. There was some inflation as imported food prices continued to be affected by lower sterling, and volume was again positive.

Fuel sales were up 13.7% to £1.86bn, all of which was LFL.

Underlying operating profit(2) was up 3.4% to £214m (2016/17: £207m), with margin broadly flat year on year at 2.5% (down four basis points).

Underlying net finance costs were £38m (2016/17: £50m).

Reported profit before tax (PBT) was £200m (2016/17: £143m). Underlying PBT (UPBT) was up 12.7% to £177m (2016/17: £157m). Adjustments recognised outside UPBT were £23m, as listed in Figure 1. UPBT includes a further £14m of the incremental £50m–£100m profit target from wholesale, services, interest and online.

Underlying basic EPS was up 14.9% to 5.79p (2016/17: 5.04p).

Capital expenditure was £191m (2016/17: £163m).

Free cash flow(3) pre-dividend was £352m, which included a further £102m improvement in operating working capital and £93m of disposal proceeds.

Overall, post-dividend and pre-disposal proceeds, the business was again cash flow positive, generating £177m during the half.

Group net debt fell to £932m, down £262m since the end of 2016/17, and now below our £1bn year-end target.

The proposed interim dividend is up 5.1% to 1.66p.

No stores were opened or closed during the period.

Return on capital employed (ROCE) was 7.8%, up 1.3% on H1 2016/17 on an equivalent basis.

Strategy update

The three phases of our strategy to Fix, Rebuild and Grow Morrisons are ongoing and concurrent. Whilst still in turnaround in many areas, we are also making good progress with our plans to build a broader, stronger business.

The context is challenging. UK food retail remains highly competitive. The consumer faces many uncertainties; for example, with the UK economy, the wider implications of Brexit, and the impact of lower sterling on inflation. However, listening hard to customers and colleagues is helping us to better respond to changes as they occur, and is powering a turnaround that is in our own hands.

In ‘Fix’, we are improving all our stores each day and one by one, through Fresh Look, resetting and introducing new ranges, and striving to reward our unique team of food makers and shopkeepers for great customer service. In ‘Rebuild’ we are building a consistent and sustainable business across all sales, profit, cash and returns metrics; and in ‘Grow’ we are aspiring to become a broader, stronger business that aims to deliver higher rewards for all our stakeholders.

We made good progress delivering our six priorities during the first half. Capability again improved, notably colleagues, technology and data. Significant cost savings were realised in four areas – automated ordering, in-store administration, distribution between manufacturing and retail, and procurement of goods not for resale – which we continued to recycle back into improving the customer shopping trip.

As we become more competitive, we become more popular with customers, and our key performance indicators continue to improve. During the first half there were again more customers in the stores, and LFL transactions were up 3.9%. Customer satisfaction improved, as did our colleague engagement and supplier survey data. Sales, profits, and dividends grew, starting a trend of growth on growth. Debt fell below £1bn earlier than planned, and is expected to remain below £1bn for the rest of 2017/18.

We made good progress with plans for incremental profit from wholesale, services, interest and online, and added McColl’s as another key partner, which will revive the Safeway brand and help deliver annualised wholesale supply sales in excess of £700m by the end of 2018, and more than £1bn in due course. Along with existing partners, Amazon, Ocado, Rontec and Timpson, we are beginning to make Morrisons more accessible in a capital-light way. We now expect medium-term incremental profit from these areas of £75m–£125m, up from the £50m–£100m previously guided.

Turnaround of the core supermarkets and a broader, more accessible Morrisons will continue to drive sales, margins and asset intensity, which are our key levers for profit growth, rebuilding ROCE, and continued de-leverage. At sustainably higher levels of profit and lower levels of leverage, we will continue to be guided by our capital allocation framework.

Six priorities update

1. To be more competitive

Morrisons continues to become more competitive for customers.

As a British business with a largely British supply chain, the impact of lower sterling on food inflation is an opportunity for Morrisons to help save customers every penny we can. During the first half, we worked hard with growers, farmers and suppliers to continue to build the Morrisons price list, focused especially in areas of Fresh where our customers most expect us to offer great value, and where our unique food manufacturing skills can help drive prices lower.

'Price Crunch' continues to inform customers that Morrisons is getting cheaper, and many *'Crunched'* prices have now been at their lower level for more than a year. As customers become more familiar with '*Price Crunch'* and we better demonstrate our great value-for-money offer, our price position is improving.

We are continuing to make good progress with our programme to improve the quality and packaging of our core own label range, and results continue to be strong. For example, sales of own label frozen vegetables are up 12%, and muesli and granola are up over 20%.

During the first half, we further expanded our increasingly popular *'Best'* range and will have almost a thousand *'Best'* products before year end, nearly double the number at the start of 2017. In addition, we also introduced a healthy eating *'Eat Smart'* range, rolled out new Nutmeg womenswear into over 50 stores, and extended the Nutmeg brand into baby and toddler accessories.

Our improved offer again won recognition during the period. Our *'Best'* range was named Own-label Range of the Year at the Grocer Gold Awards, and we also won Ready Meals and Frozen Dessert golds in the Grocer Own Label Awards. We were named Sandwich Multiple Retailer of the Year, Savoury Pie Cold Class Champion at the British Pie Awards, and won over 120 awards at this year's International Wine Challenge. We also won over 50 awards at the International Cheese Awards, including 18 golds, and were named Cheddar Cheese Retailer of the Year for the second year in succession.

2. To serve customers better

Customers are noticing the improved shopping trip at Morrisons.

Our new automated ordering system is now in all stores across the majority of food categories, and will be fully operational in time for Christmas. As we utilise it more, it continues to reduce cost and stock levels, save time for colleagues, and improve availability.

We served our customers better online during the first half. We started a new store-pick online home delivery service in the North East of England, taking Morrisons.com to customers who were previously outside the area served by the customer fulfilment centre (CFC) in Dordon. We expect to expand store-pick home delivery to further catchments in due course. As previously announced, Morrisons.com has also now started to offer thousands of general merchandise products for next day delivery to customers along with their Morrisons online grocery shop.

In addition, we launched a new flowers website, offering fresh bouquets for free next day delivery to customers anywhere in Britain, and we introduced a new online and in-store *'Food to Order'* offer allowing customers to pre-order for parties and other special events all year round.

We continue to listen to our customers' views on all aspects of the shopping trip, including service, quality, range, availability and price. Overall, customer satisfaction continues to improve, with our survey score up another 5% year on year during the first half, and now up 12% since the start of 2015/16.

3. Find local solutions

Local solutions enable us to tailor our offer to each store catchment, and satisfy a growing customer demand.

During the first half, we hosted hundreds of local suppliers at 14 different regional food maker roadshows around Britain. We are looking to identify and source products from 200 of the nation's best local growers, farmers, fishermen, and other food makers. Already some of the first local products sourced from our roadshows and from local suppliers have arrived in our stores. For example, local milk in three Sheffield stores, and three Edinburgh gins in Scotland. Locally grown fruit and vegetables are now seasonally available in 150 stores, and we aim to significantly increase that number by year end.

Overall, our sales of local suppliers' products are up almost 30% year on year.

In addition, our Fresh Look programme continues to incorporate listening to local customers and colleagues on ways we can improve our stores, and data from our More card is enabling better targeted local marketing. Our refits, defence against competitor new store openings, and other store improvements are guided by these local learnings. For example, through these various local initiatives, the sales impact on stores affected by a new competitor opening has been reduced.

4. Develop popular and useful services

Plans to make stores more popular and useful for customers are progressing well.

Our café and fuel businesses continue to trade strongly, with café LFL of over 4% and fuel LFL of 13.7% during the first half.

We have almost completed a programme to modernise our 385 cafés, providing a much improved experience for customers, with brighter and more contemporary decor, modern equipment and seating, and free WiFi.

As well as our plans for Morrisons Daily with Rontec, we are developing the convenience opportunity on our own petrol forecourts and will be improving the convenience offer in all our forecourt shops before the end of the year. We are also introducing the Morrisons Daily fascia and format into some of our forecourts, and extending the kiosk to allow for a full-size convenience store.

During the first half we opened our first hand car wash with a partner, and plan for more. Our first tyre change concessions are expected to open in the second half.

Following a successful roll out of Amazon lockers into over 400 stores, we are also well advanced with other parcel pick-up services.

5. To simplify and speed up the organisation

We are now simplifying and speeding up the organisation end to end.

As we complete the improvement and simplification of in-store ordering, we also have similar opportunities upstream within our depots, our manufacturing business, and with our suppliers.

For example, we have started to introduce more automation within our warehouse management systems which we expect will improve our forecasting and demand planning. We have also identified a major opportunity for simplifying our procurement process for goods not for resale, and have developed partnership programmes in many key areas.

We continue to work closely with our suppliers to build strong, long-term, mutually beneficial relationships. We have recently formed partner relationships with over 50 suppliers, both in own label and national brands. With these suppliers, we work together to develop a multi-year plan around range, innovation, price, and promotions. We also conduct regular end-to-end reviews with our partners, aimed at reducing costs, improving efficiency, and generating shared synergies.

Work also goes on to tailor our range while improving choice for customers, and *'Price Crunch'* continues to be an effective way of delivering great value to customers.

6. To make core supermarkets strong again

Our plans to improve the layout and ambience of our stores are progressing well.

We expect to complete around 80 Fresh Look projects during the year, by which time almost half of our stores will have undergone refits.

As last year, some of our Fresh Look learnings are providing us with insights and ideas that can be quickly applied across the whole estate, such as our café refit programme. In addition, almost all our Fruit & Veg and Florist departments are being updated, and both programmes will be complete in time for Christmas this year.

Wholesale supply

After the end of the first half, we announced a major new wholesale supply agreement with McColl's. We are to start supplying both Safeway products and national brands to over 1,300 McColl's convenience shops and 350 newsagents across the UK, via a phased programme starting in January 2018. Initially we will supply c.1,000 McColl's convenience shops and 350 newsagents, with the remainder of the McColl's estate (c.300 recently acquired convenience stores) migrating in due course.

We have been developing a new Safeway range since the end of 2016. It will comprise over 400 fresh, frozen and ambient food products, many of which are made by our skilled food maker colleagues in our 17 food manufacturing sites. McColl's is to be given a one-year period of exclusive access to these products.

In addition, our other wholesale supply initiatives made good progress during the first half. Amazon continues to grow its various customer offers, and *'Morrisons at Amazon'* was extended into more London postcodes. A further 23 Rontec owned and operated Morrisons Daily convenience stores opened on its forecourts, taking the total so far to 33.

We expect total annualised wholesale sales to all our partners to exceed £700m (inc. tobacco) by the end of 2018. In due course, we expect wholesale supply sales to be more than £1bn. We expect McColl's to make an initial profit contribution from 2018/19.

Financial strategy and update

Capital allocation framework
The capital allocation framework and our plans for surplus free cash flow are 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 then any surplus capital will be returned to shareholders.

Shareholder returns
Our policy is for annual dividends to be sustainable and covered around two times by underlying earnings per share. The 2017/18 interim dividend will be 1.66p, up 5.1%.

Optimise assets
During the first half, we sold our CFC in Dordon for £92.3m. The CFC continues to be operated by Ocado, serving both Morrisons and Ocado's online home delivery services.

Cost savings
We have made good progress with further cost savings during the first half.

Although still in roll-out phase, our new automated ordering system is already saving labour hours, improving availability and reducing stock. We expect the full benefit from around mid-2018. Longer-term, we have the opportunity to utilise the benefits of more automation in our manufacturing business and in our warehouses.

For goods not for resale, partner suppliers and improved procurement processes represent a major medium-term cost saving opportunity across many key areas of the business – retail, logistics, manufacturing, property, marketing and head office.

We are also beginning to remove or digitise some of the administrative processes within our stores. For example, our process for pricing markdowns is now automated, and we are introducing a price checking app that will remove paper-based tasks, significantly reduce the time needed for the task, and improve accuracy.

Cash flow and working capital
By the end of 2016/17, we had exceeded our £2bn free cash flow target by over £300m. Although the potential for future working capital generation and disposal proceeds is now more modest, we still made good progress in the first half, generating a further £352m of free cash flow and bringing the total to £2.7bn since the start of 2014/15.

Operating working capital generation was £102m, and is now £1,016m over the last three and a half years. This exceeds our £1bn target, although we expect the normal first half seasonal benefit to unwind in the second half. As long as sales remain robust and we stay focused on working capital, we expect further improvement in future years, particularly as we continue to simplify processes in store and with our suppliers.

Disposal proceeds were £93m, almost wholly from the sale of Dordon, bringing the total to £986m since we started the programme. Our medium-term target remains £1.1bn. Profit from disposals was £13m, reported outside underlying profit.

Capital expenditure/depreciation and amortisation
Capital expenditure was £191m, up from £163m for the first half of 2016/17. As last year, capital expenditure will be second-half weighted, and we still expect £450m–£500m for the full year.

In addition, we incurred £33m of onerous payments, and still expect around £100m for the full year.

We still expect 2017/18 depreciation/amortisation to be £420m–£430m.

Debt and interest
Group net debt fell to £932m, down a further £262m since the end of 2016/17, and already below our 2017/18 year-end target of less than £1bn. During the second half, we have planned for higher capital expenditure and onerous payments, lower property disposal proceeds and the seasonal benefit in working capital to unwind, so net debt is expected to remain broadly unchanged for the full year.

Underlying net interest was £38m (2016/17: £50m), down as expected after paying back over £700m of surplus facilities last year. We still expect the 2017/18 net interest charge to be £75m-£80m.

Pension
The net pension surplus increased from £272m at the end of 2016/17, to £392m at the end of the first half of 2017/18.

We have recently concluded the consultation process around the new defined contribution scheme, and have reassessed the provision we made in 2015/16 in relation to backdating the cost of auto-enrolment. This has resulted in a release of £10m which, in line with the original provision, has been reported outside underlying profit.

Since the end of the period, c.30,000 colleagues have been auto-enrolled into the new defined contribution pension scheme, thereby almost doubling the number of colleagues who are saving for their retirement in a company sponsored scheme.

Net pension interest income was £4m, reported outside of underlying profit.

2017/18 reporting
As previously announced, 2017/18 is a 53 week year.

People update

Our colleague led turnaround continues to gain momentum, and our colleague engagement measure increased in every business function. Our national listening programme continues at pace, with our Your Say survey completed by over 81,000 colleagues, and the national Your Say forum attended by colleague representatives from stores and sites along with Board and Executive Committee members.

We introduced My Morri, a direct communications app for every colleague and already used by over 90,000, giving access to online learning, company information, insights, updates, procedures, and payslips.

We are building capability through leadership programmes and career pathways, with around a thousand colleagues attending development centres aimed at a next-step career progression to either Team Manager, Senior Manager or Store Manager. The service delivered by colleagues continues to improve, with our first half store satisfaction survey increasing by 5% versus last year, predominantly driven by the friendliness of our colleagues. Our mystery shopper programme again saw a positive improvement, and is directly linked to the colleague bonus programme.

Our craft skills apprenticeship is enrolling more and more bakers, butchers and fishmongers, and our engineering apprenticeship programme continues in our manufacturing business, with a total of almost 500 apprenticeship places available this year. We continue to invest in base pay for colleagues, and our proposed move to £8.50 per hour was implemented with overwhelming support from our union.

Corporate responsibility and community

Supporting good causes
We are committed to helping causes that matter to our customers and colleagues. Our support is delivered in a number of different ways, including grant funding from the Morrisons Foundation, in-store charity collections, and fundraising for our national charity partner, CLIC Sargent. There have been some notable highlights in the first half. The Morrisons Foundation awarded a further £4.5m to hundreds of local charities across the country, from hospices and children's hospitals to food banks and youth projects. In total the Foundation has now donated over £15m since 2015. Collections for the Marie Curie Daffodil Appeal raised £500,000 over a single weekend, while customer and colleague fundraising generated more than £1m for CLIC Sargent, helping to support young cancer patients and their families.

Unsold food to charity programme
We want to ensure that good, edible food in our stores is rarely 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. Since the programme began in February 2016, we have donated three million products to local community groups. We have recently been a finalist at Business in the Community's Responsible Business Awards for Environmental Leadership.

100% British commitment
We are the first major supermarket to commit to sell only British fresh meat throughout the year, and we no longer sell imported fresh lamb during winter and early spring. This is part of our wider programme to sell more food that is both British and locally sourced.

FTSE4Good Index
Morrisons has been included in the FTSE4Good Index. To be included in the index, a company must be able to demonstrate strong environmental, social and governance performance measured against globally recognised standards.

Wm Morrison Supermarkets PLC
Condensed consolidated financial statements
Consolidated statement of comprehensive income
26 weeks ended 30 July 2017

	Note	**26 weeks ended 30 July 2017 (unaudited) £m**	26 weeks ended 31 July 2016 (unaudited) £m	52 weeks ended 29 January 2017 (audited) £m
Revenue	3	**8,421**	8,032	16,317
Cost of sales		**(8,108)**	(7,727)	(15,713)
Gross profit		**313**	305	604
Other operating income		**39**	36	76
Profit/loss on disposal and exit of properties and sale of businesses and investments	2	**13**	17	32
Administrative expenses		**(132)**	(134)	(244)
Operating profit		**233**	224	468
Finance costs	4	**(40)**	(89)	(160)
Underlying finance costs		**(40)**	(54)	(104)
Adjustments for costs associated with the repayment of borrowings	2	**-**	(35)	(56)
Finance income	4	**6**	8	15
Share of profit of joint venture (net of tax)		**1**	-	2
Profit before taxation		**200**	143	325
Analysed as:				
Underlying profit before taxation	2	**177**	157	337
Adjustments for:				
Impairment and provision for onerous contracts	2	**-**	-	6
Profit/loss on disposal and exit of properties	2	**13**	17	19
Profit arising on disposal of investment	2	**-**	-	13
Costs associated with the repayment of borrowings	2	**-**	(35)	(56)
Pension scheme set-up credit	2	**10**	-	-
Net pension income	2	**4**	4	8
Other exceptional costs	2	**(4)**	-	(2)
		200	143	325
Taxation	5	**(39)**	(33)	(20)
Profit for the period attributable to the owners of the Company		**161**	110	305
Other comprehensive income/(expense):				
Items that will not be reclassified to profit or loss:				
Remeasurement of defined benefit pension schemes	14	**120**	62	86
Tax on defined benefit pension schemes		**(23)**	(12)	(17)
		97	50	69
Items that may be reclassified subsequently to profit or loss:				
Cash flow hedging movement		**(8)**	30	30
Items reclassified from hedging reserve in relation to the repayment of borrowings		**-**	9	6
Remeasurement of available-for-sale financial assets		**-**	14	-
Tax on items that may be reclassified subsequently to profit or loss		**(4)**	(11)	1
Exchange differences on translation of foreign operations		**-**	(2)	(1)
		(12)	40	36
Other comprehensive income for the period, net of tax		**85**	90	105
Total comprehensive income for the period attributable to the owners of the Company		**246**	200	410
Earnings per share (pence)				
- basic	7	**6.93**	4.70	13.11
- diluted	7	**6.81**	4.68	12.95

Consolidated balance sheet

30 July 2017

	Note	**30 July 2017 (unaudited) £m**	31 July 2016 (unaudited) £m	29 January 2017 (audited) £m
Assets				
Non-current assets				
Goodwill and intangible assets	8	**440**	453	445
Property, plant and equipment	9	**7,156**	7,111	7,227
Investment property	10	**38**	30	33
Pension asset	14	**412**	249	293
Investment in joint venture		**57**	63	56
Investments	12	**-**	-	-
Derivative financial assets	17	**33**	48	16
		8,136	7,954	8,070
Current assets				
Stock		**600**	635	614
Debtors		**233**	213	214
Available-for-sale financial assets	13	**-**	45	-
Derivative financial assets	17	**13**	24	22
Cash and cash equivalents	16	**596**	620	326
		1,442	1,537	1,176
Assets classified as held-for-sale	11	**-**	7	-
		1,442	1,544	1,176
Liabilities				
Current liabilities				
Creditors		**(2,954)**	(2,854)	(2,837)
Short term borrowings	17	**-**	(202)	-
Derivative financial liabilities	17	**(6)**	(6)	(3)
Current tax liabilities		**(31)**	(54)	(24)
		(2,991)	(3,116)	(2,864)
Non-current liabilities				
Borrowings	17	**(1,567)**	(1,750)	(1,550)
Derivative financial liabilities	17	**(1)**	(3)	(5)
Pension liability	14	**(20)**	-	(21)
Deferred tax liabilities		**(441)**	(445)	(417)
Provisions		**(305)**	(302)	(326)
		(2,334)	(2,500)	(2,319)
Net assets		**4,253**	3,882	4,063
Shareholders' equity				
Share capital	18	**235**	234	234
Share premium	18	**157**	127	128
Capital redemption reserve		**39**	39	39
Merger reserve		**2,578**	2,578	2,578
Retained earnings and other reserves		**1,244**	904	1,084
Total equity attributable to the owners of the Company		**4,253**	3,882	4,063

Consolidated cash flow statement

26 weeks ended 30 July 2017

	Note	**26 weeks ended 30 July 2017 (unaudited) £m**	26 weeks ended 31 July 2016 (unaudited) £m	52 weeks ended 29 January 2017 (audited) £m
Cash flows from operating activities				
Cash generated from operations	15	**506**	708	1,113
Interest paid		**(36)**	(47)	(100)
Taxation (paid)/received		**(35)**	3	(35)
Net cash inflow from operating activities		**435**	664	978
Cash flows from investing activities				
Interest received		**3**	3	6
Dividends received from joint venture		**-**	-	8
Proceeds from sale of property, plant and equipment		**93**	55	79
Proceeds from sale of investment	13	**-**	-	44
Purchase of property, plant and equipment, investment property and assets classified as held for sale		**(152)**	(141)	(374)
Purchase of intangible assets		**(39)**	(22)	(45)
Net cash outflow from investing activities		**(95)**	(105)	(282)
Cash flows from financing activities				
Purchase of own shares for trust		**(4)**	(2)	(5)
Settlement of employee tax liability for share awards	18	**(6)**	-	-
Proceeds from exercise of employee share options	18	**30**	-	-
Proceeds on settlement of derivative financial instruments		**-**	-	37
Repayment of borrowings		**-**	(320)	(729)
Costs incurred on repayment of borrowings		**-**	(25)	(42)
Dividends paid	6	**(90)**	(81)	(118)
Net cash outflow from financing activities		**(70)**	(428)	(857)
Net increase/(decrease) in cash and cash equivalents		**270**	131	(161)
Cash and cash equivalents at start of period		**326**	487	487
Cash and cash equivalents at end of period	16	**596**	618	326

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

	Note	**26 weeks ended 30 July 2017 (unaudited) £m**	26 weeks ended 31 July 2016 (unaudited) £m	52 weeks ended 29 January 2017 (audited) £m
Net increase/(decrease) in cash and cash equivalents		**270**	131	(161)
Cash outflow from decrease in debt		**-**	320	692
Non-cash movements		**(8)**	26	21
Opening net debt		**(1,194)**	(1,746)	(1,746)
Closing net debt	16	**(932)**	(1,269)	(1,194)

Consolidated statement of changes in equity

		Attributable to the owners of the Company						
		Share capital	**Share premium**	**Capital redemption reserve**	**Merger reserve**	**Hedging reserve**	**Retained earnings**	**Total equity**
	Note	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
26 weeks ended 30 July 2017 (unaudited)								
At 30 January 2017		234	128	39	2,578	18	1,066	4,063
Profit for the period		-	-	-	-	-	161	161
Other comprehensive income/(expense):								
Cash flow hedging movement		-	-	-	-	(8)	-	(8)
Remeasurement of defined benefit pension schemes	14	-	-	-	-	-	120	120
Tax in relation to components of other comprehensive income		-	-	-	-	2	(29)	(27)
Total comprehensive income/(expense) for the period		-	-	-	-	(6)	252	246
Purchase of trust shares		-	-	-	-	-	(4)	(4)
Employee share option schemes:								
Share-based payments charge	15	-	-	-	-	-	14	14
Settlement of employee tax liability for share awards	18	-	-	-	-	-	(6)	(6)
Share options exercised	18	1	29	-	-	-	-	30
Dividends	6	-	-	-	-	-	(90)	(90)
Total transactions with owners		1	29	-	-	-	(86)	(56)
At 30 July 2017		**235**	**157**	**39**	**2,578**	**12**	**1,232**	**4,253**

Consolidated statement of changes in equity (continued)

	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		-	-	-	-	9	-	-	9
Remeasurement of available-for-sale financial assets		-	-	-	-	-	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
Purchase of trust shares		-	-	-	-	-	-	(5)	(5)
Employee share option schemes:									
Share-based payments charge	15	-	-	-	-	-	-	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**

	Note	Share capital	Share premium	Capital redemption reserve	Merger reserve	Hedging reserve	Retained earnings	Total equity
	Note	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
52 weeks ended 29 January 2017 (audited)								
At 1 February 2016		234	127	39	2,578	(10)	788	3,756
Profit for the period		-	-	-	-	-	305	305
Other comprehensive income/(expense):								
Cash flow hedging movement		-	-	-	-	30	-	30
Items reclassified from hedging reserve in relation to repayment of borrowings		-	-	-	-	6	-	6
Exchange differences on translation of foreign operations		-	-	-	-	-	(1)	(1)
Remeasurement of defined benefit pension schemes	14	-	-	-	-	-	86	86
Tax in relation to components of other comprehensive income		-	-	-	-	(8)	(8)	(16)
Total comprehensive income for the period		-	-	-	-	28	382	410
Purchase of trust shares		-	-	-	-	-	(5)	(5)
Proceeds and settlements of employee share award		-	1	-	-	-	(1)	-
Employee share option schemes:								
Share-based payments charge	15	-	-	-	-	-	20	20
Dividends	6	-	-	-	-	-	(118)	(118)
Total transactions with owners		-	1	-	-	-	(104)	(103)
At 29 January 2017		**234**	**128**	**39**	**2,578**	**18**	**1,066**	**4,063**

Notes to the condensed consolidated financial statements
26 weeks ended 30 July 2017

1. Segmental reporting

The Executive Committee is considered to be the Group's chief operating decision maker. There are no differences from the 2016/17 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 and investments; (c) remove the impact of pension volatility and (d) apply a normalised tax rate of 24% (31 July 2016: 25%, 29 January 2017: 25%) (see note 5).

	26 weeks ended 30 July 2017 (unaudited) £m	26 weeks ended 31 July 2016 (unaudited) £m	52 weeks ended 29 January 2017 (audited) £m
Profit after tax	**161**	110	305
Add back: tax charge for the period[1]	**39**	33	20
Profit before tax	**200**	143	325
Adjustments for:			
Impairment and provision for onerous contracts[1]	**-**	-	(6)
Profit/loss arising on disposal and exit of properties[1]	**(13)**	(17)	(19)
Profit arising on disposal of investment[1]	**-**	-	(13)
Costs associated with the repayment of borrowings[1]	**-**	35	56
Pension scheme set-up credit[1]	**(10)**	-	-
Net pension income[1] (note 14)	**(4)**	(4)	(8)
Other exceptional costs[1]	**4**	-	2
Underlying profit before tax	**177**	157	337
Normalised tax charge at 24% (31 July 2016: 25%, 29 January 2017: 25%) [1,2]	**(42)**	(39)	(84)
Underlying profit after tax	**135**	118	253

[1] Adjustments marked [1] decrease post tax underlying earnings by £26m (31 July 2016: £8m increase, 29 January 2017: £52m decrease), as shown in the reconciliation of earnings disclosed in note 7.

[2] Normalised tax is defined in the Glossary.

There has been no charge (31 July 2016: £nil, 29 January 2017: £6m credit) for impairment or provision for onerous contracts. The credit in the 52 weeks ended 29 January 2017 consisted of a net impairment reversal of £44m (£191m impairment reversal offset by £147m impairment charge), reflecting store level fluctuations, offset by a charge of £38m relating to provisions for onerous contracts.

Profits arising on the disposal and exit of properties amounted to £13m (31 July 2016: £17m, 29 January 2017: £19m).

Pension scheme set-up credit of £10m relates to the changes in estimates of the cost of back dated contributions in respect of the Group's new defined contribution scheme which will become the auto enrolment scheme when it is launched. The expected level of contributions have been updated to reflect the latest view on expected participation rates in the new scheme and underlying assumptions following the completion of the consultation process with employees.

Other exceptional costs of £4m (31 July 2016: £nil, 29 January 2017: £2m) include costs incurred in relation to legal cases which the Group is pursuing in respect of historic events and restructuring costs.

2. Underlying profit (continued)

In the 52 weeks ended 29 January 2017, the £56m (31 July 2016: £35m) costs associated with the early repayment of borrowing facilities and other refinancing activities relate to financing charges on redemption of financial instruments (primarily premiums); other fees incurred on the repayment of bonds and refinancing; write off of facility fees; payments relating to the early settlement of the US Private Placement loan notes (USPP); and losses which had previously been recognised in reserves which were reclassified to the income statement on termination of hedging arrangements.

In the 52 weeks to 29 January 2017, a profit of £13m was recognised on the disposal of the Group's investment in Fresh Direct Inc (31 July 2016: £nil). See note 13 for further details.

3. Revenue

	26 weeks ended 30 July 2017 (unaudited) £m	26 weeks ended 31 July 2016 (unaudited) £m	52 weeks ended 29 January 2017 (audited) £m
Sale of goods in-stores and online	**6,436**	6,302	12,747
Fuel	**1,856**	1,633	3,351
Total store based sales and online	**8,292**	7,935	16,098
Other sales	**129**	97	219
Total revenue	**8,421**	8,032	16,317

4. Finance costs and income

	26 weeks ended 30 July 2017 (unaudited) £m	26 weeks ended 31 July 2016 (unaudited) £m	52 weeks ended 29 January 2017 (audited) £m
Interest payable on short term loans and bank overdrafts	**(1)**	(2)	(3)
Interest payable on bonds	**(32)**	(45)	(86)
Interest capitalised	**-**	-	1
Total interest payable	**(33)**	(47)	(88)
Provisions: unwinding of discount	**(6)**	(6)	(13)
Other finance costs	**(1)**	(1)	(3)
Underlying finance costs[1]	**(40)**	(54)	(104)
Costs associated with the repayment of borrowings (note 2)	**-**	(35)	(56)
Finance costs	**(40)**	(89)	(160)
Bank interest received	**2**	3	6
Amortisation of bonds	**-**	1	1
Underlying finance income[1]	**2**	4	7
Net pension income (note 2)	**4**	4	8
Finance income	**6**	8	15
Net finance cost	**(34)**	(81)	(145)

[1] Underlying net finance costs marked [1] amount to £38m (31 July 2016: £50m, 29 January 2017: £97m).

Notes to the condensed consolidated financial statements (continued)

26 weeks ended 30 July 2017

5. Taxation

Tax charged within the interim financial report has been calculated by applying the effective rate of tax which is expected to apply to the Group for the period ending 4 February 2018 using rates substantively enacted by 30 July 2017 as required by IAS 34 'Interim Financial Reporting'.

The normalised rate of tax of 24% (31 July 2016: 25%, 29 January 2017: 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 19% (31 July 2016: 20%, 29 January 2017: 20%) for the full year has been applied to the adjustments to underlying profit on an item by item basis.

Legislation to reduce the standard rate of corporation tax to 17% from 1 April 2020 was enacted in the Finance Act 2016. Accordingly, deferred tax has been provided at 19% or 17% depending upon when the temporary difference is expected to reverse (31 July 2016: 20%, 19% or 18%, 29 January 2017: 19% or 17%).

Factors affecting current and future tax charges

The normalised tax rate was 5% above the UK statutory tax rate of 19%. The main item increasing the normalised tax rate is disallowed depreciation on UK properties which reflects the Group's strategy to maintain an overwhelmingly freehold estate. The Group considers its normalised tax rate to be sustainable so it is expected to reduce over the medium term in line with the planned reduction in the UK statutory tax rate. There have not been any further announcements of changes to the rate of corporation tax after 1 April 2020.

6. Dividends

Amounts recognised as distributed to equity holders in the period:

	26 weeks ended 30 July 2017 (unaudited) £m	26 weeks ended 31 July 2016 (unaudited) £m	52 weeks ended 29 January 2017 (audited) £m
Final dividend for the period ended 31 January 2016 of 3.50p	**-**	81	81
Interim dividend for the period ended 29 January 2017 of 1.58p	**-**	-	37
Final dividend for the period ended 29 January 2017 of 3.85p	**90**	-	-
	90	81	118

The Directors propose an interim dividend of 1.66p per share which will be paid on 6 November 2017 to shareholders who are on the register on 29 September 2017. The interim dividend will absorb an estimated £39m of shareholders' funds. The dividends paid and proposed during the year are from cumulative realised distributable reserves of Wm Morrison Supermarkets PLC.

Notes to the condensed consolidated financial statements (continued)

26 weeks ended 30 July 2017

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 excluding shares held in trust. For diluted EPS, the weighted average number of ordinary shares in issue is adjusted to assume conversion of potentially dilutive ordinary shares.

The Company has two (31 July 2016 and 29 January 2017: two) classes of instrument that are potentially dilutive; those share options granted to employees where the exercise price together with the future IFRS 2 charge of the option is less than the average market price of the Company's ordinary shares during the period and contingently issuable shares under the Group's long term incentive plans (LTIP).

	26 weeks ended 30 July 2017 (unaudited) Pence		26 weeks ended 31 July 2016 (unaudited) Pence		52 weeks ended 29 January 2017 (audited) Pence	
	Basic	**Diluted**	Basic	Diluted	Basic	Diluted
Basic EPS	**6.93**	**6.81**	4.70	4.68	13.11	12.95
Underlying EPS	**5.79**	**5.69**	5.04	5.02	10.86	10.73
	£m		£m		£m	
	Basic	**Diluted**	Basic	Diluted	Basic	Diluted
Basic earnings						
Earnings attributable to ordinary shareholders	**161.3**	**161.3**	109.5	109.5	305.0	305.0
Underlying earnings						
Earnings attributable to ordinary shareholders	**161.3**	**161.3**	109.5	109.5	305.0	305.0
Adjustments to determine underlying profit (note 2)	**(26.4)**	**(26.4)**	8.0	8.0	(52.2)	(52.2)
Underlying earnings attributable to ordinary shareholders	**134.9**	**134.9**	117.5	117.5	252.8	252.8
	Millions		Millions		Millions	
	Basic	**Diluted**	Basic	Diluted	Basic	Diluted
Weighted average number of shares						
Ordinary shares in issue/diluted ordinary shares	**2,329.2**	**2,369.1**	2,331.4	2,340.7	2,327.1	2,355.0

8. Goodwill and intangible assets

	30 July 2017 (unaudited) £m	31 July 2016 (unaudited) £m	29 January 2017 (audited) £m
Net book value			
At beginning of the period	**445**	483	483
Additions	**34**	21	55
Amortisation	**(39)**	(51)	(93)
At end of the period	**440**	453	445

The carrying value of goodwill and intangible assets principally consists of software development costs of £416m (31 July 2016: £428m, 29 January 2017: £418m).

Notes to the condensed consolidated financial statements (continued)
26 weeks ended 30 July 2017

9. Property, plant and equipment

	30 July 2017 (unaudited) £m	31 July 2016 (unaudited) £m	29 January 2017 (audited) £m
Net book value			
At beginning of the period	**7,227**	7,161	7,161
Additions	**168**	135	367
Disposals	**(78)**	(17)	(17)
Interest capitalised	**-**	-	1
Transfers to investment properties	**-**	-	(4)
Transfers (to)/from assets classified as held-for-sale	**-**	(21)	(20)
Depreciation	**(161)**	(147)	(305)
Net reversal of impairment	**-**	-	44
At end of the period	**7,156**	7,111	7,227

During June 2017, the Group sold the land and buildings of its customer fulfilment centre (CFC) at Dordon to a third party for cash consideration of £92m. This disposal is included within the disposals during the 26 weeks ended 30 July 2017. The disposal resulted in a profit of £14m. This profit has been included in profit/loss on disposal and exit of properties as an adjustment to underlying earnings (see note 2).

Included within the above are leasehold land and buildings held under finance lease with a cost of £293m (31 July 2016: £308m, 29 January 2017: £294m) and accumulated depreciation of £73m (31 July 2016: £94m, 29 January 2017: £72m).

10. Investment property

	30 July 2017 (unaudited) £m	31 July 2016 (unaudited) £m	29 January 2017 (audited) £m
Net book value			
At beginning of the period	**33**	37	37
Additions	**5**	-	-
Transfer from property, plant and equipment	**-**	-	4
Transfers to assets classified as held-for-sale	**-**	(7)	(7)
Depreciation	**-**	-	(1)
At end of the period	**38**	30	33

11. Assets classified as held-for-sale

	30 July 2017 (unaudited) £m	31 July 2016 (unaudited) £m	29 January 2017 (audited) £m
Net book value			
At beginning of the period	**-**	-	-
Additions	**-**	16	19
Transfers from investment property	**-**	7	7
Transfer from/(to) property, plant and equipment	**-**	21	20
Disposals	**-**	(37)	(46)
At end of the period	**-**	7	-

12. Investments

	30 July 2017 (unaudited) £m	31 July 2016 (unaudited) £m	29 January 2017 (audited) £m
Net book value			
At beginning of the period	**-**	31	31
Non-current assets reclassified as current available-for-sale financial assets	**-**	(31)	(31)
At end of the period	**-**	-	-

13. Available-for-sale financial assets

	30 July 2017 (unaudited) £m	31 July 2016 (unaudited) £m	29 January 2017 (audited) £m
Net book value			
At beginning of the period	**-**	-	-
Reclassification from non-current investments	**-**	31	31
Fair value adjustment	**-**	14	14
Disposals	**-**	-	(45)
At end of the period	**-**	45	-

In the 52 weeks ended 29 January 2017, the Group disposed of its 10% stake in Fresh Direct Inc, a US internet grocer for cash consideration of £45m net of £1m transaction costs. In line with IAS 39 'Financial Instruments: Recognition and Measurement', the asset was remeasured to fair value before the sale completed, resulting in a £14m increase in the book value of the investment. On disposal the £14m revaluation gain was recognised in profit or loss net of £1m of transaction costs. This profit was one-off in nature and was excluded from reported underlying earnings for the 52 weeks ended 29 January 2017 (see note 2).

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 subject to a cap.

The disclosures below show the details of the schemes combined:

	30 July 2017 (unaudited) £m	31 July 2016 (unaudited) £m	29 January 2017 (audited) £m
CARE schemes	**412**	246	293
Retirement Saver Plan	**(20)**	3	(21)
Net pension asset at end of the period	**392**	249	272

Notes to the condensed consolidated financial statements (continued)

26 weeks ended 30 July 2017

14. Pensions (continued)

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

	26 weeks ended 30 July 2017 (unaudited) £m	26 weeks ended 31 July 2016 (unaudited) £m	52 weeks ended 29 January 2017 (audited) £m
Net pension asset at beginning of the period	**272**	186	186
Net interest income	**4**	4	8
Settlement and curtailment gain	**9**	1	1
Remeasurement in other comprehensive income	**120**	62	86
Employer contributions	**35**	33	66
Current service cost	**(46)**	(35)	(71)
Administrative cost	**(2)**	(2)	(4)
Net pension asset at end of the period	**392**	249	272

At 30 July 2017, schemes in surplus have been disclosed within assets on the balance sheet. The Group has taken legal advice in respect of the Schemes with 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 wording to IFRIC 14.

Settlement and curtailment gains in the 26 weeks ended 30 July 2017 include £8m relating to the settlement of retirement benefits resulting from actions taken to further de-risk the Group's pension schemes.

15. Cash flow from operating activities

	26 weeks ended 30 July 2017 (unaudited) £m	26 weeks ended 31 July 2016 (unaudited) £m	52 weeks ended 29 January 2017 (audited) £m
Profit for the period	**161**	110	305
Net finance costs	**34**	81	145
Taxation charge	**39**	33	20
Share of profit of joint venture (net of tax)	**(1)**	-	(2)
Operating profit	**233**	224	468
Adjustments for:			
Depreciation and amortisation	**200**	198	399
Impairment	**-**	-	147
Impairment reversal	**-**	-	(191)
Profit arising on disposal/exit of properties and sale of businesses and investments	**(13)**	(17)	(32)
Adjustment for non-cash element of pension charges	**4**	(1)	7
Share-based payments charge	**14**	12	20
Other non-cash charges	**-**	1	2
Decrease/(increase) in stock[1]	**14**	(18)	2
Increase in debtors[1]	**(19)**	(2)	(19)
Increase in creditors[1]	**100**	324	306
(Decrease)/increase in provisions[1]	**(27)**	(13)	4
Cash generated from operations	**506**	708	1,113

Total working capital inflow (the sum of items marked[1] above) is £68m in the period (31 July 2016: £291m, 29 January 2017: £293m). This includes £nil (31 July 2016: £nil, 29 January 2017: £38m) as a result of the current year onerous contract charge, net of £33m (31 July 2016: £27m, 29 January 2017: £94m) of onerous payments and other non-operating payments of £1m (31 July 2016: £nil, 29 January 2017: £11m). When adjusted to exclude these items, the working capital inflow is £102m (31 July 2016: £318m, 29 January 2017: £360m).

Notes to the condensed consolidated financial statements (continued)
26 weeks ended 30 July 2017

16. Analysis of net debt

	30 July 2017 (unaudited) £m	31 July 2016 (unaudited) £m	29 January 2017 (audited) £m
Cash and cash equivalents per balance sheet	**596**	620	326
Bank overdrafts	**-**	(2)	-
Cash and cash equivalents per cash flow statement	**596**	618	326
Cross-currency contracts and interest rate swaps	**23**	38	6
Fuel and energy price contracts	**10**	10	10
Non-current financial assets	**33**	48	16
Foreign exchange forward contracts	**6**	21	11
Fuel and energy price contracts	**7**	3	11
Current financial assets	**13**	24	22
Forward foreign exchange contracts	**(4)**	(1)	(2)
Fuel and energy price contracts	**(2)**	(5)	(1)
Bonds	**-**	(200)	-
Current financial liabilities	**(6)**	(206)	(3)
Bonds	**(1,567)**	(1,754)	(1,550)
Revolving credit facility	**-**	4	-
Fuel and energy price contracts	**(1)**	(3)	(5)
Non-current financial liabilities	**(1,568)**	(1,753)	(1,555)
Net debt	**(932)**	(1,269)	(1,194)

Cash and cash equivalents include restricted balances of £7m (31 July 2016: £15m, 29 January 2017: £9m) which are held by Farock Insurance Company Limited, a subsidiary of Wm Morrison Supermarkets PLC.

17. Financial instruments

	30 July 2017 (unaudited)		31 July 2016 (unaudited)		29 January 2017 (audited)	
	Carrying amount £m	**Fair value £m**	Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m
Non-current financial assets						
Derivative financial assets	**33**	**33**	48	48	16	16
Total non-current financial assets	**33**	**33**	48	48	16	16
Current financial assets						
Derivative financial assets	**13**	**13**	24	24	22	22
Available-for-sale financial assets	**-**	**-**	45	45	-	-
Total current financial assets	**13**	**13**	69	69	22	22
Current financial liabilities						
Short term borrowings	**-**	**-**	(202)	(206)	-	-
Derivative financial liabilities	**(6)**	**(6)**	(6)	(6)	(3)	(3)
Total current financial liabilities	**(6)**	**(6)**	(208)	(212)	(3)	(3)
Non-current financial liabilities						
Borrowings	**(1,567)**	**(1,715)**	(1,750)	(1,841)	(1,550)	(1,676)
Derivative financial liabilities	**(1)**	**(1)**	(3)	(3)	(5)	(5)
Total non-current financial liabilities	**(1,568)**	**(1,716)**	(1,753)	(1,844)	(1,555)	(1,681)

The fair value of the sterling and euro denominated bonds carried at amortised cost are measured using closing market prices (level 1) (31 July 2016 and 29 January 2017: level 1).

Notes to the condensed consolidated financial statements (continued)

26 weeks ended 30 July 2017

17. Financial instruments (continued)

All derivative financial instruments are categorised as level 2 instruments (31 July 2016 and 29 January 2017: 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).

18. Share capital and share premium

	Number of shares millions	Share capital £m	Share premium £m	**Total £m**
At 1 February 2016 and at 31 July 2016	2,335.2	234	127	**361**
Share options exercised	0.4	-	1	**1**
At 29 January 2017	2,335.6	234	128	**362**
Share options exercised	18.4	1	29	**30**
At 30 July 2017	2,354.0	235	157	**392**

Proceeds from exercise of employee share options

The Group issued 18,486,771 (31 July 2016: 104,134, 29 January 2017: 381,043) new shares to satisfy options exercised by employees during the period. Proceeds received on exercise of these shares amounted to £30m (31 July 2016: £0.2m, 29 January 2017: £0.6m) and these have been recognised as an addition to share capital and share premium in the period.

Settlement of employee tax liability for share awards

Previously the Group has settled all share awards gross of tax with employees selling shares to settle personal tax liabilities. During the period the Group has settled 4,294,966 of share options out of trust shares which have vested during the period net of tax. The Group paid the £6m tax liability in cash (31 July 2016: £nil, 29 January 2017: £nil) due on the vesting of these share options on behalf of the employees rather than selling shares on the employees' behalf.

19. Commercial income

The types of commercial income recognised by the Group and the recognition policies are consistent with those disclosed in the 2016/17 Annual Report and Financial Statements.

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

	26 weeks ended 30 July 2017 (unaudited) £m	26 weeks ended 31 July 2016 (unaudited) £m	52 weeks ended 29 January 2017 (audited) £m
Marketing and advertising funding	**12**	19	52
Volume-based rebates	**102**	130	257
Total commercial income	**114**	149	309

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

	30 July 2017 (unaudited) £m	31 July 2016 (unaudited) £m	29 January 2017 (audited) £m
Commercial income trade debtor	**6**	3	4
Accrued commercial income	**38**	42	38
Commercial income due, offset against amounts owed	**14**	23	34
	58	68	76

At 10 September 2017, £5m of the £6m commercial income trade debtor balance had been settled and £12m of the £38m accrued commercial income balance had been invoiced and settled. In addition, £11m of the £14m commercial income due had been offset against payments made. As at 10 September 2017, £76m of the £76m of commercial income held on the balance sheet at 29 January 2017 had been settled.

Notes to the condensed consolidated financial statements (continued)
26 weeks ended 30 July 2017

20. Guarantees

Following the disposal of the land and buildings of its customer fulfilment centre (CFC) at Dordon to a third party (see note 9), the Group continues to guarantee the lease in respect of this site. If the lessee were to default, their lease obligations could revert back to the Group under the terms of the guarantee and become a liability of the Group. Should the lessee default, the future rental commitment is estimated at up to £33m.

21. Post balance sheet events

Following IAS 10 'Events after the Balance Sheet Date', the Group continues to disclose events that it considers material and non-disclosure of which can influence the economic decisions of users of the financial statements.

On 1 August 2017, the Group entered into a wholesale supply agreement with McColl's. The Group is to start supplying both Safeway and national brands to McColl's with a phased programme starting in January 2018.

The Directors consider this transaction to be a non-adjusting post balance sheet event.

Notes to the condensed consolidated financial statements (continued)

26 weeks ended 30 July 2017

Responsibility statement

The Directors' confirm that these condensed interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the European Union and that the interim management report includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

- an indication of important events that have occurred during the first 26 weeks and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining 27 weeks of the financial year; and
- material related-party transactions in the first 26 weeks and any material changes in the related-party transactions described in the last annual report.

The Directors of Wm Morrison Supermarkets PLC are listed in the Wm Morrison Supermarkets PLC Annual Report and Financial Statements for the 52 weeks ended 29 January 2017. A list of current Directors is maintained on the Wm Morrison Supermarkets PLC website: www.morrisons-corporate.com

By order of the Board

Jonathan Burke

Company Secretary

13 September 2017

The Board

The Board of Directors that served during the 26 weeks to 30 July 2017 and their respective responsibilities were:

Andrew Higginson – Chairman*
David Potts – Chief Executive Officer
Trevor Strain – Chief Financial Officer
Belinda Richards *
Paula Vennells*
Rooney Anand*
Neil Davidson*
Tony Van Kralingen* (Appointed 1 September 2017)

* 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 29 January 2017 remain the same for this interim financial report. Those risks and uncertainties can be summarised as follows:

- Business interruption
- Competitiveness
- Customer
- Data
- Financial and treasury
- Food safety and product integrity
- Health and safety
- People
- Regulation

The Board continue to monitor all the risks in the business closely, in particular the potential impact of the UK's decision to leave the European Union (EU). The result of the UK referendum to leave the EU in June 2016, and the subsequent triggering of Article 50 on 29 March 2017, has created a period of uncertainty in particular in relation to the impact on imported food prices, potential border restrictions and potential changes to EU labour. The Board will continue to closely monitor the impacts and will react accordingly.

Notes to the condensed consolidated financial statements (continued)

26 weeks ended 30 July 2017

Principal risks and uncertainties (continued)

The Board believes that since the publication of the 2016/17 Annual Report and Financial Statements there has been no material change to the Group's principal risks and appropriate mitigating actions are in place 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 2016/17 Annual Report and Financial Statements. You can view the 2016/17 Annual Report and Financial Statements online on our corporate website, www.morrisons-corporate.com/annual-report-2017.

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, West Yorkshire, United Kingdom.

The 2017/18 interim 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 30 July 2017 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 interim financial report.

The comparative financial information contained in the condensed consolidated financial statements in respect of the 52 weeks ended 29 January 2017 has been extracted from the 2016/17 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 2017/18 interim financial report was approved by the Board of Directors on 13 September 2017.

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 30 July 2017 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 2016/17 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-2017.

Significant accounting policies

The accounting policies applied by the Group in these condensed consolidated financial statements are consistent with those set out in the 2016/17 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 4 February 2018, none have been assessed as having a significant impact on the Group.

Notes to the condensed consolidated financial statements (continued)

26 weeks ended 30 July 2017

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 2016/17 Annual Report and Financial Statements.

Forward looking statements

Certain statements in this interim financial report are forward-looking. Where the interim 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 interim results for the half year to 30 July 2017 of Wm Morrison Supermarkets PLC for the 26 week period ended 30 July 2017. 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 Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

What we have reviewed

The interim financial statements comprise:

- the consolidated balance sheet as at 30 July 2017;
- 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 interim results for the half year to 30 July 2017 have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook 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 interim results for the half year to 30 July 2017, including the interim financial statements, is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the interim results for the half year to 30 July 2017 in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express a conclusion on the interim financial statements in the interim results for the half year to 30 July 2017 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 Guidance and Transparency Rules sourcebook 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, 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 interim results for the half year to 30 July 2017 and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants
Leeds
13 September 2017

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.

Glossary

Alternative Performance Measures

In response to the Guidelines on Alternative Performance Measures (APMs) issued by the European Securities and Markets Authority (ESMA), we have provided additional information on the APMs used by the Group. The Directors use the APMs listed below as they are critical to understanding the financial performance and financial health of the Group. As they are not defined by IFRS, they may not be directly comparable with other companies who use similar measures.

APM	Definition	Reconciliation of Group measures at 30 July 2017[1]
Like-for-like (LFL) sales growth	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.	**26 weeks ended 30 July 2017 (unaudited) %** **Group LFL (exc. fuel)** **3.0** **Group LFL (inc. fuel)** **5.2** Impact of store closures (0.4) **Total revenue year on year** **4.8**
Underlying profit before tax (UPBT)	Reported profit before tax excluding impairment and provisions for onerous contracts, profit/loss on disposal and exit of properties and sale of businesses and investments, the impact of pension volatility and other items that do not relate to the Group's principal activities on an ongoing basis.	A reconciliation of this measure is provided in note 2 of the interim financial statements.
Underlying profit after tax	UPBT adjusted for a normalised tax charge.	UPBT of £177m less a normalised tax charge of £42m (note 2 of the interim financial statements).
Underlying operating profit	Reported operating profit excluding impairment and provisions for onerous contracts, profit/loss on disposal and exit of properties and sale of businesses and investments and other items impacting operating profit that do not relate to the Group's principal activities on an ongoing basis.	Reported operating profit (£233m) less profit/loss on disposal and exit of properties and sale of businesses and investments (£13m), pension scheme set-up credit (£10m), plus other exceptional costs (£4m).
Underlying net finance costs	Reported net finance costs excluding net pension income and other items impacting net finance costs that do not relate to the Group's principal activities on an ongoing basis.	A reconciliation of this measure is provided in note 4 of the interim financial statements.
Underlying earnings per share	Earnings per share based on underlying profit after tax rather than reported profit after tax as described above.	A reconciliation of this measure is included in note 7 of the interim financial statements.
Free cash flow	Movement in net debt before payment of dividend.	£352m being the movement in net debt (£262m) before payment of dividend (£90m).
Net debt	Net debt is cash and cash equivalents, non-current financial assets and current financial assets, less borrowings, current financial liabilities and non-current financial liabilities.	A reconciliation of this measure is provided in note 16 of the interim financial statements.
Working capital movement	Movement in stock, movement in debtors, movement in creditors and movement in provisions.	A reconciliation of this measure is provided in note 15 of the interim financial statements.
Operating working capital movement	Working capital movement adjusted for charges for onerous contracts, onerous payments and other non-operating payments.	A reconciliation of this measure is provided in note 15 of the interim financial statements.
Return on capital employed	Return on capital employed is calculated as return divided by average capital employed. Return is defined as annualised underlying profit after tax adjusted for underlying net finance costs and operating lease rentals (on land and buildings). Capital employed is defined as average net assets excluding net pension assets and liabilities, less average net debt, plus the lease multiplier (10 times rent payable).	ROCE (7.8%) equals return divided by average capital employed: Return (£447m) Underlying profit after tax annualised (£270m) adjusted for underlying net finance costs (£85m) and operating lease rentals (on land and buildings) (£92m). Average capital employed (£5,767m) Average net assets excluding the net pension asset (£3,747m), average net debt (£1,101m) and the lease multiplier (£919m).

[1] Certain ratios referred to in the interim financial statements are calculated using more precise numbers rather than rounded numbers. These stated ratios may therefore differ slightly to those calculated by the numbers in this report due to rounding (as numbers in the financial statements are presented in round millions).

Glossary (continued)

Alternative Performance Measures (continued)

APM	Definition	Reconciliation of Group measures at 30 July 2017
Normalised tax	Normalised tax is the tax rate applied to the Group's principal activities on an ongoing basis. This is calculated by adjusting the effective tax rate for the period to exclude the impact of profit/loss relating to property disposals and sale of businesses and investments, pension interest volatility, impairment and provisions for onerous contracts, and other items that do not relate to the Group's principal activities on an ongoing basis.	The normalised tax rate is based on full year projections and as such a tax reconciliation will be provided in the Annual Report and Financial Statements for the 53 weeks ended 4 February 2018. Details of the normalised tax rate used in the 26 weeks ended 30 July 2017 is provided in note 5 of the interim financial statements.