INTERIM RESULTS FOR THE HALF YEAR TO 3 AUGUST 2014
Good early progress on three-year plan

Financial summary

- Total turnover down 4.9% to £8.5bn (2013/14: £8.9bn)
- Like-for-like sales (ex-fuel/ex-VAT) down 7.4% (2013/14: down 1.6%)
- Underlying profit before tax(1) down 51% to £181m (2013/14: £371m(2))
- Underlying earnings per share(1) down 52% to 5.74p (2013/14: 11.92p(2))
- Profit before tax £239m (2013/14: £344m)
- Interim dividend up 5.0% to 4.03p (2013/14: 3.84p)
- Net debt reduced by £209m to £2,608m (FY 2013/14: £2,817m)
- 2014/15 underlying profit before tax(1) guidance confirmed at £325-£375m

Financial highlights

- Strong cash flow progress – £531m better year-on-year
- Operating working capital improvement of £145m in the first half
- Property disposals of £280m recognised, profits of £54m achieved
- New £300m bond and £1.35bn revolving credit facility further strengthen funding profile
- Triennial pension review completed – schemes remain well funded

Strategic and operating highlights

- Action across the business to implement new three-year plan
- All components of the £1bn self-help programme on track:
    - £105m achieved in the first half
    - simplified in-store management structure being introduced
    - range reduction – over 2,000 SKUs removed
- Investments to improve and modernise the business progressing well:
    - lower prices driving volume recovery – Q2 Items per Basket 480bps better than Q2 LFL; Produce items 760bps better than Q2 LFL
    - Items on Promotion down 13% year-on-year in Q2
    - promotional participation now falling year-on-year
    - launching our Morrisons card soon, after successful trials
- Online and M local roll-outs progressing well

Wm Morrison Supermarkets PLC
Registered office:
Hilmore House, Gain Lane
Bradford, West Yorkshire BD3 7DL
Telephone: 0845 611 5000

Sir Ian Gibson, Non-Executive Chairman, said:
“Conditions are tough, and the industry is going through unprecedented change. Our first-half results reflect the reset of the business we announced in March. Morrisons is now well underway with building the foundations for a better future. The Board is confident of the new strategy and Morrisons financial position remains strong. In line with the policy we set out in March, we are increasing the interim dividend by 5% to 4.03p, and confirm our commitment to pay a total dividend for 2014/15 of not less than 13.65p.

As previously announced, Andrew Higginson joins the Board as Non-Executive Deputy Chairman and Chairman Elect on 1 October. Andy has a tremendous reputation and has had a distinguished executive career at the forefront of UK retailing, and I am sure he will be a huge asset to Morrisons. I am looking forward to working with him to ensure a smooth transition before I retire in 2015.”

Dalton Philips, Chief Executive, said:
“We are six months into the three-year plan that we set out in March and, although it is early days, I am encouraged by the progress we have made. There is an enormous amount of change and modernisation flowing through our core business, much of it enabled by new systems. Price investment, in-store improvements, and better products were all key components of the work undertaken in the first half, and the Morrisons card launches soon. Our new growth channels – online and convenience – are progressing well, and our cost-savings and cash flow plans are both on track to achieve our ambitious three-year targets.

Although it is too early to see the benefits of the three-year plan in the sales line, Morrisons is getting back on the front foot, and implementing change and innovation at real pace throughout the business. We are meeting the challenges of structural change with decisive action and are on track to become a more distinctive value retailer for the next generation of grocery retail.”

Outlook
We remain confident that we will generate £2bn of cash and £1bn of cost savings over three years.

While LFL sales performance is yet to improve, there are some encouraging initial trends. There is still a lot of hard work ahead, and the process will take time. Our initiatives are on track and we anticipate that these will start to benefit our sales performance towards the end of the second half.

Our full-year profit expectations remain on track: we expect 2014/15 underlying profit before tax(1) to be in the range £325m-£375m, after £65m of new business development costs and £70m of one-off costs.

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Summary of operational key performance indicators (KPIs)

In order to provide greater insight into our business, we will include operational KPIs in future results announcements. The table below shows the progress of those KPIs for the last three quarters.

	Q2 2014/15	**Q1 2014/15**	**Q4 2013/14**
LFL Items per Basket *y-on-y change**	*-3.2%*	*-5.9%*	*-6.9%*
Number of SKUs**	22,400	23,600	24,500
Items on Promotion *y-on-y change*	*-12.9%*	*-5.0%*	*+6.0%*
Promotional Participation *y-on-y change (bps)*	-140	-30	+140

**Excludes online and convenience*
*** Q4 number is for SKU count as at start of programme*

Notes:

[1] Underlying profit before tax includes new business development costs, but excludes property transactions and sale of businesses, IAS 19 pension interest, impairments, and onerous lease provisions. For 2014/15, we expect £70m of one-off costs relating to Kiddicare trading losses, restructuring, and the launch of the Morrisons card which are included in underlying profit before tax.

[2] 2013/14 restated in line with new definition of underlying profit before tax.

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Enquiries:

Wm Morrison Supermarkets PLC

Trevor Strain – Chief Financial Officer	0845 611 5000
Andrew Kasoulis – Investor Relations Director	07785 343515

Media Relations

Wm Morrison Supermarkets PLC:	Julian Bailey	0845 611 5362
Citigate Dewe Rogerson:	Simon Rigby	020 7282 2847
	Kevin Smith	020 7282 1054

Management will host an analyst presentation this morning at 09:15. A webcast of this meeting is available at http://www.morrisons-corporate.com/Investor-centre/

Dial-in details :

Dial in number:	+44 (0)20 3003 2666
Passcode:	Morrisons

Replay facility available for 7 days:

Replay access number:	+44 (0)20 8196 1998
Replay access code:	8675251

ENDS

This announcement may include forward-looking statements, which are statements made about potential future events or occurrences. These statements are made by the Directors in good faith, based on the information available to them at the time of the announcement. Consequently such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying such forward - looking statements and information.

Morrisons has a commitment to reducing its impact on the environment. Accordingly we no longer send half-yearly communications to shareholders in paper format. Copies of this release are available to download.

Results

This report covers trading for the 26 weeks ended 3 August 2014.

Total turnover during the period was £8.5bn, down 4.9% year-on-year. Store turnover of £6.5bn, excluding fuel, was down by 4.4%, which comprised a like-for-like (LFL) decrease of 7.4% (including a contribution of 0.4% from online) and 3.0% from new stores. Fuel sales fell by 7.9% to £1.9bn.

For Q2, LFL excluding fuel was down 7.6%, including a contribution of 0.4% from online.

Operating profit was £287m, 24.7% lower than in the previous year with the operating margin reducing by 88bps to 3.38%. This was primarily due to our substantial investment in price, which was partly offset by £54m of property disposal profits.

Underlying operating profit, restated for disposal profits and an exceptional impairment last year, was £229m, with operating margin down 186bps year-on-year.

Net finance costs were £49m, an increase over the prior period of £12m. There was no IAS 19 pension interest impact.

One-off costs were £35m. For full-year 2014/15, we expect £70m, in line with our previous guidance, comprising Kiddicare trading losses, restructuring costs, and the launch costs of our new Morrisons card.

New business development (NBD) costs for online and convenience were £38m (2013/14: £30m). We expect £65m for 2014/15, as previously guided.

Underlying profit before tax(1) reduced to £181m, compared to £371m(2) in the first half of 2013/14, (or £401m as reported under the previous definition, which excluded £30m of NBD costs).

Underlying basic earnings per share(1) (EPS) reduced by 51.8% to 5.74p (2013/14: 11.92p(2)) reflecting the decrease in underlying profit.

Profit before tax was £239m (2013/14: £344m).

The Group generated strong operating cash flow of £551m. Operating working capital improved by £145m during the first half, partially offset by a reduction of £25m within creditors relating to an outflow for onerous property commitments.

Capital expenditure fell to £257m from £561m for 2013/14, as we cut back on new store expansion. In addition, last year included expenditure relating to the launch of our online business.

Property disposals of £280m, with associated profits of £54m, were recognised in the period. We expect total disposals of £400-£500m for 2014/15, in line with previous guidance.

The Group's net debt fell to £2,608m, from £2,817m at the end of 2013/14. We expect net debt of £2.4bn-£2.5bn for 2014/15, as previously guided. Gearing was 56%, compared to 60% at the end of last year.

In June, we issued a 15-year (2029) £300m bond at a coupon of 4.75%, and in September, we replaced our £1.2bn revolving credit facility with a £1.35bn facility for a further five years, which has options to extend.

In March 2014 we committed to a minimum dividend increase of 5% for 2014/15, reflecting our confidence in the Group's strong financial position and future cash generation. Accordingly, the interim dividend has been increased by 5% to 4.03p (2013/14: 3.84p). The dividend will be paid on 10 November 2014 to shareholders on the register on 3 October 2014.

We opened four new supermarkets (120,000 square feet) and 17 M local convenience stores (45,000 square feet) during the period. We now expect to open 60-70 new M local stores in 2014/15, which is below our original target of up to 100, as a package of stores we had anticipated purchasing did not meet our strict hurdle-rate criteria. We now expect new space to contribute 2.7% to 2014/15 sales, compared to previous guidance of 3.0%. We expect to open 540,000 square feet of new space during 2014/15.

Return on Capital Employed (ROCE) fell to 6.6% from 8.2% in 2013/14, primarily due to the fall in profit.

Market overview and trading

We continue to operate in a challenging economic environment where cutting back and managing spend carefully is part of the new shopping norm. Consumers are still financially constrained and, with inflation falling too, this means that growth in the grocery market has declined. Shoppers are not only cutting back on the volumes they buy through putting less in their basket, they are also trading down to cheaper alternatives[3].

While there are some positive signs of consumer confidence[4], the reality that consumers face is one of falling real incomes with disposable income remaining tight. A potential rise in interest rates could also impact this position further. As such, the recovery is fragile and near-term trading conditions remain challenging.

Promotional levels remain high in the market (at around 40%) and vouchering/coupon activity continues to be used to encourage spending. Across the market, we have seen the average number of trips where a coupon was used increase from 18.1% in first-half 2013/14, to 21.3% in 2014/15[3].

Growth trends in the different grocery channels look set to continue, with online and convenience expected to drive overall market growth over the coming years.

As we anticipated, Morrisons first-half 2014/15 LFL performance has continued to lag behind our larger competitors. Our investment in price had a deflation impact, weighted towards Q2. We also continue to face headwinds in the online and convenience channels, although our own businesses are progressing well.

However, we still have much to do and our new strategy is fully focused on reversing our market under-performance.

Strategy update

At the 2013/14 Prelims we laid out plans for our core proposition, and acknowledged that we needed to be closer to the lowest prices in the market before our provenance, fresh food range and quality, in-store craft skills and great service could shine through. In support of this we planned to invest in our business by:

- Lowering prices on a permanent basis
- Offering fewer but more impactful promotions
- Making Own Brand a competitive advantage
- Continuing to improve product quality and range
- Making our stores easier and more pleasant places to shop
- Launching a Morrisons card
- Delivering focused, consistent customer communication

To fund this change and investment, we have identified £1bn of cost savings to be delivered over the next three years in three key areas:

- Improving our end-to-end supply operations - £300m
- Indirect procurement and loss prevention - £200m
- Promotional investment and sourcing - £500m

In addition we are facing into the structural changes that are taking place in the market, and embracing the trends towards proximity and online shopping.

Investing in our core value proposition

Price
Price and excellent everyday value are key components of our proposition. We need to offer consistently low prices in order for the rest of our offer to shine through.

We are committed to a net £300m investment in our proposition during 2014/15, the vast majority of which is in price. The process started during Q1 with a rolling programme of price cuts on Produce and Meat lines. Then, in May, we launched the ‘*I’m Cheaper*’ campaign, cutting 1,200 Own Brand and branded everyday products by an average of 17%; in June, we cut a further 135 prices by an average of 14%.

By the end of first-half 2014/15, our cuts had resulted in lower prices across the customer basket. On our measure, inflation is now negative year-on-year, so our price cuts mean deflation for our customers.

We have demonstrated our commitment to cutting prices and keeping them low with the launch of our price transparency website. This is a first for the UK Grocery industry – a website that tracks a supermarket's prices over time. It gives our customers confidence that prices are coming down and staying down.

Our investment won't end there. We are determined to keep cutting prices in the future. It will take time for the full benefits to flow through as we are just six months into a three-year plan, but our customers' reaction to date has been very positive and feedback has been excellent.

The sales increase of the '*I'm Cheaper'* lines has been very encouraging. For us though, broader volume-related KPIs, such as Items per Basket, are the best indicators of progress. Items per Basket is on an improving trend, and was down 3.2% year-on-year in Q2, which was 480bps better than our LFL performance (-8.0%). In Produce, the category in which we have been cutting prices for longest, Items per Basket was down 0.4% for Q2, 760bps better than LFL. As stated above, we will include volume-related KPIs in future results announcements.

Promotions
As well as low, consistent and transparent pricing, we will have fewer but more impactful promotions. We will bring promotional participation down too, as we focus more on price cuts and everyday low prices.

Progress so far has been good. We have already cut a large number of the duplicated and less impactful promotions. The number of weekly Items on Promotion fell by 9% in the first half and by 13% in Q2. Overall, year-on-year sales on promotion were down by 140bps in Q2, compared to an increase of 140bps in Q4 2013/14, meaning that the promotions we did run were more impactful than before.

Own Brand
We now have a dedicated Own Brand sourcing team that is stepping up the pace of product development, reducing complexity and removing duplication. We are investing to improve our range, and aim to create a brand hierarchy better suited to our customers' expectations. There is much still to do, but we have already removed 8% of Own Brand SKUs from our range. Despite this, LFL volume growth of our mid-tier Own Brand is now ahead of the rest of the business.

Product
Product quality is a high priority for Morrisons, and our vertical integration makes us uniquely placed to differentiate ourselves still further in this regard.

Morrisons is now being widely recognised for its improving quality. During the period, we won nearly 200 awards for our food products from various industry bodies, a significant increase on the 56 we achieved in the whole of 2013.

This year we are investing £20m in our chill chain, through improved refrigeration in our manufacturing sites, depots and stores. We are also making our supply chain shorter by dealing direct with more suppliers.

Ease of shop
We have been working hard to make shopping easier for our customers. Our programme to reduce in-store clutter has removed unnecessary sales displays. We have also reduced queue lengths at busy periods, removed locks from trolleys at c.300 stores, and upgraded customer service facilities in over 100 stores.

These measures have enabled us to deliver a 7% increase in our *Ease of shop*(5) measure during the period.

In addition, in August we announced that we will be extending opening hours in 230 of our stores to make shopping even more convenient for our customers.

The Morrisons card
We will be launching our Morrisons card soon. We have successfully trialled a number of different formats and registered over half a million Morrisons Miles card holders to help accelerate our launch, all of which has been enabled by the major systems upgrades that we have been implementing.

The card will further reinforce our value credentials, allow us to speak directly to customers for the first time, and significantly increase our customer insight. Over time, the new data will also enable us to be smarter in the way we run the whole business.

Communication
We are focused on bringing more customers into our stores to appraise our offer. Our communication will be around lower prices, great promotions, in-store service and craft skills, and supporting our new growth channels. The Morrisons card will be a key component of taking communication and interaction with our customers to a different level.

The '*I'm Cheaper'* campaign was the biggest in Morrisons history, and the *'Summer Collector'* campaign was also successful. In addition, we have recently redesigned and reissued all of our in-store point-of-sale material to give customers clearer messages about our offer.

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We are training our staff, via initiatives such as '*Five Star Performance'* and '*Making Produce Shine',* in order to further improve communication with our customers and emphasise what makes Morrisons different. Also, we have recently launched a new online feedback system called *'Talk to Morrisons',* to get even closer to our customers.

Saving to invest – increasing efficiency

To fund the investments in our value proposition, we have identified a number of initiatives which will generate £1bn of self-help over the next three years. Many of these are savings which other retailers have benefited from for some time. Our recent cost-savings track record is strong and this, together with new IT-enabled capabilities, gives us the confidence that we can achieve this ambitious programme without compromising our guiding principles of great customer service and value.

End-to-end
£35m of savings were delivered during the period, and we confirm our three-year target of £300m.

In June, we announced a restructure of our in-store teams to make them more efficient, with clearer lines of responsibility and fewer layers of management. As a result, more colleagues will now be in customer-facing roles. This restructure will result in an expected 2,600 redundancies. In addition, within Head Office and in our Logistics operation, around 300 roles were removed during the period.

Morrisons manufacturing capabilities are unique, and provide us with many opportunities to make our business more efficient. One of these is to increasingly utilise our vertical integration by moving some tasks from in-store to our manufacturing businesses. There are many tasks that we currently carry out in-store, which are invisible to our customers and could be done more efficiently in one of our manufacturing plants, thereby freeing-up our in-store craftspeople to serve our customers better.

One example is our new Signature Beef range which is now cut and packaged in our meat processing plant, instead of in-store. The product has a longer shelf-life with less waste, and our skilled in-store butchers now have more time to serve customers at the counters, preparing meat to specific requirements. Overall, through this and other future initiatives, we expect to move from having over 60% of our fresh meat packed in-store, to around 20%.

Over time, we will further improve how we stock our shelves and how we manage our in-store labour scheduling. Our first sales-based ordering (SBO) trials will begin during H1 2015/16, and we anticipate that SBO will significantly benefit the business in the longer term.

These and other coming initiatives will improve in-store efficiency without impacting the level of customer interaction and service. We expect our retail efficiency KPIs to improve going forward, and will report some of these in future.

Within the supply chain, improvements in stock levels and better loss prevention will ensure reduced product-handling costs. Through various initiatives, we have already reduced our stock holding by over £170m this year.

Indirect procurement and loss prevention
£20m of savings were delivered during the period, and we confirm our three-year target of £200m.

For indirect procurement, we have already reduced packaging costs by over 10% for Market Street products prepared in store.

For loss prevention, our improved systems now enable us to better identify the greatest areas of opportunity to reduce our total annual shrink, waste and markdown cost. More security tagging will save nearly £10m this year.

Promotional investment and sourcing
£50m of savings were delivered during the period, and we confirm our three-year target of £500m.

Having a simpler range with less duplication and fewer, more impactful promotions, is more cost effective. By the end of the first half, we had taken over 2,000 SKUs out of our range, which is a very good start towards our three-year target of reducing total SKUs by 20%. As outlined above, the number of weekly Items on Promotion fell by 13% during Q2.

Also, we are directing promotional investment better; improving Own Brand sourcing through our new team; and working more collaboratively with our suppliers.

Our M Partner programme is improving the way we work with our Top 20 branded suppliers. In addition, being part of the AMS buying group enables us to purchase goods more effectively. We expect to more than double the value of purchases sourced through AMS during 2014/15 to over €650m, and to exceed €1bn by 2016.

New channels

Online
During the period, we continued to roll out our online offer. We have progressed beyond our initial regions of Warwickshire and Yorkshire, and are now operating in Birmingham, Manchester, North London, Sheffield and, since the end of the period, in Lincolnshire.

The service continues to be very popular with customers, particularly unique innovations such as our doorstep check. Our metrics continue to be industryleading: rejection rate is very small at just 0.3%; Fresh participation over-indexes at 49%; substitutions are just 1.0%; and on-time delivery is a very high 97%. In the second half of 2014/15, we plan to open two further online hubs in Greater Manchester and Merseyside, and will soon begin testing an innovative form of click and collect.

2014 will be our first Christmas online, and we are very focused on continuing to get execution right for our customers. Sustaining high service levels is our top priority. We retain our targets of £200m of annualised sales and 50% coverage of UK households by the end of the financial year.

Kiddicare exit
In March we announced that we would be seeking to sell Kiddicare during 2014. In July, we announced the sale of the business to Endless LLP, for £2m. We are currently working to dispose of ten store leases, and we remain confident that we have fully provided for all the exit costs from the business.

Convenience
We opened 17 M local convenience stores in the period, taking the total to 119. In October, we will add new distribution capability in Bridgwater by better utilising current down-time at the existing Morrisons depot.

We continue to learn and develop the M local format. During the first half, we refined all of our ranges to make them more appropriate for convenience, and introduced convenience-specific packs in a number of Fresh areas.

We now expect to open around 60-70 stores this year. This is lower than previous guidance because a package of stores we had anticipated purchasing did not meet our strict hurdle-rate criteria. As a consequence, we now expect a year-end sales run-rate of around £300m, compared with our original target of £350m. We retain ambitious future growth targets, and still plan for up to 100 new M local stores per year from 2015/16.

Financial Strategy

Morrisons adheres to strong financial principles through a capital allocation framework. Our first priority is to invest to support the store estate and infrastructure, and reduce costs. Second, we will seek to maintain debt ratios that support our medium-term target of a strong investment grade credit rating. Third, we will invest in profitable growth opportunities. Fourth, we will pay dividends and; finally, any surplus capital will be returned to shareholders.

We have identified several opportunities to generate substantial free cash flow through growth; a step-change reduction in capital expenditure; better working capital management; and property disposals.

We are on track to generate £2bn of free cash flow in the three years to 2016/17.

Capital expenditure
Although there are still many ongoing capital projects, spend on infrastructure, new stores, and manufacturing has peaked. As previously announced, in future we will only add core supermarkets to our new-space pipeline in exceptional circumstances. As a result, capital expenditure is reducing significantly. During first-half 2014/15 it was £257m, a fall of 54% year-on-year (2013/14: £561m).

We maintain our capital expenditure guidance of £550m for 2014/15 (down from £1.1bn for 2013/14), and £400m for 2015/16.

Property
We remain committed to an overwhelmingly freehold core supermarkets portfolio and a ratio that will not fall below 80%.

We have made an encouraging start to our disposals programme. During the period, we recognised £280m of property disposals and £54m of profit. We expect to realise £400m-£500m of property proceeds in 2014/15 and £1bn in the three years to 2016/17, in line with previous guidance.

Cash flow and working capital
The Group generated strong operating cash flow of £551m.

We have made very good progress on working capital through an even greater management focus on various initiatives to improve stock, debt and supplier terms. Operating working capital improved by £145m during the first half, driven mainly by reduced depot inventory (2.3 days fall in depot stock cover). This was partially offset by a reduction of £25m within creditors relating to an outflow for onerous property commitments. £20m of the working capital improvement was due to timing which will unwind by year-end.

In addition, supply-chain financing has been launched. It is progressing well, and will be rolled-out over the next 12 months.

We maintain guidance for a working capital inflow of £200m in 2014/15, and £600m over the three years to 2016/17. Also, as previously guided, we expect a £100m onerous property commitment outflow in 2014/15.

Debt
Debt improved to £2,608m during first-half 2014/15, from £2,817m reported at 2013/14 year-end.

In June, we issued a 15-year (2029) £300m bond at a coupon of 4.75%. The funds will partially refinance existing debt facilities that mature over the next six months and further improve the maturity profile of the remaining debt.

In September, we replaced our £1.2bn revolving credit facility with a £1.35bn facility for a further five years, with options to extend.

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Our 2014/15 year-end net debt guidance remains £2.4bn-£2.5bn, a £300m-£400m improvement year-on-year.

Shareholder returns
The dividend is 4.03p (+5%) per share, in line with our commitment of a minimum 5% increase for the full year. Our cash cover is strong and we remain committed to a progressive dividend, moving towards 2x cover over time.

Pensions
The triennial valuation was completed in July 2014. At the time of the last triennial valuation in 2010, the pension schemes were almost fully funded. That position is virtually unchanged, with the deficit falling to £40m and the schemes being over 97% funded.

ROCE
ROCE fell to 6.6% from 8.2%, primarily due to the fall in profit. We remain committed to ROCE as a KPI, and are focused on growing future returns and optimising our capital base.

Profit guidance
We maintain guidance for underlying profit before tax(1) to be in the range £325m-£375m, after £65m of NBD costs and £70m of one-off costs.

Some guidance components change slightly. Our depreciation guidance falls by £10m to c.£390m, primarily due to a faster than anticipated reduction in capital expenditure. Interest guidance increases £10m to a range of £95m-£100m, following the completion of the new bond and accelerated amortisation of fees associated with the previous revolving credit facility.

We also now expect £220m of cost savings, up from £200m previously, due to a slightly earlier phasing of our three-year £1bn plan. The impact will be offset by a similar increase in anticipated trading/structural headwinds.

Corporate responsibility and community

How we operate is very important to us. Our corporate responsibility (CR) programme ensures we work in a way that is right for our customers, colleagues, suppliers and communities, creating longer term sustainable growth. In June, we published our CR Review, which was independently verified by our assurance providers, DNV GL, to AA1000AS (2008) standard. The CR Review is available to download at www.morrisons-corporate.com/CR/.

Morrisons farming programme
Since 2009, the award-winning Morrisons farming programme has been at the centre of our relationship with the farming community. Farmers involved in the programme include 2,600 beef, pork and lamb farmers who all supply directly into our Woodheads meat business.

In July, we were awarded the Rural Action Award at Business in the Community's Responsible Business Awards. This award celebrates the work of our programme, supporting UK primary producers to overcome the challenges they face within the farming industry.

In the recent Elliot Report, published in the wake of the horse meat scandal, Morrisons supply chain integrity was singled out as an example of retail industry best practice.

Ethical trading
Morrisons is fully committed to sourcing products in an ethical manner and promoting the rights of workers throughout our worldwide supply chain.

This year we implemented the key recommendations of an independent review of our ethical trading programme, commissioned in late 2012. We made a significant investment in the year to implement the strategy, including dedicated resource in our UK and Hong Kong buying teams and membership of SEDEX ethical data systems.

In 2014, we launched our new Ethical Trading Policy (incorporating our updated Ethical Trading Code), and communicated specific requirements for all Own Brand suppliers to be members of SEDEX and share their ethical information with us.

Managing our emissions
Our commitment to reduce operational carbon emissions by 30% by 2020, from a 2005 baseline remains a significant focus within our business. We are now three-quarters of the way through our journey. With five years of investment left to go, this year we reached an absolute reduction of 24.5% from a 2005 baseline.

Let's Grow
Our award winning '*Let's Grow'* programme completed its sixth year of operation. The programme's ongoing commitment is to educate children - our shoppers of tomorrow - about the life cycle of food through the practical experience of growing fresh fruit and vegetables in an outdoor environment.

'Let's Grow' provides UK schools with free gardening equipment, cooking equipment and key teaching resources. Since the scheme began in 2008, we have given away over £18m worth of equipment.

Sue Ryder
Following our successful three-year partnership with Save the Children, raising over £7m for their Families and Schools Together and Eat Sleep Learn Play! programmes, we are now working with the National charity Sue Ryder to help and support people and families throughout the UK.

The partnership will see fundraising from customers and colleagues, and will enable the establishment of Community Clinics, End-of-life-care online communities and Family Support Teams.

Only a few months into this partnership, Morrisons has raised over £670,000 for Sue Ryder thanks to the fundraising efforts of both customers and colleagues.

Colleagues

We saw 89% of colleagues take the opportunity to share their feedback in our recent employee opinion survey. Our Colleague Engagement Index (CEI), which is a measure we use to gauge how people feel about life at Morrisons, rose slightly this year to 75.1 points. This gives us a real insight into how our colleagues feel about Morrisons and forms part of our commitment to develop a culture of an employee voice that matters.

The Morrisons Academy has continued to establish its role in supporting colleagues in their personal development and training. Recently, it has played a vital part in preparing colleagues at our Colne, Spalding and Turriff abattoirs to pass the 'Welfare of Animals at Time of Kill' (WATOK) qualification – making us the first retailer in the UK to achieve this accreditation. We are also delighted to have two colleagues as finalists in the Everywoman in Business Awards.

Notes:

[1] Underlying profit before tax includes new business development costs, but excludes property transactions and sale of businesses, IAS 19 pension interest, impairments, and onerous lease provisions. For 2014/15, we expect £70m of one-off costs relating to Kiddicare trading losses, restructuring, and the launch of the Morrisons card which are included in underlying profit before tax.
[2] Re-stated for new definition of underlying profit before tax
[3] Kantar Worldpanel – 12 weeks ended 17 August
[4] GFK NOP customer confidence monitor
[5] Millward Brown

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

26 weeks ended 3 August 2014

	Note	**26 weeks ended 3 August 2014 (unaudited) £m**	26 weeks ended 4 August 2013 (unaudited) £m	52 weeks ended 2 February 2014 (audited) £m
Turnover	3	**8,496**	8,938	17,680
Cost of sales		**(8,100)**	(8,374)	(16,606)
Gross profit		**396**	564	1,074
Other operating income		**39**	39	81
Profit arising on property transactions and sale of businesses	2,14	**58**	-	9
Administrative expenses		**(206)**	(222)	(1,259)
Administrative expenses include:				
- Administrative expenses before impairment and onerous lease provisions		**(206)**	(195)	(356)
- 2013/14 impairment and onerous lease provisions	2	**-**	(27)	(903)
Operating profit/(loss)		**287**	381	(95)
Finance costs	4	**(49)**	(38)	(87)
Finance income	4	**-**	1	5
Share of profit of joint venture (net of tax)		**1**	-	1
Profit/(loss) before taxation		**239**	344	(176)
Taxation	5	**(56)**	(77)	(62)
Profit/(loss) for the period attributable to the owners of the Company		**183**	267	(238)
Other comprehensive income				
Items that will not be reclassified to profit or loss:				
Remeasurement of defined benefit pension schemes	9	**11**	-	11
Tax on defined benefit pension schemes		**(2)**	(3)	(8)
		9	(3)	3
Items that may be reclassified subsequently to profit or loss:				
Cash flow hedging movement		**20**	(8)	-
Tax on cash flow hedging movement		**(4)**	2	(1)
		16	(6)	(1)
Other comprehensive income for the period, net of tax		**25**	(9)	2
Total comprehensive income for the period attributable to the owners of the Company		**208**	258	(236)
Earnings per share (pence)	6			
- basic		**7.84**	11.49	(10.23)
- diluted		**7.81**	11.44	(10.23)

Consolidated balance sheet

3 August 2014

	Note	**3 August 2014 (unaudited)**	4 August 2013 (unaudited)	2 February 2014 (audited)
		£m	£m	£m
Assets				
Non-current assets				
Goodwill and intangible assets	7	**503**	480	458
Property, plant and equipment	8	**8,334**	8,861	8,625
Investment property	8	**76**	127	119
Investment in joint venture		**67**	60	66
Investments		**31**	31	31
Derivative financial assets		**-**	14	-
		9,011	9,573	9,299
Current assets				
Stocks		**667**	762	852
Debtors		**403**	331	316
Derivative financial assets		**1**	1	1
Cash and cash equivalents		**164**	255	261
		1,235	1,349	1,430
Non-current assets classified as held-for-sale		**107**	-	-
		1,342	1,349	1,430
Liabilities				
Current liabilities				
Creditors		**(2,232)**	(2,222)	(2,272)
Short term borrowings		**(550)**	(201)	(553)
Derivative financial liabilities		**(11)**	(4)	(10)
Current tax liabilities		**(36)**	(109)	(38)
		(2,829)	(2,536)	(2,873)
Non-current liabilities				
Borrowings		**(2,182)**	(2,583)	(2,480)
Derivative financial liabilities		**(30)**	(11)	(36)
Deferred tax liabilities		**(454)**	(442)	(430)
Net pension liabilities	9	**(5)**	(22)	(11)
Provisions		**(171)**	(65)	(207)
		(2,842)	(3,123)	(3,164)
Net assets		**4,682**	5,263	4,692
Shareholders' equity				
Called-up share capital		**234**	233	234
Share premium		**127**	122	127
Capital redemption reserve		**39**	39	39
Merger reserve		**2,578**	2,578	2,578
Retained earnings and hedging reserve		**1,704**	2,291	1,714
Total equity attributable to owners of the Company		**4,682**	5,263	4,692

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Consolidated cash flow statement

26 weeks ended 3 August 2014

	Note	**26 weeks ended 3 August 2014 (unaudited) £m**	26 weeks ended 4 August 2013 (unaudited) £m	52 weeks ended 2 February 2014 (audited) £m
Cash flows from operating activities				
Cash generated from operations	10	**551**	613	1,031
Net interest paid		**(45)**	(27)	(89)
Taxation paid		**(39)**	(146)	(220)
Net cash inflow from operating activities		**467**	440	722
Cash flows from investing activities				
Proceeds from the sale of property, plant and equipment and businesses		**202**	4	34
Investment in joint venture		**-**	(60)	(66)
Purchase of property, plant and equipment and investment property		**(189)**	(392)	(835)
Purchase of intangible assets		**(68)**	(109)	(185)
Net cash outflow from investing activities		**(55)**	(557)	(1,052)
Cash flows from financing activities				
Purchase of own shares for cancellation	15	**-**	(53)	(53)
Purchase of own shares for trust	15	**(8)**	-	-
Proceeds from exercise of share options, including issues from treasury shares	15	**-**	22	28
New borrowings		**291**	590	790
Repayment of borrowings		**(575)**	(258)	(157)
Dividends paid to equity shareholders	13	**(214)**	(193)	(283)
Net cash (outflow)/inflow from financing activities		**(506)**	108	325
Net decrease in cash and cash equivalents		**(94)**	(9)	(5)
Cash and cash equivalents at start of period		**258**	263	263
Cash and cash equivalents at end of period	11	**164**	254	258

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

	Note	**26 weeks ended 3 August 2014 (unaudited) £m**	26 weeks ended 4 August 2013 (unaudited) £m	52 weeks ended 2 February 2014 (audited) £m
Net decrease in cash and cash equivalents		**(94)**	(9)	(5)
Cash outflow from decrease in debt and lease financing		**575**	258	157
Cash inflow from increase in borrowings		**(291)**	(590)	(790)
Other non-cash movements		**19**	(7)	2
Opening net debt		**(2,817)**	(2,181)	(2,181)
Closing net debt	11	**(2,608)**	(2,529)	(2,817)

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Consolidated statement of changes in equity

		Attributable to the owners of the Company						
		Share capital	**Share premium**	**Capital redemption reserve**	**Merger reserve**	**Hedging reserve**	**Retained earnings**	**Total equity**
	Note	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
26 weeks ended 3 August 2014 (unaudited)								
At 3 February 2014		**234**	**127**	**39**	**2,578**	**(15)**	**1,729**	**4,692**
Profit for the period		**-**	**-**	**-**	**-**	**-**	**183**	**183**
Other comprehensive income:								
Cash flow hedging movement		**-**	**-**	**-**	**-**	**20**	**-**	**20**
Pension remeasurement		**-**	**-**	**-**	**-**	**-**	**11**	**11**
Tax in relation to components of other comprehensive income		**-**	**-**	**-**	**-**	**(4)**	**(2)**	**(6)**
Total comprehensive income for the period		**-**	**-**	**-**	**-**	**16**	**192**	**208**
Purchase of trust shares	15	**-**	**-**	**-**	**-**	**-**	**(8)**	**(8)**
Employees share options schemes:								
Share-based payments		**-**	**-**	**-**	**-**	**-**	**4**	**4**
Dividends	13	**-**	**-**	**-**	**-**	**-**	**(214)**	**(214)**
Total transactions with owners		**-**	**-**	**-**	**-**	**-**	**(218)**	**(218)**
At 3 August 2014		**234**	**127**	**39**	**2,578**	**1**	**1,703**	**4,682**
26 weeks ended 4 August 2013 (unaudited)								
At 4 February 2013		235	107	37	2,578	(14)	2,287	5,230
Profit for the period		-	-	-	-	-	267	267
Other comprehensive income:								
Cash flow hedging movement		-	-	-	-	(8)	-	(8)
Tax in relation to components of other comprehensive income		-	-	-	-	(1)	-	(1)
Total comprehensive income for the period		-	-	-	-	(9)	267	258
Shares purchased for cancellation	15	(2)	-	2	-	-	(53)	(53)
Employees share options schemes:								
Issue of shares and utilisation of treasury shares	15	-	15	-	-	-	7	22
Share-based payments		-	-	-	-	-	(1)	(1)
Dividends	13	-	-	-	-	-	(193)	(193)
Total transactions with owners		(2)	15	2	-	-	(240)	(225)
At 4 August 2013		**233**	**122**	**39**	**2,578**	**(23)**	**2,314**	**5,263**

Consolidated statement of changes in equity (continued)

		Attributable to the owners of the Company						
		Share capital	Share premium	Capital redemption reserve	Merger reserve	Hedging reserve	Retained earnings	Total equity
	Note	£m	£m	£m	£m	£m	£m	£m
52 weeks ended 2 February 2014 (audited)								
At 4 February 2013		235	107	37	2,578	(14)	2,287	5,230
Loss for the period		-	-	-	-	-	(238)	(238)
Other comprehensive income:								
Pension remeasurement		-	-	-	-	-	11	11
Tax in relation to components of other comprehensive income		-	-	-	-	(1)	(8)	(9)
Total comprehensive income for the period		-	-	-	-	(1)	(235)	(236)
Shares purchased for cancellation	15	(2)	-	2	-	-	(53)	(53)
Employees share options schemes:								
Issue of shares and utilisation of treasury shares	15	1	20	-	-	-	7	28
Share-based payments		-	-	-	-	-	6	6
Dividends	13	-	-	-	-	-	(283)	(283)
Total transactions with owners		(1)	20	2	-	-	(323)	(302)
At 2 February 2014		**234**	**127**	**39**	**2,578**	**(15)**	**1,729**	**4,692**

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Notes to the condensed consolidated financial statements

26 weeks ended 3 August 2014

1 SEGMENTAL REPORTING

The Management Board is the Group's chief operating decision-maker. There are no differences from the 2013/14 Annual report and financial statements in the basis of segmentation. The Directors consider there to be one operating segment, that of retailing.

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

2 UNDERLYING EARNINGS

The definition of underlying profit has been amended to include new business development costs as they are considered to be ongoing activities and part of our underlying business. The underlying earnings reconciliations for the comparative periods presented below have been restated to reflect this change. This has resulted in a decrease in post-tax underlying earnings from amounts previously reported in the periods ending 4 August 2013 and 2 February 2014 of £22m (pre-tax: £30m) and £49m (pre-tax: £66m) respectively.

The Directors consider that the underlying earnings and underlying adjusted earnings per share measures referred to in the Interim results provide useful information for shareholders on underlying trends and performance. The adjustments are made to reported profit/(loss) to (a) remove the impact of pension interest volatility; (b) remove losses or profits arising on property transactions and sale of businesses since they do not form part of the Group's principal activities; (c) remove impairment, onerous lease provisions or other similar items that do not relate to the Group's principal activities on an ongoing basis; and (d) apply an estimated normalised tax rate of 26.0% (4 August 2013: 25.4% and 2 February 2014: 25.3%).

	26 weeks ended 3 August 2014 (unaudited) £m	Restated 26 weeks ended 4 August 2013 (unaudited) £m	Restated 52 weeks ended 2 February 2014 (audited) £m
Profit/(loss) after tax	**183**	267	(238)
Add back: tax charge for the period [1]	**56**	77	62
Profit/(loss) before tax	**239**	344	(176)
Adjustments for:			
Net pension interest cost [1]	**-**	-	1
Profit arising on property transactions [1]	**(54)**	-	(9)
Profit on disposal of Kiddicare.com Limited [1]	**(4)**	-	-
2013/14 impairment and onerous lease provisions [1]	**-**	27	903
Underlying profit before tax	**181**	371	719
Normalised tax charge at 26.0%/25.4%/25.3% [1]	**(47)**	(94)	(182)
Underlying profit after tax	**134**	277	537

Adjustments marked [1] decrease post-tax underlying earnings by £49m (4 August 2013: increase £10m, 2 February 2014: increase £775m), as shown in reconciliation of earnings disclosed in note 6.

Impairment and onerous lease provisions in the 52 weeks ended 2 February 2014 consist of £379m in relation to trading stores, £319m in relation to the property pipeline, £163m in respect of Kiddicare and £42m of other costs.

The trading stores costs of £379m consisted of £330m impairment and £49m onerous leases. Pipeline costs of £319m included impairment of £90m and a further £229m in respect of onerous leases and capital contracts. Charges in respect of Kiddicare consisted of £24m of goodwill, £12m brand, £70m impairment and £57m onerous lease provisions. Other impairments of £42m principally included £27m (also included in 26 weeks to 4 August 2013) write off of the costs incurred in the development of our own organic food online offer which was no longer required as a result of our arrangement with Ocado.

Notes to the condensed consolidated financial statements (continued)
26 weeks ended 3 August 2014

2 UNDERLYING EARNINGS (continued)
The amendment of the definition to underlying earnings has resulted in the following changes to underlying earnings in previous periods:

	4 August 2013 (unaudited)		2 February 2014 (audited)	
	Pre-tax £m	Post-tax £m	Pre-tax £m	Post-tax £m
Restated underlying profit	371	277	719	537
New business development costs	30	22	66	49
Underlying profit as previously reported	**401**	**299**	**785**	**586**

3 TURNOVER

	26 weeks ended 3 August 2014 (unaudited) £m	26 weeks ended 4 August 2013 (unaudited) £m	52 weeks ended 2 February 2014 (audited) £m
Sale of goods in stores and online	**6,457**	6,755	13,434
Fuel	**1,902**	2,065	3,984
Total store based and online sales	**8,359**	8,820	17,418
Other sales	**137**	118	262
Total turnover	**8,496**	8,938	17,680

4 FINANCE COSTS AND INCOME

	26 weeks ended 3 August 2014 (unaudited) £m	26 weeks ended 4 August 2013 (unaudited) £m	52 weeks ended 2 February 2014 (audited) £m
Interest payable on short term loans and bank overdrafts	**(6)**	(6)	(12)
Interest payable on bonds and loan notes	**(45)**	(39)	(86)
Interest capitalised	**5**	8	17
Total interest payable	**(46)**	(37)	(81)
Other finance costs	**(3)**	(1)	(5)
Net pension interest cost	**-**	-	(1)
Finance costs	**(49)**	(38)	(87)
Bank interest received	**-**	-	3
Amortisation of bonds	**-**	1	2
Finance income	**-**	1	5
Net finance costs	**(49)**	(37)	(82)

5 TAXATION

The standard rate of corporation tax in the UK changed from 23% to 21% with effect from 1 April 2014.

The Finance Act 2013, which had been substantively enacted by the balance sheet date, includes legislation to further reduce the main rate of corporation tax to 20% on 1 April 2015. No further changes in the corporation tax rate have been announced to date. The tax charged within the interim report has been calculated by applying the effective rate of tax which is expected to apply to the Group for the period ending 1 February 2015 of 23.3% using rates substantively enacted by 3 August 2014, as required by IAS 34 *Interim financial reporting*.

The normalised rate of tax of 26.0% (4 August 2013: 25.4%, 2 February 2014: 25.3%) has been calculated using the full year projections and applied to the half year underlying profit. The rates used were substantially enacted by 3 August 2014 as required by IAS 34 *Interim financial reporting*.

6 EARNINGS PER SHARE

Basic earnings/(loss) per share (EPS) is calculated by dividing earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

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

Underlying EPS

It is the Directors' view that underlying EPS is the fairest reflection of the underlying results of the business.

	26 weeks ended 3 August 2014 (unaudited) Pence		26 weeks ended 4 August 2013 (unaudited) Pence		52 weeks ended 2 February 2014 (audited) Pence	
	Basic	**Diluted**	Basic	Diluted	Basic	Diluted
Basic EPS	**7.84**	**7.81**	11.49	11.44	(10.23)	(10.23)
Underlying EPS (restated) [1]	**5.74**	**5.72**	11.92	11.87	23.08	22.99
	£m		£m		£m	
	Basic	**Diluted**	Basic	Diluted	Basic	Diluted
Basic earnings/(loss)						
Earnings/(loss) attributable to ordinary shareholders	**183**	**183**	267	267	(238)	(238)
Underlying earnings						
Earnings/(loss) attributable to ordinary shareholders	**183**	**183**	267	267	(238)	(238)
Adjustments to determine underlying profit (note 2) (restated) [1]	**(49)**	**(49)**	10	10	775	775
Underlying earnings attributable to ordinary shareholders (restated) [1]	**134**	**134**	277	277	537	537
	Millions		Millions		Millions	
	Basic	**Diluted**	Basic	Diluted	Basic	Diluted
Weighted average number of shares						
Ordinary shares in issue/diluted ordinary shares	**2,333.0**	**2,344.0**	2,324.3	2,333.0	2,327.0	2,336.0

[1] Underlying EPS measures have been restated to reflect the change in definition of underlying earnings as described in note 2.

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7 GOODWILL AND INTANGIBLE ASSETS

	3 August 2014 (unaudited) £m	4 August 2013 (unaudited) £m	2 February 2014 (audited) £m
Net book value			
At beginning of the period	**458**	415	415
Additions at cost	**70**	111	178
Interest capitalised	**4**	3	7
Reclassifications	**(1)**	-	-
Amortisation	**(28)**	(22)	(53)
Impairment	**-**	(27)	(89)
At end of the period	**503**	480	458

The carrying value of goodwill and intangible assets principally consists of software development costs of £477m (4 August 2013: £411m, 2 February 2014: £430m).

8 CAPITAL EXPENDITURE AND COMMITMENTS

a) Property, plant and equipment

	3 August 2014 (unaudited) £m	4 August 2013 (unaudited) £m	2 February 2014 (audited) £m
Net book value			
At beginning of the period	**8,625**	8,616	8,616
Acquisition of businesses	**-**	4	-
Additions at cost	**164**	415	807
Interest capitalised	**1**	5	10
Transfers to investment property	**-**	(6)	(15)
Reclassifications	**1**	-	-
Transfers to assets held-for-sale	**(283)**	-	-
Disposals	**(11)**	(2)	-
Depreciation charge for the period	**(163)**	(171)	(336)
Impairment	**-**	-	(457)
At end of the period	**8,334**	8,861	8,625

b) Investment properties

	3 August 2014 (unaudited) £m	4 August 2013 (unaudited) £m	2 February 2014 (audited) £m
Net book value			
At beginning of period	**119**	123	123
Additions at cost	**3**	2	3
Transfers from property, plant and equipment	**-**	6	15
Transfers to assets held-for-sale	**(45)**	-	-
Disposals	**-**	(2)	(17)
Depreciation charge for the period	**(1)**	(2)	(5)
At end of the period	**76**	127	119

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8 CAPITAL EXPENDITURE AND COMMITMENTS (continued)

c) Capital commitments

Contracts placed for future capital expenditure not provided in the financial statements amount to £142m (4 August 2013: £92m, 2 February 2014: £179m).

9 PENSIONS

At the balance sheet date a review of market conditions, used to derive the defined benefit pension scheme assumptions, was carried out. Assumptions have been updated using a methodology consistent with the 52 week period ended 2 February 2014, resulting in a decrease to net pension liabilities of £6m in the current period. A reconciliation of the movements in the 26 week period ended 3 August 2014 is shown below:

	£m
Net liability at 3 February 2014	(11)
Current service cost	(43)
Employer contributions	38
Remeasurement of liabilities	(146)
Remeasurement of assets	157
Net liability at 3 August 2014	**(5)**

10 CASH GENERATED FROM OPERATIONS

	26 weeks ended 3 August 2014 (unaudited) £m	26 weeks ended 4 August 2013 (unaudited) £m	52 weeks ended 2 February 2014 (audited) £m
Profit/(loss) for the period	**183**	267	(238)
Adjustments for:			
Taxation	**56**	77	62
Depreciation	**164**	173	341
Amortisation	**28**	22	53
Impairment	**-**	27	546
Profit arising on property transactions and sale of businesses	**(58)**	-	(9)
Net finance cost	**49**	37	82
Other non-cash changes	**5**	(1)	4
Share of profit of joint venture	**(1)**	-	(1)
Adjustment for non-cash element of pensions charges	**5**	-	2
Decrease/(increase) in stocks	**171**	19	(71)
Increase in debtors	**(7)**	(40)	(25)
(Decrease)/increase in creditors and provisions	**(44)**	32	285
Cash generated from operations	**551**	613	1,031

Included within debtors in the consolidated balance sheet is £80m in respect of property disposals recognised in the period (4 August 2013: nil, 2 February 2014: nil).

11 ANALYSIS OF NET DEBT

	3 August 2014 (unaudited) £m	4 August 2013 (unaudited) £m	2 February 2014 (audited) £m
Cash and cash equivalents per balance sheet	**164**	255	261
Bank overdrafts	**-**	(1)	(3)
Cash and cash equivalents per cash flow	**164**	254	258
Derivative financial instruments	**1**	15	1
Other financial assets	**1**	15	1
Short term borrowings and current bonds	**(550)**	(200)	(550)
Derivative financial instruments	**(11)**	(4)	(10)
Current financial liabilities (excluding bank overdrafts)	**(561)**	(204)	(560)
Bonds	**(2,036)**	(1,948)	(1,759)
Private placement loan notes	**(146)**	(164)	(149)
Floating credit facility	**-**	(471)	(572)
Derivative financial instruments	**(30)**	(11)	(36)
Non-current financial liabilities	**(2,212)**	(2,594)	(2,516)
Net debt	**(2,608)**	(2,529)	(2,817)

12 FINANCIAL INSTRUMENTS

	3 August 2014 (unaudited)		4 August 2013 (unaudited)		2 February 2014 (audited)	
	Carrying amount £m	**Fair value £m**	Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m
Non-current financial assets						
Derivative financial instruments	**-**	**-**	14	14	-	-
Current financial assets						
Derivative financial instruments	**1**	**1**	1	1	1	1
Current financial liabilities						
Short-term borrowings	**(550)**	**(550)**	(201)	(201)	(553)	(553)
Derivative financial instruments	**(11)**	**(11)**	(4)	(4)	(10)	(10)
Total current financial liabilities	**(561)**	**(561)**	(205)	(205)	(563)	(563)
Non-current financial liabilities						
Borrowings	**(2,182)**	**(2,367)**	(2,583)	(2,696)	(2,480)	(2,549)
Derivative financial instruments	**(30)**	**(30)**	(11)	(11)	(36)	(36)
Total non-current financial liabilities	**(2,212)**	**(2,397)**	(2,594)	(2,707)	(2,516)	(2,585)

All financial instruments carried at fair value within the Group at 3 August 2014 are financial derivatives and all are categorised as Level 2 instruments. Level 2 fair values for simple over-the-counter derivatives are calculated by using benchmark, observable market interest rates to discount future cash flows.

On 4 July 2014, the Group issued a £300m Sterling bond at a fixed interest rate of 4.75% expiring July 2029. This is part of the Group's £3bn Euro Medium Term Note programme.

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Notes to the condensed consolidated financial statements (continued)

26 weeks ended 3 August 2014

13 DIVIDENDS

	26 weeks ended 3 August 2014 (unaudited) £m	26 weeks ended 4 August 2013 (unaudited) £m	52 weeks ended 2 February 2014 (audited) £m
Equity dividends paid in the period	**214**	193	283

The dividend paid in the period represents the cash payment of the final dividend of 9.16p from the 52 weeks ended 2 February 2014 (8.31p for the 52 weeks ended 3 February 2013 and 3.84p for the 26 weeks ended 4 August 2013).

The Directors are proposing an interim dividend of 4.03p per share which will be paid on 10 November 2014 to shareholders who are on the register of members on 3 October 2014. The interim dividend will absorb an estimated £94m of shareholders' funds. This amount will be charged to retained earnings when paid.

14 DISPOSAL OF KIDDICARE.COM LIMITED

On 11 July 2014, the Group received consideration of £2m for the sale of the shares of its subsidiary Kiddicare.com Limited to Endless LLP, resulting in a profit on disposal of £4m, net of the release of provisions in respect of Kiddicare which are no longer required as a consequence of the disposal. This profit is one-off in nature and so has been excluded from reported underlying earnings.

15 SHARE CAPITAL

Shares purchased for cancellation

During the 26 weeks to 4 August 2013, the Group acquired 20,338,000 of its own shares for cancellation as part of the equity retirement programme for consideration of £53m. The equity retirement programme completed in March 2013 and the Group did not acquire any of its own shares for cancellation in the 26 weeks to 3 August 2014.

Trust shares

Included in retained earnings is a deduction of £5m (2 February 2014: £5m) in respect of own shares held at the balance sheet date. This represents the cost of 2,915,374 (2 February 2014: 1,938,608) of the Group’s ordinary shares (nominal value of £0.3m (2 February 2014: £0.2m)). 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 3 August 2014 was £5m (2 February 2014: £5m). 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 4,000,000 of its own shares to hold in trust for consideration of £8m, and utilised 3,023,234 trust shares to satisfy awards under the Group’s employee share plans.

Treasury shares

During the 26 weeks ended 3 August 2014 the Group received nil proceeds (4 August 2013: £7m, 2 February 2014: £7m) in respect of treasury shares utilised to satisfy share options exercised by employees during the period. At 3 August 2014, no treasury shares remain (4 August 2013: nil, 2 February 2014: nil).

Issue of new shares

The Group issued 37,970 (4 August 2013: 6,401,670, 2 February 2014: 8,811,865) new shares to satisfy options exercised by employees during the period. Proceeds received on exercise of these shares amounted to £0.1m (4 August 2013: £15m, 2 February 2014: £21m).

16 POST BALANCE SHEET EVENTS

On 8 September 2014, the £1.2bn revolving credit facility was refinanced with a new £1.35bn facility for five years with options to extend.

Wm Morrison Supermarkets PLC
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Notes to the condensed consolidated financial statements (continued)

26 weeks ended 3 August 2014

Responsibility statement

We confirm that to the best of our knowledge:

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

By order of the Board

10 September 2014

The Board

The Board of Directors that served during the 26 weeks to 3 August 2014 and their respective responsibilities were:

Sir Ian Gibson CBE– Chairman*
Dalton Philips – Chief Executive Officer
Trevor Strain – Chief Financial Officer
Richard Gillingwater CBE*
Philip Cox CBE *
Penny Hughes CBE*
Johanna Waterous CBE*
* Non-Executive Director

Principal risks and uncertainties

The principal risks and uncertainties set out in Wm Morrison Supermarkets PLC's Annual report and financial statements for the 52 weeks ended 2 February 2014 remain the same for this Half-yearly financial report. Those risks and uncertainties can be summarised as follows:

Operational risks that may affect reputation, market share and financial results:

- Business change
- Business interruption
- Business strategy
- Colleague engagement and retention
- Customer proposition
- Financial and treasury
- Food and product safety
- IT Systems
- Regulation
- Reputation
- Property
- Trading optimisation

Financial risks that may affect financial results or the financial position of the Group:

- Foreign currency risk
- Liquidity risk
- Credit risk

More information on the principal risks and how the Group mitigates those risks can be found on pages 40 to 42 of the 2013/14 Annual report and financial statements. You can view the 2013/14 Annual report and financial statements online on our corporate website, www.morrisons-corporate.com/ar2014.

Notes to the condensed consolidated financial statements (continued)

26 weeks ended 3 August 2014

General information

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

The 2014/15 Half-yearly financial report does not constitute financial statements within the meaning of Section 434 of the Companies Act 2006 and does not include all of the information and disclosures required for full annual financial statements.

The condensed consolidated financial statements for the 26 weeks to 3 August 2014 are unaudited. However, the auditor, PricewaterhouseCoopers LLP who was appointed on 5 June 2014 has carried out a review of the condensed consolidated financial statements and their report is included in this Half-yearly financial report.

The comparative financial information contained in the condensed consolidated financial statements in respect of the 52 weeks ended 2 February 2014 has been extracted from the 2013/14 Annual report and financial statements. Those financial statements have been reported on by the Group's previous auditors, KPMG Audit Plc, and delivered to the Registrar of Companies. The report of the previous auditor 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 2014/15 Half-yearly financial report was approved by the Board of Directors on 10 September 2014.

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.

The Directors are satisfied that the Group has sufficient resources to continue in operation for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Basis of preparation

The condensed consolidated financial statements of the Group for the 26 weeks ended 3 August 2014 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 2013/14 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/ar2014.

Significant accounting policies

The accounting policies applied by the Group in these condensed consolidated financial statements are consistent with those set out in the 2013/14 Annual report and financial statements, except as described below.

As disclosed in note 8, during the period, the Group reclassified £328m of property, plant and equipment and investment properties as assets held-for-sale.

Non-current assets are classified as assets held-for-sale when their carrying amount is to be recovered principally through a sale transaction and a sale transaction is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

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

Notes to the condensed consolidated financial statements (continued)

26 weeks ended 3 August 2014

Significant accounting policies (continued)

The following new standards, amendments to standards and interpretations are mandatory for the first time for the financial year beginning 3 February 2014.

IFRS 10 *Consolidated financial statements*
Under IFRS 10, subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when it has power over an entity, is exposed to, or has rights to, variable returns from its involvement with the entity, and has the ability to affect these returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. The Group has applied IFRS 10 retrospectively in accordance with the transition provisions of IFRS 10. There is no material impact on the Group as a result of applying this standard.

As described in note 14, the Group disposed of its investment in Kiddicare.com Limited on 11 July 2014. This subsidiary has been deconsolidated from that date.

IFRS 11 *Joint arrangements*
Under IFRS 11, investments in joint arrangements are classified either as joint operations or joint ventures, depending on the contractual rights and obligations each investor has rather than the legal structure of the joint arrangement. Before 2 February 2014, the Group's interest in its jointly controlled entity, MHE JVCo Limited, was accounted for using the equity method. Under IFRS 11, the jointly controlled entity has been assessed to be a joint venture and so the equity method continues to be appropriate.

Other amendments to IFRSs effective for the financial year ending 1 February 2015 are not expected to have a material impact on the Group.

Judgements and estimates
In preparing the condensed consolidated financial statements, management are required to make accounting judgements, assumptions and estimates. The judgements, assumptions and estimation methods are consistent with those applied to the 2013/14 Annual report and financial statements. Additionally, judgement has been applied in the period in assessing whether assets have met the IFRS 5 criteria to be classified as non-current assets held for sale.

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

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Independent review report to Wm Morrison Supermarkets PLC

Report on the condensed consolidated financial statements

Our conclusion
We have reviewed the condensed consolidated financial statements, defined below, in the Half-yearly financial report of Wm Morrison Supermarkets PLC for the 26 weeks ended 3 August 2014. Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

This conclusion is to be read in the context of what we say in the remainder of this report.

What we have reviewed
The condensed consolidated financial statements, which are prepared by Wm Morrison Supermarkets PLC, comprise:

- the consolidated balance sheet as at 3 August 2014;
- 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 condensed consolidated financial statements.

As disclosed in the basis of preparation note, the financial reporting framework that has been applied in the preparation of the 2013/14 annual financial statements of the Group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

What a review of condensed consolidated financial statements involves
We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, '*Review of Interim Financial Information Performed by the Independent Auditor of the Entity'* issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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

Independent review report to Wm Morrison Supermarkets PLC (continued)

Report on the condensed consolidated financial statements (continued)

Responsibilities for the condensed consolidated financial statements and the review

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

Our responsibility is to express to the company a conclusion on the condensed consolidated financial statements in the Half-yearly financial report based on our review. This report, including the conclusion, has been prepared for and only for the Company for the purpose of complying with the Disclosure and Transparency Rules of the 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.

PricewaterhouseCoopers LLP
Chartered Accountants
10 September 2014
Leeds

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.