

# News Release

Release date: 13 September 2018

## **INTERIM RESULTS FOR THE HALF YEAR TO 5 AUGUST 2018** **Accelerating growth**

### **Financial summary**

- Group like-for-like (LFL) sales<sup>(1)</sup> ex-fuel/ex-VAT up 4.9% (2017/18: 3.0%)
- Q2 Group LFL ex-fuel/ex-VAT up 6.3%, a nine-year high
- Revenue up 4.5% to £8.80bn (2017/18: £8.42bn)
- Underlying profit before tax (UPBT<sup>(2)</sup>) up 9.0% to £193m (2017/18: £177m)
- Underlying earnings per share (EPS<sup>(2)</sup>) up 8.5% to 6.28p (2017/18: 5.79p)
- Reported PBT down 29% to £142m (2017/18: £200m) after net adjustments of £51m, including £33m previously announced for successful bond tender offers and £28m following a change in methodology for estimating stock provisions
- Free cash flow<sup>(3)</sup> of £242m, including bond tender costs and lower disposal proceeds year on year in the first half (2017/18: £352m)
- Net debt reduced by a further £44m to £929m since the end of 2017/18
- Interim ordinary dividend up 11.4% to 1.85p (2017/18: 1.66p)
- Special interim dividend of 2.00p, taking total interim dividend up 132% to 3.85p

### **Strategic and operating highlights**

- Acceleration in LFL, sustained strong underlying profit growth and cash flow
- Returning a further £91m to shareholders, in accordance with our capital allocation framework principles guiding the uses of free cash flow each year
- Morrisons.com extended to more parts of the South and into Scotland for the first time, and now available to over 75% of British households
- Initial programme to supply first 1,300 McColl's stores completed ahead of plan
- Since half-year end, agreed new wholesale deals to supply MPK Garages forecourt stores and Big C in Thailand

### **Financial targets update**

- £700m of annualised wholesale supply sales expected to be achieved ahead of initial end-2018 guidance. £1bn of annualised sales still expected in due course
- Further £4m incremental profit from wholesale, services, interest and online, taking the total so far to £46m. On track for the £75m–£125m target
- In the second half, we expect lower costs of both Morrisons.com expansion and accelerated wholesale supply, and will annualise the Home & Leisure relaunch
- Net debt expected to remain at a low level, consistent with our capital discipline and the principles of our capital allocation framework

**Andrew Higginson, Chairman, said:**

“With each passing quarter, the Morrisons team is building a better and better business. New customers try Morrisons and tell us they really enjoy shopping with us: our friendly colleagues, the quality of our fresh food and our low prices. We look forward to more and more customers trying Morrisons.”

**David Potts, Chief Executive, said:**

“Strong growth, including our best quarterly like-for-like sales for nearly a decade, together with another special dividend for our shareholders, shows how new Morrisons can keep improving for all stakeholders.

“Morrisons continues to become broader, stronger and a more popular and accessible brand, and I am confident that our exceptional team of food makers and shopkeepers can keep driving the turnaround at pace.”

**Outlook**

We are confident that Morrisons has many meaningful and sustainable sales and profit growth opportunities ahead. We also expect free cash flow generation to remain strong and sustainable. Reflecting this progress and our expectations, we are today announcing a further special dividend of 2.00p per share. As we stated at the 2017/18 preliminary results, we will retain a strong and flexible balance sheet, and we will be guided each year by the principles of our capital allocation framework in assessing the uses of free cash flow.

During Q2, we progressed our wholesale supply partnership with McColl’s more quickly than initially expected. As a result, we now expect to achieve our target of £700m of total annualised wholesale supply sales ahead of our initial end-2018 guidance. Our plan for £1bn of annualised wholesale supply sales in due course remains unchanged.

This speeding up of wholesale supply to McColl’s, plus investments in store-pick and the new Erith customer fulfilment centre (CFC) for Morrisons.com, means we incurred some extra start-up costs in the first half. We expect these costs to reduce during the second half and beyond. In addition, during the second half we will annualise last year’s relaunch of our Home & Leisure range, and expect improved performance year on year.

Net incremental profit from wholesale, services, interest and online was £4m during the period, bringing the cumulative total so far to £46m. We remain on track for our £75m–£125m medium-term target.

Net debt ended the first half lower than end-2017/18. We expect it to remain at a low level, consistent with our capital discipline and the principles of our capital allocation framework.

After a successful £233m bond tender offer during the first half, we now expect 2018/19 underlying net finance costs to be £60m–£65m.

**Figure 1 – H1 2018/19 profit reconciliation**

£m	H1 17/18	H1 18/19	Y-on-Y
Reported operating profit	233	197	-15.5%
Reported profit before tax	200	142	-29.0%
Underlying adjustments:			
– Profit on disposal and exit of properties, and sale of businesses and investments	-13	-	
– Costs associated with repayment of borrowings*	-	33	
– Pension scheme set-up credit	-10	-	
– Net pension income*	-4	-8	
– Other exceptional items	4	26	
Underlying operating profit	214	223	4.2%
<b>Underlying profit before tax</b>	<b>177</b>	<b>193</b>	<b>9.0%</b>

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

**Figure 2 – LFL sales performance (ex-VAT)**

	2017/18					2018/19		
	Q1	Q2	H1	H2	FY	Q1	Q2	H1
Retail contribution to LFL <sup>1</sup>	3.0%	2.1%	2.5%	2.0%	2.3%	1.8%	2.5%	2.1%
Wholesale contribution to LFL <sup>2</sup>	0.4%	0.5%	0.5%	0.6%	0.5%	1.8%	3.8%	2.8%
<b>Group LFL ex-fuel</b>	<b>3.4%</b>	<b>2.6%</b>	<b>3.0%</b>	<b>2.6%</b>	<b>2.8%</b>	<b>3.6%</b>	<b>6.3%</b>	<b>4.9%</b>
Group LFL inc-fuel	6.3%	4.1%	5.2%	3.0%	4.1%	1.9%	6.4%	4.2%

Reported in accordance with IFRS 15

<sup>1</sup> Includes supermarkets and Morrisons.com sales. Morrisons.com sales through Dordon CFC contributed 0.2% in Q2 2018/19

<sup>2</sup> Wholesale comprises sales to third parties, including those via our manufacturing business

**Figure 3 – Summary of retail operational key performance indicators<sup>3</sup>**

	2017/18					2018/19		
	Q1	Q2	H1	H2	FY	Q1	Q2	H1
LFL Number of transactions <sup>3</sup>	4.6%	3.2%	3.9%	2.0%	2.9%	0.7%	2.6%	1.7%
LFL Items per basket <sup>3</sup>	-6.9%	-5.5%	-6.2%	-3.7%	-4.9%	-1.1%	-1.4%	-1.2%

<sup>3</sup> 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 key alternative performance measures identified by the Group and contained in this announcement 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 measures is provided in 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), removing the impact of new store openings and closures in the current or previous financial year.

A reconciliation between LFL sales and total revenue 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 exceptional items which are significant in size and/or nature.

A reconciliation between reported and underlying profit before tax and operating profit is shown in Figure 1. See Note 8 for a reconciliation between basic and underlying EPS.

After a review of emerging practice around Alternative Performance Measures, starting from the full-year 2018/19 results '*Profit Before Exceptional Items*' will replace '*Underlying Profit*' as our key measure of adjusted profit. In making this change, we will also move to a three-column presentation approach, with exceptional items in a separate column on the face of the income statement.

- (3) **Free cash flow:** movement in net debt before the payment of dividends. Free cash flow for the period is £242m (2017/18: £352m), being the movement in net debt of £44m (2017/18: £262m) adjusted for dividends paid of £198m (2017/18: £90m).

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Management will host an analyst presentation this morning at 09:30 at the London Stock Exchange.

**\*\*\* 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@morrisonspc.co.uk](mailto:dawn.kershaw@morrisonspc.co.uk))

A webcast of this meeting is available at <https://www.morrisonspc.com/corporate/investor-centre/>

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**Replay facility available for 7 days:**

Replay access number:	+44 (0) 333 300 0819
Replay access code:	301239544#

– ENDS –

Certain statements in this financial report are forward looking. Where the 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

Our sales performance was strong and accelerated during the period. Total revenue was £8.8bn, up 4.5% year on year. This included a contribution of 0.3% from net new space, which was slightly higher than guided as our two new stores, in Abergavenny and St Ives, Cambridgeshire, got off to a better-than-expected start. Total revenue excluding fuel was £6.9bn, up 5.3%.

Group LFL excluding fuel was up 4.9%, comprising contributions from retail of 2.1% (supermarkets 1.9%, online through Dordon CFC 0.2%) and wholesale of 2.8%. Wholesale sales strengthened during the period, largely due to an acceleration in the roll-out programme to supply McColl's. Inflation was broadly flat, with strong volume growth throughout.

Fuel sales were up 1.6% to £1.9bn, with LFL of 1.4%.

Q2 Group LFL was 6.3%, the best since Q2 2009/10, with retail contributing 2.5% and wholesale 3.8%. As well as the accelerating McColl's roll-out programme lifting wholesale sales, retail sales were strong and in part assisted by favourable weather and the football World Cup.

Underlying operating profit<sup>(2)</sup> was up 4.2% to £223m (2017/18: £214m), with margin flat at 2.5%. Underlying EBITDA margin was 5.1%, up 13 bps. Operational leverage from the strong sales growth flowed through. We again invested in becoming more competitive for customers and, in addition this period, in both the start-up of our new store-pick capability and the new Erith CFC for Morrisons.com, and the accelerated roll-out of wholesale supply to McColl's. We expect these online and McColl's start-up costs to reduce from H2 2018/19 and beyond.

Underlying net finance costs were £31m (2017/18: £38m).

Reported profit before tax (PBT) was down 29% to £142m (2017/18: £200m).

Underlying profit before tax was up 9.0% to £193m (2017/18: £177m).

Adjustments recognised outside UPBT were £51m, as listed in Figure 1, comprising £33m previously announced one-off costs in relation to successful tender offers completed in the first half, £8m net pension income, and a net £26m of other exceptional items. Other exceptional items included £28m in relation to increased stock provisioning. During the period, we continued to automate our ordering systems. This has led to operational changes and additional information regarding stock levels, and a change in the methodology for estimating stock provisions. Other exceptional items also include £2m legal costs, and £4m release of a restructuring provision.

The net incremental UPBT from wholesale, services, interest and online was £4m during the period, bringing the total cumulative profit so far to £46m. We remain confident of our medium-term target of £75m–£125m incremental profit from these four areas.

Underlying basic EPS was up 8.5% to 6.28p (2017/18: 5.79p).

Cash capital expenditure was £185m (2017/18: £191m).

Free cash flow<sup>(3)</sup> was £242m (2017/18: £352m), which included £30m cash costs associated with repayment of borrowings (2017/18: nil), and £89m lower disposal proceeds year on year (2018/19: £4m, 2017/18: £93m) due to the timing of property transactions.

Group net debt fell to £929m, down £44m since the end of 2017/18.

The proposed interim ordinary dividend is up 11.4% to 1.85p. In addition, we are again proposing a special dividend of 2.00p per share, which will take the total interim dividend up 132% to 3.85p (2017/18: 1.66p).

Two new stores were opened during the period, adding 54,000 square feet.

Return on capital employed (ROCE) was 8.0%, up from 7.8% for H1 2017/18.

## Strategy update

Our turnaround strategy to Fix, Rebuild and Grow Morrisons, driven by our six priorities, has now been ongoing for more than three years. The three phases are well established and concurrent and, as new Morrisons continues to become broader and stronger, we are increasingly confident of driving multiple growth opportunities.

UK food retail continues to be highly competitive and dynamic, and there is some continuing consumer, economic and political uncertainty, particularly as Brexit approaches.

While this is important context for us, we believe our success remains firmly in our hands. By continuing to listen to colleagues and customers, we are improving the shopping trip and becoming more competitive. Our brand is more accessible and more popular, and we are broadening the markets we operate in, as evidenced by the wholesale supply roll-out to 1,300 McColl's stores during the first half.

We have made significant progress for all our stakeholders. Sales, profit and ROCE have grown consistently, and we have generated a total shareholder return of 57% since we announced our strategy three years ago. Debt is down from a peak of £2.8bn to £929m and cumulative free cash flow is £2.9bn since the start of our improvement programmes.

We have invested in our front-line colleagues, with hourly pay increasing 27%, from £6.83 to £8.70, over the last three years, and the average colleague bonus more than doubling since 2015/16. We are listening and responding, and our colleague engagement remains high.

For suppliers, we have fundamentally changed the way we buy, stock and sell, building stronger, more mutually beneficial relationships.

Most importantly, for customers, our Fresh Look programme has extended to over half of our stores, we have made significant improvements in range, the Morrisons price list, and customer service, and have also developed our offers in online, wholesale, local and in-store services. Customers have responded, with LFL now positive for eleven consecutive quarters, first-half LFL transactions up almost 10% over the last three years, and customer satisfaction improving 16 percentage points since the start of 2015/16.

However, we are still only part-way through our turnaround strategy. Capability – of people, technology and data – continues to improve. We are accessing substantial cost-saving and productivity opportunities, and there is still much to do to keep improving the customer shopping trip. We made good progress with all of these during the first half, once again growing sales, profit and ROCE.

Importantly, Morrisons growth opportunity remains meaningful and sustainable, and is built on strong free cash flow and balance sheet foundations, in accordance with our capital discipline and the principles of our capital allocation framework. Reflecting these principles and our commitment to review the uses of free cash flow each year, we are today announcing a further special dividend of 2.00p per share.



## Six priorities update

### 1. *To be more competitive*

Morrisons operates in a competitive and dynamic market. During the first half we reacted well to industry trends and created our own opportunities, once again investing in the Morrisons price list and improving our relative competitiveness. Inflation was broadly flat throughout the period and volume growth was strong in the supermarkets, online, and for the fast-growing wholesale business. Strong total sales and volume growth remain an ongoing opportunity for Morrisons.

We have started the journey towards more fully integrating our manufacturing and retail operations, through investing in improving quality and price for customers, removing third party middle-men and agents, and helping our food makers and shopkeepers drive sales. New first-half initiatives included: producing pitta bread and crumpets at our Rathbones bakery; increased direct sourcing in areas such as nuts, bananas and fish; and showcasing our market street counters and food experts through a wider programme of in-store tastings and food maker demonstrations.

We also made further good progress with new product development. For example, we launched our new 'Wonky' brand of low-priced, good quality fruit and vegetables, which minimises waste and more fully utilises the whole crop. We also launched a new look 'Savers' range, our lowest-priced own-brand, and extended 'Nutmeg' Womenswear into almost 250 stores. In addition, our new Home & Leisure range, re-launched towards the end of 2017, is now showing good year-on-year growth and, we expect, will help improve Group performance during the second half.

This strong product pipeline was recognised by Morrisons being named Innovative Own Label Retailer of the Year at the Grocer Food & Drink Own Label Awards, with several of our own-brand products winning individual awards. In addition, during the first half we won awards at the World Steak Challenge, including a gold medal for our 'Best' shorthorn rib-eye steak. We were also named Sandwich Multiple Retailer of the Year for the second year running and Supreme Retailer of the Year at The International Cheese Awards. Our £10 Sauvignon Blanc was voted best supermarket wine at the 2018 Decanter World Wine Awards.

### 2. *To serve customers better*

As we more fully integrate our manufacturing and retail operations, we are finding more ways to serve customers better. For example, during the first half we introduced local loose eggs in 200 stores, improving customer choice and emphasising Morrisons provenance. We also removed film packaging on several vegetables such as cucumbers, turnips and swedes, and began introducing recyclable paper bags in our Fruit & Veg departments, thereby reducing plastic waste which is very important to both us and our customers.

In online too, Morrisons is serving customers better. Morrisons.com is adding substantial new capacity, and has now extended its reach to over 75% of British households. Through a combination of more store-pick capability and transitioning to the newly opened Ocado CFC in Erith, we have significantly expanded our online

delivery catchment area to include South London, Surrey, and Kent, plus the south coast and Devon. We have also taken Morrisons.com to Scotland for the first time, now serving our customers online in Edinburgh and Glasgow. As we increase our Morrisons.com capability and scale, we expect our CFC/store-pick hybrid model to enable us to plan better for more profitable online growth.

After the end of the first half, we launched *'Eat Fresh'*, our new online nationwide recipe box service. Customers can order a wide variety of fresh meals to be delivered direct to home, with each *'Eat Fresh'* box providing the fresh ingredients for up to four great value, nutritious, easy-to-cook recipes.

All of our work to broaden the offer and improve the customer shopping trip is making Morrisons more accessible and popular with customers. LFL transactions have now been positive for eleven consecutive quarters and are up almost 10% over the last three years. Our overall customer satisfaction score – measuring service, quality, range, availability and price – continued to improve, up another 4% during the first half, and now up 16 percentage points since the start of 2015/16.

### *3. Find local solutions*

We are becoming renowned for 'local', and customers increasingly regard it as a distinguishing attribute of Morrisons.

During the first half we continued to expand our local offer: around 350 stores now sell seasonal local Fruit & Veg; our stores in the South West are now supplied direct with almost 30 varieties of locally caught fish from the ports in Newquay, Plymouth and Brixham; and all block cheese in our Welsh stores is produced by dairies in Wales.

In addition, we hosted a further six regional food maker roadshows around Britain, as we continue to look for the best local products from growers, farmers, fishermen and other food makers. Recent successes include Yorkshire Squeaky Cheese, first seen by our team at a roadshow in June, and in 40 local stores in July.

Sales of local suppliers' products were up a further 30% during the first half.

We are using our More Card data to refine each Fresh Look refit, defend against the impact of competitors' new store openings, and assist with local marketing. Work also continues around tailoring our offer to local events, demographics, and seasons.

In addition, we are becoming more integrated into our local communities: each store has a dedicated Community Champion whose role includes hosting local events and community groups, helping local charities, and volunteering in the local community.

### *4. Develop popular and useful services*

Pick-up services are very popular with Morrisons customers. Amazon lockers have been rolled out across almost the entire estate, and Doodle too is now expanding very quickly. Doodle is now in 240 Morrisons stores, up by 80 during the first half, and with more roll-out plans ahead.

Timpson at Morrisons continues to expand, and is now in over 200 stores, with many more still to come.

We have also been working with various partners to develop new foodservice units on our surplus land. The first of these, a drive-thru McDonald's, opened in August. We have plans for further sites and further partners.

We now have 34 Morrisons Daily stores on our own forecourts, offering customers a full convenience range.

In addition, we continue to trial various opportunities for popular and useful services in areas such as car care, tyre change, and travel exchange.

#### *5. To simplify and speed up the organisation*

Simplifying and speeding up Morrisons is leading to improved productivity. Various initiatives are now well under way across many different work streams, and we expect these to continue to yield significant cost savings and productivity improvements for many years to come.

For example, in-store automated ordering is enabling us to introduce a new end-to-end forecasting system which will more accurately manage stock throughout our supply chain, including improving the efficiency of our 18 manufacturing sites. We are also trialling a new checkout configuration, with a greater component of self service, different payment options, and more efficient dual checkouts.

Within manufacturing, we are introducing improvements to the way we manage the flow of fresh commodities, which improves delivery accuracy and product quality. The system is mutually beneficial to Morrisons and our suppliers, and also reduces food waste.

During the first half we completed the process of simplifying our in-store structures. With improved systems and capability we require fewer managers, and have removed 1,500 managerial roles. The process to create around 1,700 front-line customer service roles is ongoing.

#### *6. To make core supermarkets strong again*

Around 30 Fresh Look refits were completed in the first half, with a similar number expected in time for Christmas. Over half of our stores have now been through the Fresh Look programme.

As we continue to apply the learnings from Fresh Look across the estate, an additional 120 new Nutmeg womenswear departments were introduced taking the total to almost 250, the final 80 Fruit & Veg departments were updated, and 45 new-look Home & Leisure fixtures were introduced. In addition, an extra 95 Garden Centres were introduced for the summer season in stores where space in foyers, or outside under canopies or in trolley storage areas could be temporarily utilised.

Two new stores opened during the first half, in Abergavenny and St Ives, Cambridgeshire. Both have got off to a strong start and include our latest ideas, which are providing learnings that we can apply across our estate in future. These innovations include a café featuring a new menu and food order point, and a larger petrol station convenience store with a much broader range. Our third new store, in Birmingham, opened today.

### **Wholesale supply**

Wholesale supply sales improved during the first half, with Q2 wholesale LFL of 3.8%, up from 1.8% in Q1. This was mostly due to an acceleration in the programme to supply McColl's. After the initial programme of around 25 shops a week from January, the roll-out was accelerated: we now supply around 1,300 McColl's stores and expect to achieve our target of £700m of annualised wholesale supply sales ahead of our initial end-2018 guidance. We still expect to supply McColl's remaining c.300 convenience stores in due course, and our target of £1bn annualised wholesale supply sales is unchanged. The new Safeway range of up to 400 fresh, frozen and ambient products is now available in all the 1,300 McColl's stores.

So far, nine Sandpiper CI stores in the Channel Islands have converted to Morrisons Daily, selling both Morrisons own brand and national brands. During the remainder of 2018 and 2019, many of the remaining Sandpiper CI stores will convert to Morrisons Daily. We have also started to supply Safeway products to some non-converted Sandpiper CI stores.

Rontec now owns and operates more than 40 Morrisons Daily stores on its forecourts, with five added in the first half and plans for more during the remainder of the year.

In addition, during the first half we continued to increase the number of branded and Morrisons own-brand items that we supply to Amazon's customers across its various channels. For '*Morrisons at Amazon*', the same-day store-pick delivery service, there are now over 10,000 items available to be ordered and delivered to customers within one hour.

Since the end of the first half, we have agreed new deals with two new wholesale supply partners: MPK Garages and Big C in Thailand. MPK operates around 30 forecourt fuel/store sites, primarily in the Midlands, most of which will be converted to Morrisons Daily stores over the coming months. The new owner of MPK, Stratford Retail Group Ltd, has expansion plans for many new forecourt sites, which will offer further opportunities for Morrisons Daily. For Big C, in the coming months we will begin exporting a range of around 100 Morrisons own-brand items to Big C stores in Thailand to form part of the company's international offer.

## Financial strategy and update

### *Capital allocation framework*

The capital allocation framework 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 then any surplus capital will be returned to shareholders.

### *Shareholder returns*

Our policy is for the ordinary annual dividend to be sustainable and covered around two times by underlying earnings per share. The 2018/19 interim ordinary dividend will be 1.85p, up 11.4%.

We remain confident that Morrisons has many meaningful and sustainable sales and profit growth opportunities ahead. We also expect free cash flow generation to remain strong and sustainable. Reflecting this progress and our expectations, the Board is proposing a further special dividend of 2.00p per share in addition to the interim ordinary dividend. This takes the total interim dividend to 3.85p, an increase of 132% on last year. As we stated at the 2017/18 preliminary results, we will retain a strong and flexible balance sheet, and we will be guided each year by the principles of our capital allocation framework in assessing the uses of free cash flow.

Both the ordinary interim and special interim dividends of 1.85p and 2.00p per share respectively will be payable on 5 November 2018 to shareholders on the share register at the close of business on 28 September 2018.

### *Cash flow and working capital*

Free cash flow was £242m, bringing the total to £2.9bn since the start of 2014/15.

Operating working capital generation was £40m and is now £989m since the start of the programme. This was another strong performance, despite the previously guided adverse impact of first-half payroll timing, due to last year's 53<sup>rd</sup> week, which more than offset some trading benefit from fuel.

Disposal proceeds were £4m, bringing the total to £1,005m since we started the programme. We still expect to achieve our £1.1bn target.

### *Capital expenditure/depreciation and amortisation*

Cash capital expenditure was £185m (2017/18: £191m). As previously guided, we expect c.£500m for the full year. In addition, we incurred £8m of onerous payments, and still expect c.£60m for the full year.

We still expect 2018/19 depreciation/amortisation to be £440m–£450m.

### *Debt and interest*

Group net debt again fell, to £929m, down a further £44m since the end of 2017/18.

We expect net debt to remain low. As well as the reversal of the impact of the first-half payroll payment timing, we are planning for continued robust trading and expect some further opportunities for working capital improvements beyond our £1bn target. The cash outflow from the total interim dividend is expected to be £91m in the second half.

Underlying net finance costs were £31m (2017/18: £38m), down compared to last year as expected. During the first half we completed tender offers for £233m across three sterling bonds. One-off costs relating to these debt repayments were £33m as previously announced, and have been recognised outside of UPBT. As a result of the tender offer, we now expect 2018/19 underlying net finance costs to be £60m–£65m.

During the period we refinanced and extended the term of our £1.35bn revolving credit facility. The new facility was secured on attractive terms and runs until 2023, with options to extend.

### *Pension*

The net pension surplus increased from £594m at the end of 2017/18, to £834m at the end of the first half of 2018/19. Net pension income was £8m, reported outside UPBT.

During the first half, we announced the proposed closure of the Retirement Saver Plan pension scheme to new members and future accrual. A further update will be provided after the outcome of the consultation period has been agreed.

### *New space*

Two new stores opened during the first half, in Abergavenny and St Ives, Cambridgeshire, adding 54,000 square feet. A third new store opened in Birmingham today. Both stores opened in the first half have got off to a better-than-expected start. We are increasing 2018/19 net new space sales guidance from 0.2% to 0.3%.

### *Future reporting*

After a review of emerging practice around Alternative Performance Measures, starting from the full-year 2018/19 results *'Profit Before Exceptional Items'* will replace *'Underlying Profit'* as our key measure of adjusted profit. In making this change, we will also move to a three-column presentation approach, with exceptional items in a separate column on the face of the income statement.

The new IFRS 16 lease standard comes into effect from 2019/20, and will represent a significant change in the accounting for and reporting of leases. We expect to adopt the fully retrospective approach on transition, and are in the process of quantifying the financial impact.

## People update

We are committed to building the capability of our colleagues. Our focus on early careers has been a particular success, supporting a further 60 degree apprentices this year into full-time employment, alongside fully funding a degree in Business Administration and Management. We are now one of the largest retail sponsors of degree apprentices, having supported 150 young entrants over the last three years. At the 2018 School Leavers Awards we were voted top employer in retail, third best employer overall, and topped a list of all companies in the UK to win the award for best training programme.

Around 300 colleagues are progressing well through our craft apprenticeships scheme, and will be joined by around 270 more this year, further improving the butcher, baker and fishmonger food maker skills within our stores and manufacturing businesses. In addition, as part of the process to better integrate retail and manufacturing, we have combined the leadership of the two teams, aiming to minimise wasted effort and operate a more end-to-end Fresh business.

'My Morri', our digital communication platform for colleagues, has been expanded to allow individuals more personalised information and administration. Through 'My Morri', we have also successfully trialled a Produce category community which connects front-line colleagues to the centre and to each other: colleagues can share information, access updated briefs and bulletins, post and see pictures of best practice, give and seek feedback, and ask for advice about their category. We are rolling out this concept to all of our food and non-food categories.

The national 'Your Say' forum has continued to be very well received by colleagues, and now includes a non-executive board director, as well as executive board members, to ensure listening is independent and at the highest level.

## Corporate responsibility and community

Our corporate responsibility programme ensures we operate in a way that is right for our customers, colleagues, suppliers and shareholders while making a positive contribution to society and taking good care of the environment.

### *Changing our use of plastic*

We are committed to reducing unnecessary packaging, using recyclable or recycled material wherever possible, and working with suppliers on packaging innovation to ensure our packaging is only there to protect and preserve the product it contains.

We have signed up to the UK Plastics PACT, a collaborative commitment which joins up all stakeholders in the plastics system – businesses, government, local authorities, environmental organisations, and the wider public – to ensure that by 2025, all own-brand plastic packaging will be recyclable, reusable or compostable.

We have a variety of initiatives in place to reduce plastic use: we have removed single-use carrier bags from sale across all stores and replaced plastic bags for loose fruit and vegetables with recyclable paper bags; customers can now use their

own reusable containers at our meat and fish counters; and we are trialling reverse-vending machines to incentivise customers to return plastic bottles.

### *Supporting the Global Ghost Gear Initiative*

In April 2018, we became supporting members of the Global Ghost Gear Initiative to help address the issue of lost fishing gear. We will be working to introduce best practice in our supply chains through improvements in reporting, traceability and recovery of lost gear, and encouraging the use of gear with inbuilt escape mechanisms to prevent animal entanglement if lost.

### *Unsold food programme*

Through our unsold food programme, our stores partner with local community groups to donate any unsold food that is safe to eat. Since the programme began in 2016, we have donated over four million unsold food products, involving 80% of our stores working with over 420 community groups.

In our manufacturing sites and distribution centres, we work with Company Shop and FareShare to redistribute edible surplus food that can't be used through our own operations. Working with these organisations, we distribute tonnes of surplus food that would have otherwise been wasted.

### *CLIC Sargent and Charities*

Our national charity partnership with CLIC Sargent launched in February 2017, with the aim of providing support for young cancer patients and their families. So far our colleagues, customers and suppliers have raised over £5m. We also support other national charity appeals: we raised over £600,000 for the Marie Curie Daffodil Appeal over one weekend in March; and introduced a 'veterans pie' to celebrate Armed Forces Day in June and raise funds for Walking With The Wounded.

Our stores also play an active role in the community, with an emphasis on supporting local good causes. So far this year stores have raised over £2.5m for local charities and groups and donated over £500,000 worth of Morrisons products.

### *Foundation*

The Morrisons Foundation continues to provide vital funding for local charities. So far this year, over £3m has been donated in grants and colleague match funding. The majority of donations have been awarded to charities close to a Morrisons store, supporting our aim to make a positive difference in the local communities we serve.

### *Quieter Hour*

In July we became the first supermarket to introduce a Quieter Hour across all stores. Between 9am and 10am every Saturday morning we create a quieter and calmer environment in store to help customers with additional sensory needs, such as those with autism. This includes dimming the lights, turning our music off and avoiding announcements, as well as limiting the movement of stock around the shop floor.



**Wm Morrison Supermarkets PLC**  
**Condensed consolidated financial statements**  
**Consolidated statement of comprehensive income**

26 weeks ended 5 August 2018

	Note	26 weeks ended 5 August 2018 (unaudited) £m	26 weeks ended 30 July 2017 (unaudited) £m	53 weeks ended 4 February 2018 (audited) £m
<b>Revenue</b>	4	<b>8,800</b>	8,421	17,262
Cost of sales		<b>(8,511)</b>	(8,108)	(16,629)
<b>Gross profit</b>		<b>289</b>	313	633
Other operating income		<b>43</b>	39	78
Profit/loss on disposal and exit of properties	3	-	13	19
Administrative expenses		<b>(135)</b>	(132)	(272)
<b>Operating profit</b>		<b>197</b>	233	458
Finance costs	5	<b>(66)</b>	(40)	(94)
Underlying finance costs		<b>(33)</b>	(40)	(78)
Adjustments for:				
Costs associated with the repayment of borrowings	3	<b>(33)</b>	-	(16)
Finance income	5	<b>10</b>	6	14
Share of profit of joint venture (net of tax)		<b>1</b>	1	2
<b>Profit before taxation</b>		<b>142</b>	200	380
Analysed as:				
Underlying profit before taxation	3	<b>193</b>	177	374
Adjustments for:				
Impairment and provision for onerous contracts	3	-	-	6
Profit/loss on disposal and exit of properties	3	-	13	19
Costs associated with the repayment of borrowings	3	<b>(33)</b>	-	(16)
Pension scheme set-up credit	3, 13	-	10	13
Net pension income	3, 13	<b>8</b>	4	9
Other exceptional items	3	<b>(26)</b>	(4)	(25)
		<b>142</b>	200	380
Taxation	6	<b>(48)</b>	(39)	(69)
<b>Profit for the period attributable to the owners of the Company</b>		<b>94</b>	161	311
<b>Other comprehensive income/(expense):</b>				
<b>Items that will not be reclassified to profit or loss:</b>				
Remeasurement of defined benefit pension schemes	13	<b>240</b>	120	323
Tax on defined benefit pension schemes		<b>(41)</b>	(23)	(55)
		<b>199</b>	97	268
<b>Items that may be reclassified subsequently to profit or loss:</b>				
Cash flow hedging movement		<b>41</b>	(8)	(18)
Items reclassified from hedging reserve in relation to the repayment of borrowings	3	-	-	(2)
Tax on items that may be reclassified subsequently to profit or loss		<b>(5)</b>	(4)	(2)
Exchange differences on translation of foreign operations		<b>1</b>	-	(1)
		<b>37</b>	(12)	(23)
<b>Other comprehensive income for the period, net of tax</b>		<b>236</b>	85	245
<b>Total comprehensive income for the period attributable to the owners of the Company</b>		<b>330</b>	246	556
Earnings per share (pence)				
- basic	8	<b>3.99</b>	6.93	13.30
- diluted	8	<b>3.91</b>	6.81	13.03

# Consolidated balance sheet

5 August 2018

	Note	5 August 2018 (unaudited) £m	30 July 2017 (unaudited) £m	4 February 2018 (audited) £m
<b>Assets</b>				
<b>Non-current assets</b>				
Goodwill and intangible assets	9	414	440	428
Property, plant and equipment	10	7,226	7,156	7,243
Investment property	11	27	38	33
Pension asset	13	852	412	612
Investment in joint venture		54	57	53
Derivative financial assets	16	28	33	16
		<b>8,601</b>	8,136	8,385
<b>Current assets</b>				
Stock		646	600	686
Debtors		347	233	250
Derivative financial assets	16	38	13	15
Cash and cash equivalents	15	203	596	327
		<b>1,234</b>	1,442	1,278
Assets classified as held-for-sale	12	41	-	4
		<b>1,275</b>	1,442	1,282
<b>Liabilities</b>				
<b>Current liabilities</b>				
Creditors		(3,123)	(2,954)	(2,981)
Short-term borrowings	16	(181)	-	(72)
Derivative financial liabilities	16	(1)	(6)	(13)
Current tax liabilities		(25)	(31)	(15)
		<b>(3,330)</b>	(2,991)	(3,081)
<b>Non-current liabilities</b>				
Borrowings	16	(1,015)	(1,567)	(1,245)
Derivative financial liabilities	16	(1)	(1)	(1)
Pension liability	13	(18)	(20)	(18)
Deferred tax liabilities		(524)	(441)	(478)
Provisions		(282)	(305)	(299)
		<b>(1,840)</b>	(2,334)	(2,041)
<b>Net assets</b>				
		<b>4,706</b>	4,253	4,545
<b>Shareholders' equity</b>				
Share capital		237	235	236
Share premium		177	157	159
Capital redemption reserve		39	39	39
Merger reserve		2,578	2,578	2,578
Retained earnings and other reserves		1,675	1,244	1,533
<b>Total equity attributable to the owners of the Company</b>		<b>4,706</b>	4,253	4,545

# Consolidated cash flow statement

26 weeks ended 5 August 2018

	Note	26 weeks ended 5 August 2018 (unaudited) £m	26 weeks ended 30 July 2017 (unaudited) £m	53 weeks ended 4 February 2018 (audited) £m
<b>Cash flows from operating activities</b>				
Cash generated from operations	14	474	506	884
Interest paid		(32)	(36)	(66)
Taxation paid		(38)	(35)	(74)
Net cash inflow from operating activities		404	435	744
<b>Cash flows from investing activities</b>				
Interest received		-	3	4
Dividends received from joint venture		-	-	8
Proceeds from sale of property, plant and equipment		4	93	108
Purchase of property, plant and equipment and investment property		(146)	(152)	(429)
Purchase of intangible assets		(39)	(39)	(71)
Acquisition of business (net of cash received)		(3)	-	-
Net cash outflow from investing activities		(184)	(95)	(380)
<b>Cash flows from financing activities</b>				
Purchase of trust shares	17	(2)	(4)	(4)
Settlement of share awards		(5)	(6)	(7)
Proceeds from exercise of employee share options	17	19	30	33
Proceeds on settlement of derivative financial instruments		-	-	6
New borrowings		107	-	-
Repayment of borrowings		(235)	-	(245)
Costs incurred on repayment of borrowings	3	(30)	-	(17)
Dividends paid	7	(198)	(90)	(129)
Net cash outflow from financing activities		(344)	(70)	(363)
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(124)</b>	<b>270</b>	<b>1</b>
Cash and cash equivalents at start of period		327	326	326
<b>Cash and cash equivalents at end of period</b>	15	<b>203</b>	<b>596</b>	<b>327</b>

## Reconciliation of net cash flow to movement in net debt<sup>1</sup> in the period

	Note	26 weeks ended 5 August 2018 (unaudited) £m	26 weeks ended 30 July 2017 (unaudited) £m	53 weeks ended 4 February 2018 (audited) £m
Net (decrease)/increase in cash and cash equivalents		(124)	270	1
Cash inflow from increase in borrowings		(107)	-	-
Debt acquired on acquisition of business		(2)	-	-
Cash outflow from repayment of borrowings		235	-	239
Non-cash movements		42	(8)	(19)
Opening net debt		(973)	(1,194)	(1,194)
<b>Closing net debt</b>	15	<b>(929)</b>	<b>(932)</b>	<b>(973)</b>

<sup>1</sup> Net debt is defined in the Glossary.

# Consolidated statement of changes in equity

	Note	Attributable to the owners of the Company						Total equity
		Share capital	Share premium	Capital redemption reserve	Merger reserve	Hedging reserve	Retained earnings	
		£m	£m	£m	£m	£m	£m	£m
<b>26 weeks ended 5 August 2018 (unaudited)</b>								
At 5 February 2018		236	159	39	2,578	2	1,531	4,545
Profit for the period		-	-	-	-	-	94	94
Other comprehensive income/(expense):								
Cash flow hedging movement		-	-	-	-	41	-	41
Exchange differences on translation of foreign operations		-	-	-	-	-	1	1
Remeasurement of defined benefit pension schemes	13	-	-	-	-	-	240	240
Tax in relation to components of other comprehensive income		-	-	-	-	(7)	(39)	(46)
Total comprehensive income for the period		-	-	-	-	34	296	330
Purchase of trust shares	17	-	-	-	-	-	(2)	(2)
Employee share option schemes:								
Share-based payments charge	14	-	-	-	-	-	17	17
Settlement of share awards		-	-	-	-	-	(5)	(5)
Share options exercised	17	1	18	-	-	-	-	19
Dividends	7	-	-	-	-	-	(198)	(198)
Total transactions with owners		1	18	-	-	-	(188)	(169)
<b>At 5 August 2018</b>		<b>237</b>	<b>177</b>	<b>39</b>	<b>2,578</b>	<b>36</b>	<b>1,639</b>	<b>4,706</b>

	Note	Attributable to the owners of the Company						Total equity
		Share capital	Share premium	Capital redemption reserve	Merger reserve	Hedging reserve	Retained earnings	
		£m	£m	£m	£m	£m	£m	£m
<b>26 weeks ended 30 July 2017 (unaudited)</b>								
At 30 January 2017		234	128	39	2,578	18	1,066	4,063
Profit for the period		-	-	-	-	-	161	161
Other comprehensive (expense)/income:								
Cash flow hedging movement		-	-	-	-	(8)	-	(8)
Remeasurement of defined benefit pension schemes	13	-	-	-	-	-	120	120
Tax in relation to components of other comprehensive income		-	-	-	-	2	(29)	(27)
Total comprehensive (expense)/income for the period		-	-	-	-	(6)	252	246
Purchase of trust shares	17	-	-	-	-	-	(4)	(4)
Employee share option schemes:								
Share-based payments charge	14	-	-	-	-	-	14	14
Settlement of share awards		-	-	-	-	-	(6)	(6)
Share options exercised	17	1	29	-	-	-	-	30
Dividends	7	-	-	-	-	-	(90)	(90)
Total transactions with owners		1	29	-	-	-	(86)	(56)
<b>At 30 July 2017</b>		<b>235</b>	<b>157</b>	<b>39</b>	<b>2,578</b>	<b>12</b>	<b>1,232</b>	<b>4,253</b>

# Consolidated statement of changes in equity (continued)

	Note	Attributable to the owners of the Company						Total equity
		Share capital	Share premium	Capital redemption reserve	Merger reserve	Hedging reserve	Retained earnings	
		£m	£m	£m	£m	£m	£m	£m
<b>53 weeks ended 4 February 2018 (audited)</b>								
At 30 January 2017		234	128	39	2,578	18	1,066	4,063
Profit for the period		-	-	-	-	-	311	311
Other comprehensive (expense)/income:								
Cash flow hedging movement		-	-	-	-	(18)	-	(18)
Items reclassified from hedging reserve in relation to repayment of borrowings	3	-	-	-	-	(2)	-	(2)
Exchange differences on translation of foreign operations		-	-	-	-	-	(1)	(1)
Remeasurement of defined benefit pension schemes	13	-	-	-	-	-	323	323
Tax in relation to components of other comprehensive income		-	-	-	-	4	(61)	(57)
Total comprehensive (expense)/income for the period		-	-	-	-	(16)	572	556
Purchase of trust shares	17	-	-	-	-	-	(4)	(4)
Employee share option schemes:								
Share-based payments charge	14	-	-	-	-	-	33	33
Settlement of share awards		-	-	-	-	-	(7)	(7)
Share options exercised	17	2	31	-	-	-	-	33
Dividends	7	-	-	-	-	-	(129)	(129)
Total transactions with owners		2	31	-	-	-	(107)	(74)
<b>At 4 February 2018</b>		<b>236</b>	<b>159</b>	<b>39</b>	<b>2,578</b>	<b>2</b>	<b>1,531</b>	<b>4,545</b>

# Notes to the condensed consolidated financial statements

26 weeks ended 5 August 2018

## 1. General information and basis of preparation

### 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 2018/19 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 interim financial statements for the 26 weeks to 5 August 2018 are unaudited. However, the auditor, PricewaterhouseCoopers LLP, has carried out a review of the condensed consolidated interim financial statements and their report is included in this interim financial report.

The comparative financial information contained in the condensed consolidated interim financial statements in respect of the 53 weeks ended 4 February 2018 has been extracted from the 2017/18 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 2018/19 interim financial report was approved by the Board of Directors on 12 September 2018.

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 report.

### Basis of preparation

The condensed consolidated interim financial statements of the Group for the 26 weeks ended 5 August 2018 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 2017/18 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-2018](http://www.morrisons-corporate.com/annual-report-2018)

### Significant accounting policies

Except as described below, the accounting policies applied in these condensed consolidated interim financial statements are the same as those applied in the Group's consolidated financial statements in the 2017/18 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.

## Notes to the condensed consolidated financial statements (continued)

26 weeks ended 5 August 2018

### 1. General information and basis of preparation (continued)

#### Significant accounting policies (continued)

##### *Adoption of new accounting standards*

From 5 February 2018 the following standards, amendments and interpretations were adopted by the Group:

IFRS 9 'Financial Instruments' replaces IAS 39 'Financial Instruments: Recognition and Measurement' and is applicable to financial assets and financial liabilities. During the 53 weeks ended 4 February 2018, the Group assessed in detail the impact of the new standard on the consolidated financial statements and concluded the impact on transition was immaterial. Accordingly, in the condensed consolidated interim financial statements the Group has not restated prior year comparatives and no adjustment to the opening balance sheet at 5 February 2018 has been recognised. Whilst the impact of the new standard is immaterial, the Group has updated its accounting policy for the establishment of provisions against trade receivables to reflect the lifetime expected loss model (consistent with the simplified approach under IFRS 9).

IFRS 15 'Revenue from Contracts with Customers' replaces IAS 18 'Revenue', IAS 11 'Construction contracts' and related interpretations. The standard requires that revenue should only be recognised when a customer obtains control of goods or services and has the ability to direct the use and obtain the benefits from the goods or services. During the 53 weeks ended 4 February 2018, the Group assessed in detail the impact of the new standard and concluded that the adoption of IFRS 15 had an immaterial impact on the consolidated financial statements as the majority of transactions (volume and value) are for sale of goods in stores, online or to wholesale customers where the transfer of control is clear (either at the till or on delivery of goods). Accordingly, in the condensed consolidated interim financial statements the Group has not restated prior year comparatives and no adjustment to the opening balance sheet at 5 February 2018 has been recognised. As part of the exercise of assessing the impact of IFRS 15, the Group reviewed its accounting policies and disclosures around each of its income streams. Following the exercise, the Group reclassified £9m of commission income to other operating income in the period, which in the 53 weeks ended 4 February 2018 and the 26 weeks ended 30 July 2017 was included within other sales in revenue (30 July 2017: £9m, 4 February 2018: £18m). There has been no reclassification for the 53 weeks ended 4 February 2018 and for the 26 weeks ended 30 July 2017 as the adjustment is immaterial and presentational only.

##### *New standards and interpretations not yet effective and not adopted*

There are a number of standards and interpretations issued by the International Accounting Standards Board (IASB) that are effective for the Group's financial statements after this reporting period. These are:

- Amendment to IAS 19 'Employee Benefits', effective from 4 February 2019 (further detail will be provided in the 2018/19 Annual Report and Financial Statements);
- IFRIC 23 'Uncertainty over income tax treatments', effective from 4 February 2019 (further detail will be provided in the 2018/19 Annual Report and Financial Statements); and
- IFRS 16 'Leases', effective from 4 February 2019 (see below for further detail).

IFRS 16 'Leases' was published in January 2016 and will be effective for the Group from the period beginning 4 February 2019, replacing IAS 17 'Leases'. The main principle of the standard is to eliminate the dual accounting model for lessees under IAS 17, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases, and to provide a single model for lessee accounting. IFRS 16 requires lessees to recognise right-of-use assets and lease liabilities for leases. Accounting requirements for lessors will be substantially unchanged from IAS 17.

The standard represents a significant change in the accounting and reporting of leases for lessees and it will impact the income statement and balance sheet as well as statutory and alternative performance measures used by the Group. The impact on the financial statements on transition to IFRS 16, where the Group is the lessee, will depend on the approach taken by the Group. The Group has undertaken a review and intends to apply the fully retrospective approach on transition. The Group is currently in the process of fully quantifying the financial impact and preparing for the application of the new standard. This work includes updating current processes and systems, updating accounting policies and calculating appropriate discount rates required under IFRS 16. It is not possible to fully quantify the impact of IFRS 16 at this stage.

# Notes to the condensed consolidated financial statements (continued)

26 weeks ended 5 August 2018

## 1. General information and basis of preparation (continued)

### Judgements and estimates

In preparing the condensed consolidated interim 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 2017/18 Annual Report and Financial Statements.

### Principal risks and uncertainties

The principal risks and uncertainties set out in Wm Morrison Supermarkets PLC's Annual Report and Financial Statements for the 53 weeks ended 4 February 2018 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 believes that since the publication of the 2017/18 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.

The Board continues 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 of the ongoing negotiations and will react accordingly. Whilst our priorities remain unchanged the impact on our Company, and the Group risks, will continue to be monitored by the Board.

More information on the principal risks and how the Group mitigates those risks can be found on pages 24 to 25 of the 2017/18 Annual Report and Financial Statements. You can view the 2017/18 Annual Report and Financial Statements online on our corporate website, [www.morrisons-corporate.com/annual-report-2018](http://www.morrisons-corporate.com/annual-report-2018)

### The Board

The Board of Directors that served during the 26 weeks to 5 August 2018 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\*  
Kevin Havelock\*

\* Non-Executive Director

### 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.



## Notes to the condensed consolidated financial statements (continued)

26 weeks ended 5 August 2018

### 2. Segmental reporting

The Group's principal activity is that of retailing, derived from the UK.

The Group is required to determine and present its operating segments based on the way in which financial information is organised and reported to the chief operating decision-maker (CODM). The CODM has been identified as the Executive Committee as this makes the key operating decisions of the Group and is responsible for allocating resources and assessing performance.

Key internal reports received by the CODM, primarily the management accounts, focus on the performance of the Group as a whole. The operations of all elements of the business are driven by the retail sales environment and hence have fundamentally the same economic characteristics. All operational decisions made are focused on the performance and growth of the retail outlets and the ability of the business to meet the supply demands of the stores.

The Group has considered the overriding core principles of IFRS 8 'Operating segments' as well as its internal reporting framework, management and operating structure. The Group has considered all of its operations and the Directors' conclusion is that the Group has one operating segment, that of retailing.

### 3. Underlying profit

The definition of underlying profit is provided in the Glossary.

The Directors consider that the underlying profit and underlying earnings per share measures referred to in the results provide useful information for shareholders on underlying trends and performance. Underlying profit before tax is 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 exceptional items, which are significant in size and/or nature. Underlying profit after tax is underlying profit before tax adjusted for a normalised tax rate of 23.5% (30 July 2017: 23.8%, 4 February 2018: 23.8% (see note 6)).

	<b>26 weeks ended 5 August 2018 (unaudited) £m</b>	26 weeks ended 30 July 2017 (unaudited) £m	53 weeks ended 4 February 2018 (audited) £m
Profit after taxation	<b>94</b>	161	311
Add back: tax charge for the period <sup>1</sup>	<b>48</b>	39	69
Profit before taxation	<b>142</b>	200	380
Adjustments for:			
Impairment and provision for onerous contracts <sup>1</sup>	-	-	(6)
Profit/loss on disposal and exit of properties <sup>1</sup>	-	(13)	(19)
Costs associated with the repayment of borrowings <sup>1</sup>	<b>33</b>	-	16
Pension scheme set-up credit <sup>1</sup> (note 13)	-	(10)	(13)
Net pension income <sup>1</sup> (note 13)	<b>(8)</b>	(4)	(9)
Other exceptional items <sup>1</sup>	<b>26</b>	4	25
<b>Underlying profit before tax</b>	<b>193</b>	177	374
Normalised tax charge at 23.5% (30 July 2017: 23.8%, 4 February 2018: 23.8%) <sup>1,2</sup>	<b>(45)</b>	(42)	(89)
<b>Underlying profit after tax</b>	<b>148</b>	135	285

<sup>1</sup> Adjustments marked <sup>1</sup> increase post-tax underlying earnings by £54m (30 July 2017: £26m decrease, 4 February 2018: £26m decrease), as shown in the reconciliation of earnings disclosed in note 8.

<sup>2</sup> Normalised tax is defined in the Glossary.

There has been no charge (30 July 2017: £nil, 4 February 2018: £6m credit) for impairment or provision for onerous contracts. It is the Group's policy to review for impairment annually and there have been no indicators of impairment in the 26 weeks ended 5 August 2018. The credit in the 53 weeks ended 4 February 2018 consisted of a net impairment reversal of £7m (£126m impairment reversal offset by a £119m impairment charge). The £119m impairment charge includes £118m in relation to property, plant and equipment and £1m in relation to intangible assets. The £126m impairment reversal relates entirely to property, plant and equipment. A net £1m credit was also recognised in the 53 weeks ended 4 February 2018 in relation to provisions for onerous contracts (£22m charge offset by £23m release) and amounts provided for onerous commitments increased by a net £2m.

## Notes to the condensed consolidated financial statements (continued)

26 weeks ended 5 August 2018

### 3. Underlying profit (continued)

Profit/loss on disposal and exit of properties, net of fees incurred, recognised in the 26 weeks ended 5 August 2018 was £nil (30 July 2017: £13m, 4 February 2018: £19m).

Costs associated with the early repayment of borrowing facilities and other refinancing activities total £33m (30 July 2017: £nil, 4 February 2018: £16m). This includes £30m relating to financing charges on redemption of financial instruments (primarily premiums) (30 July 2017: £nil, 4 February 2018: £17m) and £3m of fees and premiums written off on the repayment of bonds (30 July 2017: £nil, 4 February 2018: £1m). There were no amounts relating to gains or losses reclassified to the income statement on termination of hedging arrangements, which had previously been recognised in reserves (30 July 2017: £nil, 4 February 2018: £2m credit).

In the 53 weeks ended 4 February 2018, the pension scheme set-up credit of £13m (30 July 2017: £10m) related to back dated contributions in respect of the Group's defined contribution scheme which was established during that period. The credit represented the difference between the expected back dated contributions and the cost based on actual participation rates.

Other exceptional items of £26m (30 July 2017: £4m, 4 February 2018: £25m) includes a £28m charge (30 July 2017: £nil, 4 February 2018: £nil) in relation to increased stock provisioning, partially offset by a net £2m credit from restructuring and other exceptional costs (30 July 2017: £4m charge, 4 February 2018: £25m charge).

Other exceptional items include £28m in relation to increased stock provisioning. During the period, we continued to automate our ordering systems. This has led to operational changes and additional information regarding stock levels, and a change in the methodology for estimating stock provisions.

Other exceptional items also include a net credit of £2m, primarily in relation to previously recognised provisions for restructuring (£4m credit), and costs incurred including in relation to legal cases in respect of historic events (£2m charge). The credit recognised in respect of restructuring costs represents the difference between the expected costs recognised based on estimates and the actual cost incurred.

The adjustments above are classified within the consolidated statement of comprehensive income on the following lines:

- impairment and provision for onerous contracts are included within administrative expenses;
- profit/loss on disposal and exit of properties are classified within profit/loss on disposal and exit of properties;
- pension scheme set-up credit is classified within administrative expenses;
- costs associated with the repayment of borrowings are classified within finance costs;
- net pension income is included within finance income; and
- other exceptional items - £30m of the charge has been recognised within cost of sales with a net £4m credit recognised in administrative expenses.

## Notes to the condensed consolidated financial statements (continued)

26 weeks ended 5 August 2018

### 4. Revenue

	26 weeks ended 5 August 2018 (unaudited) £m	26 weeks ended 30 July 2017 (unaudited) £m	53 weeks ended 4 February 2018 (audited) £m
Sale of goods in-store and online	6,610	6,436	13,246
Other sales	305	129	290
Total sales excluding fuel	6,915	6,565	13,536
Fuel	1,885	1,856	3,726
<b>Total revenue</b>	<b>8,800</b>	<b>8,421</b>	<b>17,262</b>

### 5. Finance costs and income

	26 weeks ended 5 August 2018 (unaudited) £m	26 weeks ended 30 July 2017 (unaudited) £m	53 weeks ended 4 February 2018 (audited) £m
Interest payable on short-term loans and bank overdrafts	(1)	(1)	(2)
Interest payable on bonds	(26)	(32)	(63)
Interest capitalised	1	-	1
Total interest payable	(26)	(33)	(64)
Provisions: unwinding of discount	(6)	(6)	(13)
Other finance costs	(1)	(1)	(1)
<b>Underlying finance costs<sup>1</sup></b>	<b>(33)</b>	<b>(40)</b>	<b>(78)</b>
Costs associated with the repayment of borrowings (note 3)	(33)	-	(16)
<b>Finance costs</b>	<b>(66)</b>	<b>(40)</b>	<b>(94)</b>
Bank interest received	2	2	5
<b>Underlying finance income<sup>1</sup></b>	<b>2</b>	<b>2</b>	<b>5</b>
Net pension income (note 3)	8	4	9
<b>Finance income</b>	<b>10</b>	<b>6</b>	<b>14</b>
<b>Net finance costs</b>	<b>(56)</b>	<b>(34)</b>	<b>(80)</b>

<sup>1</sup> Underlying net finance costs marked <sup>1</sup> amount to £31m (30 July 2017: £38m, 4 February 2018: £73m).

### 6. Taxation

Tax charged within the interim financial report has been calculated by applying the effective rate of tax of 33.8% which is expected to apply to the Group for the period ending 3 February 2019 using rates substantively enacted by 5 August 2018 as required by IAS 34 'Interim Financial Reporting'. This includes the impact of an adjustment in respect of prior periods.

The normalised rate of tax of 23.5% (30 July 2017: 23.8%, 4 February 2018: 23.8%) has been calculated using the full year projections and has been applied to the underlying profit for the 26 weeks ended 5 August 2018. The standard rate of corporation tax of 19% (30 July 2017: 19%, 4 February 2018: 19.16%) for the 52 weeks ended 3 February 2019 has been applied to the exceptional profits and losses on an item by item basis for the 26 weeks ended 5 August 2018.

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 (30 July 2017: 19% or 17%, 4 February 2018: 19% or 17%).

#### Factors affecting current and future tax charges

The normalised tax rate applied is 4.5% 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 a majority 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 has not been any further announcement of changes to the rate of corporation tax after 1 April 2020.

## Notes to the condensed consolidated financial statements (continued)

26 weeks ended 5 August 2018

### 7. Dividends

Amounts recognised as distributed to equity holders in the period:

	<b>26 weeks ended 5 August 2018 (unaudited) £m</b>	26 weeks ended 30 July 2017 (unaudited) £m	53 weeks ended 4 February 2018 (audited) £m
Final dividend for the period ended 29 January 2017 of 3.85p	-	90	90
Interim dividend for the period ended 4 February 2018 of 1.66p	-	-	39
Final dividend for the period ended 4 February 2018 of 4.43p	<b>104</b>	-	-
Special dividend for the period ended 4 February 2018 of 4.00p	<b>94</b>	-	-
	<b>198</b>	90	129

The Directors propose an interim dividend of 1.85p per share, which will absorb an estimated £44m of shareholders' funds. The Directors also propose a special dividend of 2.00p per share, which will absorb an estimated £47m of shareholders' funds. These dividends will be paid on 5 November 2018 to shareholders who are on the register on 28 September 2018.

The dividends paid and proposed during the year are from cumulative realised distributable reserves of Wm Morrison Supermarkets PLC.

### 8. 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 (30 July 2017 and 4 February 2018: 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 (LTIPs).

	<b>26 weeks ended 5 August 2018 (unaudited) Pence</b>		26 weeks ended 30 July 2017 (unaudited) Pence		53 weeks ended 4 February 2018 (audited) Pence	
	<b>Basic</b>	<b>Diluted</b>	Basic	Diluted	Basic	Diluted
<b>Basic EPS</b>	<b>3.99</b>	<b>3.91</b>	6.93	6.81	13.30	13.03
<b>Underlying EPS</b>	<b>6.28</b>	<b>6.15</b>	5.79	5.69	12.19	11.94

  

	<b>£m</b>		£m		£m	
	<b>Basic</b>	<b>Diluted</b>	Basic	Diluted	Basic	Diluted
<b>Basic earnings</b>						
Earnings attributable to ordinary shareholders	<b>93.8</b>	<b>93.8</b>	161.3	161.3	311.1	311.1
<b>Underlying earnings</b>						
Earnings attributable to ordinary shareholders	<b>93.8</b>	<b>93.8</b>	161.3	161.3	311.1	311.1
Adjustments to determine underlying profit (note 3)	<b>53.7</b>	<b>53.7</b>	(26.4)	(26.4)	(26.1)	(26.1)
<b>Underlying earnings attributable to ordinary shareholders</b>	<b>147.5</b>	<b>147.5</b>	134.9	134.9	285.0	285.0

  

	<b>Millions</b>		Millions		Millions	
	<b>Basic</b>	<b>Diluted</b>	Basic	Diluted	Basic	Diluted
<b>Weighted average number of shares</b>						
Ordinary shares in issue/diluted ordinary shares	<b>2,350.3</b>	<b>2,397.3</b>	2,329.2	2,369.1	2,338.6	2,387.9

## Notes to the condensed consolidated financial statements (continued)

26 weeks ended 5 August 2018

### 9. Goodwill and intangible assets

	5 August 2018 (unaudited) £m	30 July 2017 (unaudited) £m	4 February 2018 (audited) £m
<b>Net book value</b>			
At beginning of the period	428	445	445
Additions	36	34	68
Amortisation charge	(50)	(39)	(84)
Impairment charge	-	-	(1)
<b>At end of the period</b>	<b>414</b>	<b>440</b>	<b>428</b>

The carrying value of goodwill and intangible assets principally consists of software development costs of £391m (30 July 2017: £416m, 4 February 2018: £404m).

### 10. Property, plant and equipment

	5 August 2018 (unaudited) £m	30 July 2017 (unaudited) £m	4 February 2018 (audited) £m
<b>Net book value</b>			
At beginning of the period	7,243	7,227	7,227
Additions	182	168	427
Acquisition of business	5	-	-
Disposals	(3)	(78)	(87)
Transfers from investment property	6	-	-
Transfers to assets classified as held-for-sale	(37)	-	-
Interest capitalised	1	-	1
Depreciation charge	(171)	(161)	(333)
Impairment charge	-	-	(118)
Impairment reversal	-	-	126
<b>At end of the period</b>	<b>7,226</b>	<b>7,156</b>	<b>7,243</b>

Acquisition of business relates to £5m of property, plant and equipment acquired on the purchase of Chippindale Foods Limited on 19 February 2018.

In the 53 weeks ended 4 February 2018, the Group sold the land and buildings of its customer fulfilment centre (CFC) at Dordon to a third party for cash consideration of £92m (30 July 2017: £92m). This disposal resulted in a profit of £14m (30 July 2017: £14m) and was included in profit/loss on disposal and exit of properties as an adjustment to underlying earnings.

Included within the above are leasehold land and buildings held under finance lease with a cost of £293m (30 July 2017: £293m, 4 February 2018: £293m) and accumulated depreciation of £76m (30 July 2017: £73m, 4 February 2018: £75m).

## Notes to the condensed consolidated financial statements (continued)

26 weeks ended 5 August 2018

### 11. Investment property

	5 August 2018 (unaudited) £m	30 July 2017 (unaudited) £m	4 February 2018 (audited) £m
<b>Net book value</b>			
At beginning of the period	33	33	33
Additions	-	5	5
Transfers to property, plant and equipment	(6)	-	-
Transfers to assets classified as held-for-sale	-	-	(4)
Depreciation charge	-	-	(1)
<b>At end of the period</b>	<b>27</b>	<b>38</b>	<b>33</b>

### 12. Assets classified as held-for-sale

	5 August 2018 (unaudited) £m	30 July 2017 (unaudited) £m	4 February 2018 (audited) £m
<b>Net book value</b>			
At beginning of the period	4	-	-
Transfers from property, plant and equipment	37	-	-
Transfers from investment property	-	-	4
<b>At end of the period</b>	<b>41</b>	<b>-</b>	<b>4</b>

### 13. 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 Sainsbury 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:

	5 August 2018 (unaudited) £m	30 July 2017 (unaudited) £m	4 February 2018 (audited) £m
CARE Schemes	852	412	612
Retirement Saver Plan	(18)	(20)	(18)
<b>Net pension asset at end of the period</b>	<b>834</b>	<b>392</b>	<b>594</b>

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

	26 weeks ended 5 August 2018 (unaudited) £m	26 weeks ended 30 July 2017 (unaudited) £m	53 weeks ended 4 February 2018 (audited) £m
Net pension asset at beginning of the period	594	272	272
Net interest income	8	4	9
Settlement and curtailment gain	2	9	10
Remeasurement in other comprehensive income	240	120	323
Employer contributions	35	35	75
Current service cost	(43)	(46)	(91)
Administrative cost	(2)	(2)	(4)
<b>Net pension asset at end of the period</b>	<b>834</b>	<b>392</b>	<b>594</b>

## Notes to the condensed consolidated financial statements (continued)

26 weeks ended 5 August 2018

### 13. Pensions (continued)

At 5 August 2018, schemes in surplus have been disclosed within the assets on the balance sheet. The Group has taken legal advice 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. In respect of the RSP this is on the basis that paragraph 11(a) of IFRIC 14 applies enabling a refund of surplus during the life of the RSP. In respect of the Morrisons Scheme, it is on the basis that paragraph 11(b) or 11(c) of IFRIC 14 applies enabling a refund of surplus assuming the gradual settlement of the scheme liabilities over time until all members have left the scheme or the full settlement of the Scheme's liabilities in a single event (i.e. as a scheme wind up). In respect of the Safeway Schemes, a refund is available on the basis that paragraph 11(b) of IFRIC 14 applies. 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.

Of the £2m settlement and curtailment gains recognised in the 26 weeks ended 5 August 2018 (30 July 2017: £9m, 4 February 2018: £10m), there are no gains relating to the settlement of retirement benefits resulting from actions taken to further de-risk the Group's pension schemes (30 July 2017: £8m, 4 February 2018: £8m).

During the 53 weeks ended 4 February 2018, the Group updated the methodology for deriving the discount rate assumption used in valuing the pension scheme liabilities. This methodology has also been used in the IAS 19 valuation at 5 August 2018. The Group believes that this approach better reflects expected yields on high quality corporate bonds over the duration of the Group's pension schemes, as required by IAS 19. The previous methodology used in the 26 weeks ended 30 July 2017, and previously, estimated the discount rate with reference to both corporate bond and gilt yields. The updated method uses high quality corporate bond yields where available. At very long durations, where there are no high quality corporate bonds, the yield curve is extrapolated based on available corporate bond yields of mid to long duration.

#### *Retirement Saver Plan*

The Group entered into consultation with its colleagues in July 2018 on the proposed closure of the Retirement Saver Plan to new entrants and to future accrual. No decisions have yet been taken by the Group on the outcome of the consultation, and as such there is no impact on the condensed consolidated interim financial statements for the 26 weeks ended 5 August 2018.

#### *Defined Contribution Scheme*

The Group opened a new defined contribution pension scheme called the Morrisons Personal Retirement Scheme ('MPRS') for colleagues during the 53 weeks ended 4 February 2018. The MPRS became the auto enrolment scheme for the Group, and as such the Group was liable for back dated contributions for eligible colleagues to 1 October 2012. This was paid in January 2018. The pension scheme set-up credit of £13m recognised in the 53 weeks ended 4 February 2018 (30 July 2017: £10m) as an adjustment to underlying earnings (see note 3), related to the cost of back dated contributions in respect of this new defined contribution scheme. The credit represented the difference between the expected back dated contributions previously accrued for and the cost based on actual participation rates.

As the MPRS is a defined contribution scheme, the Group is not subject to the same investment, interest rate, inflation or longevity risks as it is for the defined benefit schemes. The benefits that colleagues receive are dependent on the contributions paid, investment returns and the form of benefit chosen at retirement. Over the period, the Group paid contributions of £5m (30 July 2017: £nil, 4 February 2018: £4m) to the MPRS.

## Notes to the condensed consolidated financial statements (continued)

26 weeks ended 5 August 2018

### 14. Cash generated from operations

	26 weeks ended 5 August 2018 (unaudited) £m	26 weeks ended 30 July 2017 (unaudited) £m	53 weeks ended 4 February 2018 (audited) £m
Profit for the period	94	161	311
Net finance costs	56	34	80
Taxation charge	48	39	69
Share of profit of joint venture (net of tax)	(1)	(1)	(2)
Operating profit	197	233	458
Adjustments for:			
Depreciation and amortisation	221	200	418
Impairment charge	-	-	119
Impairment reversal	-	-	(126)
Profit/loss on disposal and exit of properties	-	(13)	(19)
Adjustment for non-cash element of pension charges	6	4	10
Share-based payments charge	17	14	33
Other non-cash charges	1	-	-
Decrease/(increase) in stock <sup>1</sup>	40	14	(72)
Increase in debtors <sup>1</sup>	(92)	(19)	(50)
Increase in creditors <sup>1</sup>	107	100	153
Decrease in provisions <sup>1</sup>	(23)	(27)	(40)
<b>Cash generated from operations</b>	<b>474</b>	<b>506</b>	<b>884</b>

Total working capital inflow (the sum of items marked<sup>1</sup> above) is £32m in the period (30 July 2017: £68m inflow, 4 February 2018: £9m outflow). This includes £nil (30 July 2017: £nil, 4 February 2018: £1m) as a result of charges in respect of onerous contracts and accruals of onerous commitments, net of £7m (30 July 2017: £33m, 4 February 2018: £42m) of onerous payments and other non-operating payments of £1m (30 July 2017: £1m, 4 February 2018: £3m). When adjusted to exclude these items, the operating working capital inflow is £40m (30 July 2017: £102m, 4 February 2018: £35m).

### 15. Analysis of net debt

	5 August 2018 (unaudited) £m	30 July 2017 (unaudited) £m	4 February 2018 (audited) £m
Cross-currency contracts and interest rate swaps <sup>1</sup>	15	23	12
Fuel and energy price contracts	13	10	4
<b>Non-current financial assets</b>	<b>28</b>	<b>33</b>	<b>16</b>
Foreign exchange forward contracts	7	6	1
Fuel and energy price contracts	31	7	14
<b>Current financial assets</b>	<b>38</b>	<b>13</b>	<b>15</b>
Bonds <sup>1</sup>	(71)	-	(72)
Other short-term borrowings <sup>1</sup>	(110)	-	-
Foreign exchange forward contracts	(1)	(4)	(13)
Fuel and energy price contracts	-	(2)	-
<b>Current financial liabilities</b>	<b>(182)</b>	<b>(6)</b>	<b>(85)</b>
Bonds <sup>1</sup>	(1,018)	(1,567)	(1,245)
Revolving credit facility <sup>1</sup>	3	-	-
Fuel and energy price contracts	(1)	(1)	(1)
<b>Non-current financial liabilities</b>	<b>(1,016)</b>	<b>(1,568)</b>	<b>(1,246)</b>
Cash and cash equivalents	203	596	327
<b>Net debt</b>	<b>(929)</b>	<b>(932)</b>	<b>(973)</b>



## Notes to the condensed consolidated financial statements (continued)

26 weeks ended 5 August 2018

### 15. Analysis of net debt (continued)

Total net liabilities from financial activities (the sum of the items marked <sup>1</sup> in the table) is £1,181m in the 26 weeks ended 5 August 2018 (30 July 2017: £1,544m, 4 February 2018: £1,305m).

Cash and cash equivalents include restricted balances of £4m (30 July 2017: £7m, 4 February 2018: £7m) which are held by Farock Insurance Company Limited, a subsidiary of Wm Morrison Supermarkets PLC.

### 16. Financial instruments

	5 August 2018 (unaudited)		30 July 2017 (unaudited)		4 February 2018 (audited)	
	Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m
<b>Non-current financial assets</b>						
Derivative financial assets	28	28	33	33	16	16
<b>Total non-current financial assets</b>	<b>28</b>	<b>28</b>	<b>33</b>	<b>33</b>	<b>16</b>	<b>16</b>
<b>Current financial assets</b>						
Derivative financial assets	38	38	13	13	15	15
<b>Total current financial assets</b>	<b>38</b>	<b>38</b>	<b>13</b>	<b>13</b>	<b>15</b>	<b>15</b>
<b>Current financial liabilities</b>						
Short-term borrowings	(181)	(182)	-	-	(72)	(75)
Derivative financial liabilities	(1)	(1)	(6)	(6)	(13)	(13)
<b>Total current financial liabilities</b>	<b>(182)</b>	<b>(183)</b>	<b>(6)</b>	<b>(6)</b>	<b>(85)</b>	<b>(88)</b>
<b>Non-current financial liabilities</b>						
Borrowings	(1,015)	(1,096)	(1,567)	(1,715)	(1,245)	(1,354)
Derivative financial liabilities	(1)	(1)	(1)	(1)	(1)	(1)
<b>Total non-current financial liabilities</b>	<b>(1,016)</b>	<b>(1,097)</b>	<b>(1,568)</b>	<b>(1,716)</b>	<b>(1,246)</b>	<b>(1,355)</b>

The fair value of the sterling and euro denominated bonds carried at amortised cost are measured using closing market prices (level 1) (30 July 2017 and 4 February 2018: level 1). All derivative financial instruments are categorised as level 2 instruments (30 July 2017 and 4 February 2018: 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.

### 17. Share capital and share premium

#### *Trust shares*

Included in retained earnings is a deduction of £15m (30 July 2017: £14m, 4 February 2018: £14m) in respect of own shares held at the balance sheet date. This represents the cost of 7,520,347 (30 July 2017: 7,801,951, 4 February 2018: 7,661,470) of the Group's ordinary shares (nominal value of £0.8m (30 July 2017: £0.8m, 4 February 2018: £0.8m)). These shares are held in a trust and were acquired by the business to meet obligations under the Group's employee share plans using funds provided by the Group. The market value of the shares at 5 August 2018 was £20m (30 July 2017: £19m, 4 February 2018: £17m). The trust has waived its right to dividends. These shares are not treasury shares as defined by the London Stock Exchange.

During the period the Group acquired 945,258 (30 July 2017: 1,787,165, 4 February 2018: 1,787,165) of its own shares to hold in trust for consideration of £2m (30 July 2017: £4m, 4 February 2018: £4m), and utilised 1,086,381 trust shares (30 July 2017: 2,443,701, 4 February 2018: 2,584,182) to satisfy awards under the Group's employee share plans.

#### *Share options exercised*

The Group issued 11,281,189 (30 July 2017: 18,486,771, 4 February 2018: 20,279,315) new shares to satisfy options exercised by employees during the period. Proceeds received on exercise of these shares amounted to £19m (30 July 2017: £30m, 4 February 2018: £33m) and these have been recognised as an addition to share capital and share premium in the period.

## Notes to the condensed consolidated financial statements (continued)

26 weeks ended 5 August 2018

### 18. Commercial income

The types of commercial income recognised by the Group and the recognition policies are:

Type of deduction	Description	Recognition
Marketing and advertising funding	Examples include income in respect of in-store marketing and point of sale, as well as funding for advertising.	Income is recognised over the period as set out in the specific supplier agreement. Income is invoiced once the performance conditions in the supplier agreement have been achieved.
Volume-based rebates	Income earned by achieving volume or spend targets set by the supplier for specific products over specific periods.	Income is recognised through the year based on forecasts for expected sales or purchase volumes, informed by current performance, trends, and the terms of the supplier agreement. Income is invoiced throughout the year in accordance with the specific supplier terms. In order to minimise any risk arising from estimation, supplier confirmations are also obtained to agree the final value to be recognised at year end, prior to it being invoiced.

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

	<b>26 weeks ended 5 August 2018 (unaudited) £m</b>	26 weeks ended 30 July 2017 (unaudited) £m	53 weeks ended 4 February 2018 (audited) £m
Marketing and advertising funding	11	12	34
Volume-based rebates	76	102	192
<b>Total commercial income</b>	<b>87</b>	114	226

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

	<b>5 August 2018 (unaudited) £m</b>	30 July 2017 (unaudited) £m	4 February 2018 (audited) £m
Commercial income trade debtor	3	6	3
Accrued commercial income	33	38	29
Commercial income due, offset against amounts owed	22	14	28
	<b>58</b>	58	60

At 9 September 2018, £2m of the £3m commercial income trade debtor balance had been settled and £3m of the £33m accrued commercial income balance had been invoiced and settled. In addition, £15m of the £22m commercial income due had been offset against payments made. As at 9 September 2018, £60m of the £60m of commercial income held on the balance sheet at 4 February 2018 had been settled.

## Notes to the condensed consolidated financial statements (continued)

26 weeks ended 5 August 2018

### 19. Guarantees and contingent liabilities

Following the disposal of the land and buildings of its customer fulfilment centre (CFC) at Dordon to a third party in the 53 weeks ended 4 February 2018 (see note 10), 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 £31m (30 July 2017: £33m, 4 February 2018: £32m).

The Group has an ongoing legal case brought by a number of current and former colleagues relating to employee data theft in the 52 weeks ended 1 February 2015. In December 2017, the High Court concluded that the Group was liable for the actions of the former employee who conducted the data theft. The Group has since launched an appeal to this judgement and the High Court has confirmed that there will be no hearings on the level of compensation until the appeal has been concluded. It is the Director's view that at this stage of the process the Group cannot reliably assess the outcome of the case nor reasonably estimate the quantum of any loss and as such no provision has been recognised.

### 20. Related party transactions

The Group's related party transactions in the period include the remuneration of the senior managers, and the Directors' emoluments and pension entitlements, share awards and share options as disclosed in the audited section of the Directors' remuneration report, which forms part of the Group's 2017/18 Annual Report and Financial Statements.

Other than these, the Group has not entered into any related party transactions in the 26 weeks ended 5 August 2018.

## 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 important 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.

After a review of emerging practice around APMs, starting from the full year 2018/19 'Profit before exceptional items' will replace 'Underlying profit' as a key measure of adjusted profit. In making this change, the Group will also move to a three column presentation approach, with exceptional items in a separate column on the face of the income statement.

Measures	Closest equivalent IFRS measure	Definition and purpose	Reconciliation for interim 2018/19 Group measures <sup>1</sup>	
<b>Profit Measures</b>				
Like-for-like (LFL) sales growth	Revenue	<p>Percentage change in year-on-year sales (excluding VAT), removing the impact of new store openings and closures in the current or previous financial year.</p> <p>The measure is used widely in the retail industry as an indicator of underlying sales performance. It is also a key measure for Director and management remuneration.</p>		
			<b>26 weeks ended 5 August 2018</b>	
			<b>Group LFL (exc. fuel)</b>	<b>4.9%</b>
			<b>Group LFL (inc. fuel)</b>	<b>4.2%</b>
			Impact of new space	0.3%
<b>Total revenue year on year</b>	<b>4.5%</b>			
Total sales growth	Revenue	<p><b>Including fuel:</b> Percentage change in year-on-year total reported revenue.</p> <p><b>Excluding fuel:</b> Percentage change in year-on-year total reported sales excluding fuel.</p> <p>This measure illustrates the total year-on-year sales growth.</p> <p>This measure is a key measure for Director and management remuneration.</p>	A reconciliation of total sales including and excluding fuel is provided in note 4.	
Underlying profit before tax (UPBT)	Profit before tax	<p>Underlying profit before tax is 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 exceptional items, which are significant in size and/or nature.</p> <p>This measure is a key measure used by the Directors. It provides key information on underlying trends and performance of the Group and is used for Director and management remuneration.</p>	A reconciliation of this measure is provided in note 3.	
Underlying profit after tax	Profit after tax	<p>UPBT adjusted for a normalised tax charge.</p> <p>This measure is used by the Directors as it provides key information on underlying trends and performance of the Group, including a normalised tax charge.</p>	£148m being UPBT of £193m less a normalised tax charge of £45m (note 3).	

<sup>1</sup> Certain ratios referred to in the condensed consolidated 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 condensed consolidated interim financial statements are presented in round millions).

## Glossary (continued)

Measures	Closest equivalent IFRS measure	Definition and purpose	Reconciliation for interim 2018/19 Group measures <sup>1</sup>
<b>Profit Measures (continued)</b>			
Underlying operating profit	Operating profit <sup>2</sup>	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 exceptional items, which are significant in size and/or nature.  This measure is used by the Directors as it provides key information on underlying trends and performance of the Group.	£223m being reported operating profit (£197m) less impairment and provisions for onerous contracts (£nil), profit/loss on disposal and exit of properties (£nil), pension scheme set-up credit (£nil), plus other exceptional items of £26m.
Underlying net finance costs	Finance costs	Reported net finance costs excluding the impact of pension volatility and other exceptional items, which are significant in size and/or nature.  This measure is used by the Directors as it provides key information on underlying cost of financing excluding the impact of exceptional items.	A reconciliation of this measure is provided in note 5.
Underlying basic earnings per share	Basic earnings per share	Basic earnings per share based on underlying profit after tax rather than reported profit after tax as described above.  This measure is a key measure used by the Directors. It provides key information on underlying trends and performance of the Group and is used for Director and management remuneration.	A reconciliation of this measure is included in note 8.
Underlying diluted earnings per share	Diluted earnings per share	Diluted 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 8.
<b>Tax measures</b>			
Normalised tax	Effective tax	Normalised tax is the tax rate applied to the Group's principal activities on an ongoing basis. This is calculated by adjusting the effective tax rate for the period to exclude the impact of profit/loss relating to property disposals and sale of 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.  This measure is used by the Directors as it provides a better reflection of the normalised tax charge for the Group.	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 52 weeks ended 3 February 2019.  Details of the normalised tax rate used in the 26 weeks ended 5 August 2018 is provided in note 6 of the condensed consolidated interim financial statements.

<sup>1</sup> Certain ratios referred to in the condensed consolidated 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 condensed consolidated interim financial statements are presented in round millions).

<sup>2</sup> Operating profit is not defined under IFRS. However, it is a generally accepted profit measure.

## Glossary (continued)

Measures	Closest equivalent IFRS measure	Definition and purpose	Reconciliation for interim 2018/19 Group measures <sup>1</sup>
<b>Cash flows and net debt measures</b>			
Free cash flow	No direct equivalent	Movement in net debt before dividends.  This measure is used by the Directors as it provides key information on the level of cash generated by the Group before the payment of dividends.	£242m being the movement in net debt (£44m) before payment of dividends (£198m).
Net debt	Borrowings less cash and cash equivalents and financial assets and liabilities	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 15.
Working capital movement	No direct equivalent	Movement in stock, movement in debtors, movement in creditors and movement in provisions.	A reconciliation of this measure is provided in note 14.
Operating working capital movement	No direct equivalent	Working capital movement adjusted for charges for onerous contracts, onerous payments and other non-operating payments.  This measure is used by the Directors as it provides a more appropriate reflection of the working capital movement by excluding certain non-recurring movements relating to property balances.	A reconciliation of this measure is provided in note 14.
<b>Other measures</b>			
Return on capital employed	No direct equivalent	Return on capital employed is calculated as return divided by average capital employed. Return is defined as annualised underlying profit after tax adjusted for annualised underlying net finance costs and annualised 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 a lease adjustment (10 times rent charged).  This measure is used by the Directors as it is a key ratio in understanding the performance of the Group.	ROCE (8.0%) equals return divided by average capital employed:  Return (£458m) = Underlying profit after tax annualised (£298m) adjusted for annualised underlying net finance costs (£66m) and annualised operating lease rentals (on land and buildings) (£94m).  Average capital employed (£5,740m) = Average net assets excluding the net pension asset (£3,866m), average net debt (£931m) and the lease adjustment (£943m).

<sup>1</sup> Certain ratios referred to in the condensed consolidated 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 condensed consolidated interim financial statements are presented in round millions).

## Statement of Directors' responsibilities

The Directors' confirm that these consolidated 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 consolidated set of interim financial statements, and a description of the principal risks and uncertainties for the remaining 26 weeks of the period; 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 the Wm Morrison Supermarket Plc are listed in the Wm Morrison Supermarket Plc Annual Report and Financial Statements for 4 February 2018. A list of current Directors is maintained on the Wm Morrison Supermarket Plc website: [www.morrisons-corporate.com](http://www.morrisons-corporate.com)

By order of the Board

Jonathan Burke  
Company Secretary  
12 September 2018

## **Independent review report to Wm Morrison Supermarkets PLC**

### **Report on the condensed consolidated interim financial statements**

#### **Our conclusion**

We have reviewed Wm Morrison Supermarkets PLC's condensed consolidated interim financial statements (the 'interim financial statements') in the interim financial report of Wm Morrison Supermarkets PLC for the 26 week period ended 5 August 2018. 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 5 August 2018;
- 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 financial report 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 note 1 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 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 interim financial report 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 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 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 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  
12 September 2018

### 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.