Morrisons
Since 1899

News Release

Release date: 12 September 2019

INTERIM RESULTS FOR THE HALF YEAR TO 4 AUGUST 2019

Maintaining momentum

Financial summary

- Group like-for-like (LFL) sales[(1)] ex-fuel/ex-VAT up 0.2% (2018/19: 4.9%)
- Q2 Group LFL ex-fuel/ex-VAT down 1.9% (Q2 2018/19: up 6.3%)
- Total revenue up 0.4% to £8.83bn (2018/19: £8.80bn)
- Profit before tax and exceptionals[(2)] up 5.3% to £198m (2018/19: £188m)
- EPS before exceptionals[(2)] up 4.1% to 6.38p (2018/19: 6.13p)
- Statutory profit before tax up 48.5% to £202m (2018/19: £136m)
- Free cash flow[(3)] up £15m to £244m (2018/19: £229m)
- Free cash flow adjusted for disposal proceeds, operating working capital, onerous payments, and non-cash movements up £30m to £211m (2018/19: £181m)
- Net debt £2,358m (2018/19 year end: £2,394m). Pre-IFRS 16 net debt £975m, down £22m since the end of 2018/19
- Interim ordinary dividend up 4.3% to 1.93p (2018/19: 1.85p)
- Special interim dividend of 2.00p, taking total interim dividend up 2.1% to 3.93p

Strategic and operating highlights

- Maintaining meaningful, sustained cash generation, profit and dividend growth
- Significant investment and improvement in competitiveness
- Expansion of the Morrisons store on Amazon Prime Now to many more cities across the UK, starting in Q3
- Trial conversion of ten McColl's stores to Morrisons Daily started well
- Today announcing four new or extended wholesale supply initiatives:
  - Multi-year partnership signed with Amazon extending relationship in time and scope
  - New forecourt partner Harvest Energy
  - New export partner LuLu in the Middle East
  - Further convenience store trial formats with Rontec

Financial targets update

- On track for £1bn annualised wholesale supply sales target
- Further £7m incremental profit from wholesale, services, interest and online, taking the total so far to £61m. On track for our £75m–£125m target

Note: 2018/19 has been restated for the new lease accounting standard, IFRS 16

Andrew Higginson, Chairman, said:

"I'm confident that Morrisons is on the right path for continued and sustainable growth. The team are listening and responding to customers, and making the right choices to benefit all stakeholders, including strong dividends for shareholders**.**"

David Potts, Chief Executive, said:

"We stayed focussed on our Fix, Rebuild and Grow strategy, and were pleased to maintain the momentum of the turnaround against strong comparatives last year. Sales and profit progress was robust, and we again invested in improving our competitiveness for customers.

"News today of new wholesale initiatives, including a further extension of our partnership with Amazon, and of another special dividend, again show how new Morrisons continues to become broader and stronger for all stakeholders, and how progress can be meaningful and sustainable even in more testing trading conditions. Such progress is only made possible by Morrisons exceptional team of food makers and shopkeepers."

Outlook

Sales comparatives were strong, with 2018/19 assisted by very favourable summer weather and events such as the World Cup and royal wedding. In contrast, this year's summer weather was largely unfavourable and there were no similar events to boost sales. Consumer confidence also continued to be weak, again affecting customer behaviour. In this more testing period, our profit performance was robust, free cash flow generation remained strong, and we were satisfied with our relative LFL performance.

During the second half, we are planning both for retail LFL to improve, and for various additional cost saving opportunities. In addition, we expect the contribution from our incremental £75m–£125m profit opportunity to continue to grow, including previously guided online cost savings after our recent temporary exit from the Erith customer fulfilment centre (CFC) and lower wholesale start-up costs. We remain on track for our medium-term target of £75m–£125m incremental profit from wholesale, services, interest and online.

We are confident that Morrisons will continue to become broader and stronger. We have many meaningful and sustainable growth opportunities ahead, and are pleased today to be announcing extensions of our wholesale supply partnerships with Amazon and Rontec, and two new partnerships, with Harvest Energy in the UK, and LuLu in the Middle East.

Reflecting our growth opportunities, sustained profit and cash flow progress, and future expectations, we are today announcing a further special dividend of 2.00p per share. We will continue to 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.

Morrisons
Since 1899

Figure 1 – H1 2019/20 profit reconciliation

£m	H1 18/19	H1 19/20	Y-on-Y
Statutory operating profit	219	246	12.3%
Statutory profit before tax	136	202	48.5%
Exceptional items:			
– (Profit)/loss on disposal and exit of properties	1	-	
– Costs associated with repayment of borrowings*	33	-	
– Net pension interest income*	(8)	(10)	
– Other exceptional items	26	6	
Operating profit before exceptionals	246	252	2.4%
Profit before tax and exceptionals	**188**	**198**	**5.3%**

** Adjusted in profit before tax and exceptionals, but not in operating profit before exceptionals*

Figure 2 – LFL sales performance (ex-VAT)

	2018/19					2019/20		
	Q1	**Q2**	**H1**	**H2**	**FY**	**Q1**	**Q2**	**H1**
Retail contribution to LFL	1.8%	2.5%	2.1%	0.9%	1.5%	0.2%	(2.4)%	(1.1)%
Wholesale contribution to LFL	1.8%	3.8%	2.8%	3.7%	3.3%	2.1%	0.5%	1.3%
Group LFL ex-fuel	**3.6%**	**6.3%**	**4.9%**	**4.6%**	**4.8%**	**2.3%**	**(1.9)%**	**0.2%**
Group LFL inc-fuel	1.9%	6.4%	4.2%	4.5%	4.3%	2.7%	(2.2)%	0.2%

Reported in accordance with IFRS 15

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) **Profit before tax and exceptionals:** defined as profit before tax, exceptional items and net pension interest. **Earnings per share (EPS) before exceptionals:** based on profit before exceptional items and net pension interest, adjusted for a normalised tax charge.

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

(3) **Free cash flow:** movement in net debt before the payment of dividends. Free cash flow for the period is £244m (2018/19: £229m), being the movement in net debt of £36m (2018/19: £31m) adjusted for dividends paid of £208m (2018/19: £198m).

Other Alternative Performance Measures used in this announcement are defined in the glossary.

Enquiries:

Wm Morrison Supermarkets PLC

Trevor Strain – Group Chief Finance and Commercial Officer	0845 611 5000
Andrew Kasoulis – Investor Relations Director	0778 534 3515

Media Relations

Wm Morrison Supermarkets PLC:	Julian Bailey	0796 906 1092
Citigate Dewe Rogerson:	Simon Rigby	020 3926 8522
	Kevin Smith	020 3926 8509

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@morrisonsplc.co.uk)

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

Dial-in details:

Participant dial in:	+44 (0)20 3003 2666
Password:	Morrisons

Replay facility available for 7 days:

Replay access number:	+44 (0)20 8196 1998
Replay access code:	6083544#

– 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

The 2019/20 interim condensed Financial Statements are the first to be prepared in accordance with the new IFRS 16 lease standard. We published IFRS 16 restated 2018/19 Financial Statements on 2 July, and all comparative figures included within this announcement have been restated for IFRS 16.

Total revenue for the first half of 2019/20 was £8.83bn, up 0.4% year on year, including a contribution of 0.1% (excluding fuel) from net new space. Total revenue growth was 0.3% (excluding fuel).

Fuel sales were up 0.6% to £1.9bn, with LFL of 0.4%.

Group LFL excluding fuel was up 0.2%, comprising retail of (1.1)% and wholesale of 1.3%. In Q2, Group LFL excluding fuel was (1.9)%, with retail of (2.4)% and wholesale of 0.5%.

For retail, as guided at the time of our Q1 trading update, the market remained competitive and challenging throughout the first half. Customer behaviour continued to be impacted by the uncertainties around the prolonged Brexit process, and consumer confidence continued to be low. Very favourable summer weather last year became unfavourable this year, particularly in May and June, and there were no similar events to match last year's boosts from the World Cup and royal wedding.

We continued to invest in improving the shopping trip and becoming more competitive, especially for customers' favourite items. We increased this investment during the first half, significantly reducing prices across hundreds of the Morrisons price list items and, while this is having a deflationary impact relative to the market, we have been pleased so far with the volume uplift of those items.

For wholesale, the contribution to LFL growth fell during the first half as expected. During Q2, we passed the anniversary of last year's accelerated wholesale supply roll-out to 1,300 McColl's stores. In addition, as recently announced by McColl's, it closed over 40 stores during its first half, which impacted our wholesale sales slightly.

Operating profit before exceptionals was up 2.4% to £252m (2018/19: £246m), with margin up 6 basis points year on year to 2.9%. EBITDA margin before exceptionals was 5.8%, up 20 basis points.

Net finance costs before exceptionals were £54m (2018/19: £59m).

Profit before tax and exceptionals was up 5.3% to £198m (2018/19: £188m).

Exceptional items recognised outside profit before tax and exceptionals were a net credit of £4m, as listed in Figure 1. Within this, there was £10m net pension interest income and £6m other exceptional costs.

Statutory profit before tax after exceptionals was up 48.5% to £202m (2018/19: £136m, after £52m of net exceptional costs).

The net incremental profit before tax from wholesale, services, interest and online was £7m, bringing the total cumulative profit so far to £61m. We remain confident of our medium-term target of £75–£125m incremental profit from these four areas.

EPS before exceptionals was up 4.1% to 6.38p (2018/19: 6.13p).

Cash capital expenditure was £212m (2018/19: £185m).

Free cash flow was up £15m to £244m (2018/19: £229m). Adjusting for disposal proceeds, operating working capital, onerous payments, and non-cash movements, free cash flow was up £30m to £211m (2018/19: £181m).

Group net debt was £2,358m (2018/19: £2,394m). On a pre-IFRS 16 basis, net debt was £975m, down £22m since the end of 2018/19.

The proposed interim ordinary dividend is up 4.3% to 1.93p. In addition, we are again proposing a special dividend of 2.00p per share, which will take the total interim dividend up 2.1% to 3.93p (2018/19: 3.85p).

Return on capital employed (ROCE) was up 20 basis points since 2018/19 year end, to 7.1%, and up from 7.0% for the first half of 2018/19.

Strategy update – A broader Morrisons and strong progress in wholesale supply

Our Fix, Rebuild and Grow strategy continues to progress well. Against strong first-half 2018/19 LFL sales comparatives, and with ongoing low consumer confidence and uncertainty, we remained focussed on progress for all stakeholders: customers, colleagues, suppliers and shareholders.

In this tougher trading environment, we continued to invest in improving the shopping trip for customers, and further improved the relative competitiveness of our Morrisons price list. At the same time, we again grew first-half LFL, profit and ROCE and, consistent with the principles of our capital allocation framework, are announcing a further special dividend of 2.00p per share.

Our ability to keep building a broader, stronger business is key to maintaining meaningful and sustainable growth. Wholesale's continued significant expansion helped to maintain the momentum of building a broader Morrisons during the first half. After surpassing our initial target of £700m of annualised wholesale supply sales, we remain on track for £1bn in due course.

That momentum is gathering pace. We are today announcing several wholesale supply initiatives, including the expansion of our long-term relationship with Amazon. We have a new convenience forecourt partner, Harvest Energy, in the UK, and a new overseas export partner, Lulu, in the Middle East. We have also extended our partnership with Rontec, and begun trialling conversions of McColl's stores to Morrisons Daily.

Amazon

Morrisons and Amazon are today announcing a further extension of the relationship, both in time and scope, by agreeing a multi-year partnership.

We have signed an agreement to partner together over a number of years rather than on a rolling basis, and will be exploring new opportunities to innovate and improve the shopping experience for both Morrisons and Amazon customers.

This agreement is in addition to the announcement in June of the expansion of the Morrisons store on Prime Now to many more cities across the UK. This ultra-fast same day, online grocery home delivery service, previously called *'Morrisons at Amazon'*, is currently available to Amazon Prime Now customers in four cities: Leeds, Manchester, Birmingham, and parts of London and the Home Counties. Customers can order a full Morrisons shop online, which is then picked at a local Morrisons store, and delivered by Amazon. The option for delivery within one hour of the order being placed is available for many customers across these cities.

During 2019, this ultra-fast same day service will begin to be rolled out to other cities, including Glasgow, Newcastle, Liverpool, Sheffield and Portsmouth. In future years, the Morrisons store on Prime Now will be expanded to further cities across the UK.

Harvest Energy

In addition, we are pleased to announce a new wholesale partnership with Harvest Energy. Harvest operates over 80 convenience stores on its petrol station forecourts, mostly in the Midlands and the South East. We expect to convert a number of these to Morrisons Daily in coming months.

Rontec

We are extending our wholesale partnership with Rontec, through further store format trials. There are already around 50 Morrisons Daily convenience stores on Rontec petrol forecourts, with more to come. In addition, in recent weeks we and Rontec have together started to trial different formats in four of its smaller convenience stores. Two are branded Morrisons Select, offering predominantly a food-to-go Morrisons range, and two remain branded Shop'N Drive with small Morrisons food-to-go inserts.

Y-International / LuLu

Today we are also announcing a new overseas export wholesale partnership with Y-International, part of LuLu Group International, to supply Morrisons branded products, including our *'Best'* and *'Free From'* ranges.

LuLu is the second largest grocer in the Middle East and has over 150 stores, with more expansion planned in coming years. Morrisons will initially supply LuLu in Qatar from later this year, with plans to roll out to further countries thereafter.

McColl's

During the first half, ten trial stores were converted from McColl's to Morrisons Daily. The stores, which are branded Morrisons Daily, offer a full Morrisons convenience range, and will continue to be owned and operated by McColl's. Morrisons is providing assistance with conversion, staff training, store operations and other central support. Distribution to the stores will continue to be via Morrisons existing infrastructure and third party provider.

Initial signs from these Morrisons Daily conversions are encouraging, and customer reaction has been positive.

In addition, as previously announced, we expect to begin to start supplying McColl's c.300 ex-Co-op stores from the end of 2019.

Six priorities update

1. To be more competitive

Customers trust and rely on Morrisons to provide great value, particularly given the current uncertainty around Brexit and how it may affect customers' daily lives. During the first half we again invested in the shopping trip and improved our relative competitiveness, especially of customers' favourite items. We reduced prices across hundreds of the Morrisons price list items and, while this is having a deflationary impact relative to the market, we have been pleased so far with the response from customers.

Provenance and authenticity are also very important for customers. Morrisons has a strong British food manufacturing heritage, and owns some unique fresh food businesses and brands. These include International Seafoods Ltd, based in Grimsby, and Woodhead Bros, our fresh meat business. During the first half, we introduced some exclusive low price, great value items under these brands.

Being more competitive is about good quality as well as great prices, and our food makers and shopkeepers were once again recognised for that quality during the first half. Our meat was very widely recognised, winning: Best Bacon Product for The Best Traditionally Cured Smoked Back Bacon at the Meat Management Awards; several awards at The World Steak Challenge, including golds for our Fillet Steak and Rib Eye Steak; and The Best British Beef Burgers enriched with Bone Marrow won the BBC Good Food Summer Taste Awards. Our cheese also continues to win awards: at the Nantwich International Cheese Awards, we won Deli Retailer of the Year, Artisan Retailer of the Year and, for the second consecutive year, Supreme Retailer of the Year. We won 115 awards at the Decanter World Wine Awards, including a platinum award for The Best Chablis 1er Cru, and Morrisons The Best Ruby Easter Egg won its category in the Good Housekeeping Awards.

2. To serve customers better

Customer satisfaction remains our key measure of how we are serving customers better. We have now entered a fifth year of improvement, with our overall customer satisfaction score up another one percentage point during the first half, including further improvements in availability and colleague friendliness.

We are rolling out plans to serve online customers more widely. In May, we announced that Ocado will have sole use of the new Erith CFC until January 2021, allowing Ocado extra capacity following the recent fire at its Andover CFC. All our existing Morrisons.com customers will still be offered the same online home delivery service, and Morrisons.com will still grow for new customers both by adding new store-pick capacity, and by increasing orders through the Dordon CFC. During the first half, we added several store-pick stores for Morrisons.com, extending our online catchment to new areas including Falkirk and Dundee in Scotland, and parts of Devon, Cornwall and the North-West in England.

In addition, Ocado will no longer be Morrisons exclusive digital partner. For Morrisons, this potentially enables other significant opportunities and partnerships, and more strategic flexibility to improve the digital offer for customers in this important growth area for us.

3. Find local solutions

During the first half, we hosted another eight local food maker events, at venues from Fort William to Folkestone. Since the start of the local food maker programme in 2017, we have launched 775 products in our stores sourced from those events and supplied by 165 local food makers. Successes in the first half included Norfolk asparagus, stocked and sold in five local stores on the same day it is picked.

Many local food makers are continuing to have success with Morrisons by expanding to a wider region. Dartmoor Lamb, supplied by the Dartmoor Farmers Association, was first launched in five stores in 2018, and is now available in 42 stores in the South West. Warner's Rhubarb Gin was originally launched in our new St Ives store, and is now in 34 stores across the region.

Our Fresh Look programme continues to provide us with local opportunities. At Lake, on the Isle of Wight, our Fresh Look refit during the first half delivered our most integrated local store so far. Locally supplied items include dairy, coffee, eggs, meat, biscuits, tomatoes and garlic.

We also continue to improve our offer around events and local demographics. For example, Ramadan sales were up 25% and Passover sales were up 7% compared to last year.

4. Develop popular and useful services

Popular and useful services continue to grow at Morrisons.

During the first half, we got off to a good start with our plans to install electric vehicle chargers at our stores. We are introducing 50–100kW rapid chargers which are of the highest specification available and allow Morrisons customers to fully recharge their electric vehicles within just 20 to 60 minutes, depending on the vehicle. We expect to install these at around 100 stores during 2019, which will mean Morrisons will have Britain's biggest supermarket network of rapid electric-vehicle chargers.

In addition during the period, the roll-out of Doddle continued into almost 90 more Morrisons stores, bringing the total to over 375. After a successful start last year, a further 22 Travel Money currency exchange kiosks were opened. We now have over 30 hand car washes with our partner, Car Valeting, and are part of the Responsible Car Wash Scheme. We are also starting to introduce more high street offers onto our car parks, for example, the cash-for-clothes service, Smart Recycling, was introduced into seven stores, and we have plans for more popular services such as barbers and beauty bars.

During the second half, we expect to develop our gift card service, with the launches of both Morrisons and Nutmeg gift cards in time for Christmas.

5. To simplify and speed up the organisation

We are identifying several sources of productivity and cost savings opportunities, which we expect to continue for many years to come.

During the first half, our work to invest in the shopping trip and improve competitiveness for our customers included progress in areas such as merchandising, on-shelf stock holding, and range optimisation. We also introduced enhanced in-store systems to reduce waste and markdown and enable better visibility of availability.

Work continues in our supply chain to introduce forecasting tools to enable better order planning, both short- and long-term and for promotions. We have also completed the introduction of a new fresh food warehouse management system into two depots.

In addition, we have recently outsourced transportation planning and operations at three of our distribution centres and vehicle maintenance at five sites, which enables greater simplicity and flexibility within our distribution infrastructure.

6. To make core supermarkets strong again

Around 20 Fresh Look refits were completed in the first half, with around 45 in total planned for the year.

Our Fresh Look refits and new stores continue to drive learning and innovation across the Morrisons estate. During the first half, we introduced 25 more Nutmeg womenswear departments, taking the total to nearly 300. We also introduced over 60 more Garden Centres for the summer season, around 20 more Home & Leisure departments, and now have nearly 80 barista bars.

In addition, we have started a programme to increase investment in our Market Street service counters. Customers tell us that our Market Street fresh food offer and our skilled craftspeople are highly valued and part of what makes Morrisons different.

All three of last year's new store openings, at Abergavenny, St Ives in Cambridgeshire, and Acocks Green in Birmingham are performing well, with the St Ives and Abergavenny stores now past their anniversary and showing strong second-year LFL sales growth.

In the second half we will open two new stores, in Canning Town and Bolsover, and two replacement stores, in Oswestry and Folkestone.

Financial strategy and update

Our strong balance sheet is the foundation of the turnaround. Debt is low, the property estate is predominantly freehold, and the pension is in surplus. Capital expenditure has halved since peak and is at a sustainably lower level. We generate significant and sustainable levels of free cash flow, and manage the business with consistent capital discipline and capital allocation principles.

Capital allocation framework

Our capital allocation framework has guided us in building a track record of capital discipline over recent years. 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 EPS.

The 2019/20 interim ordinary dividend will be 1.93p, up 4.3%.

In addition to the ordinary dividend, the Board is proposing another special dividend, this time of 2.00p per share. We remain confident that Morrisons has many meaningful and sustainable sales and profit growth opportunities ahead, and we also expect free cash flow to remain strong and sustainable. This further special dividend reflects our continued progress and expectations. We will continue to retain a strong and flexible balance sheet, and be guided 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 1.93p and 2.00p per share respectively will be payable on 1 November 2019 to shareholders on the share register at the close of business on 27 September 2019.

Since 2014/15, dividends paid and declared are 59.86p per share, equivalent to £1.4bn.

Cost savings

As previously noted, Ocado will have sole use of the Erith CFC until January 2021. In the meantime, Morrisons.com will still grow for customers through the Dordon CFC and extra store-pick capacity, but will not incur either the start-up or running costs of Erith. On Morrisons return to Erith in 2021, the CFC is expected to be operating at a higher capacity, and we will be able to ramp up our online offer more quickly and cost effectively.

In addition, we continue to make investments to improve our efficiency, with areas such as distribution and all elements of loss remaining key future productivity and cost saving opportunities, and are planning for various additional cost saving opportunities.

Cash flow and working capital

Free cash flow was up £15m to £244m (2018/19: £229m), bringing the total to £3.2bn since the start of the programme in 2014/15. Adjusting for disposal proceeds, operating working capital, onerous payments, and non-cash movements, free cash flow was up £30m to £211m (2018/19: £181m).

Stock was £130m lower than 2018/19 year end due to seasonal and timing benefits, some of which were temporary, plus operational improvements, which we expect to be sustainable.

Capital expenditure/depreciation and amortisation

Cash capital expenditure was £212m (2018/19: £185m), and we still expect full-year capital expenditure of c.£550m. In addition, we incurred £37m of onerous cash payments and still expect c.£60m for 2019/20.

Depreciation and amortisation was £262m (2018/19: £248m). We expect full-year 2019/20 depreciation and amortisation to be £530m–£540m, equivalent to the previously guided £470m–£480m on a non-IFRS 16 basis.

Debt and interest

Group net debt was £2,358m (2018/19: £2,394m). Excluding IFRS 16 lease liabilities, net debt was £975m, down £22m since the end of 2018/19.

Net finance costs before exceptionals were £54m, down £5m from last year (2018/19: £59m). We expect full-year 2019/20 net finance costs to be £105m–£110m, equivalent to the previously guided c.£55m on a non-IFRS 16 basis.

During the period, we extended the term of our existing £1.35bn revolving credit facility by one year, to 2024.

Pension

The net pension surplus was £751m, up from £688m at the end of 2018/19. First-half net pension interest income was £10m, reported outside profit before tax and exceptionals.

We have almost completed the pensions triennial review, with all the key assumptions substantively agreed subject to final ratification by the trustees. The schemes remain well funded and in surplus.

Net new space

No new stores were opened during the period. We will open two new stores, in Canning Town and Bolsover, and two replacement stores, in Oswestry and Folkestone, during the second half.

In reviewing the performance of our existing estate, we have identified four stores that we are proposing to close during the second half. Pending the outcome of the consultation process and the precise timing of the proposed closures, we now expect 2019/20 net new space sales contribution to be 0.0%.

Future reporting

The new IFRS 16 lease standard came into effect from 2019/20. The 2019/20 first half results are the first condensed Financial Statements to be prepared under the new standard, and all future reporting will be on the same basis.

Restated 2018/19 results on a post-IFRS 16 basis were published on 2 July, and are available on the Investor Centre section of our corporate website and reflected in this statement.

Morrisons is predominantly a freehold business and we own 86% of our stores, which means the impact of the new lease accounting standard on profit is relatively low. For the first half of 2018/19, restated profit before tax and exceptionals reduced by £5m under IFRS 16, from £193m to £188m (2.6%). Operating profit before exceptionals increased by £23m, to £246m, and operating margin increased by 26 basis points, to 2.8%.

On the restated first-half 2018/19 balance sheet, the Group has recognised lease liabilities of £1,426m and corresponding right-of-use assets of £808m. The restated net assets for first half 2018/19 were £4,406m, £300m lower than pre-IFRS 16.

The recently announced expansion of the Morrisons store on Prime Now will mean Morrisons becoming a retailer on Amazon's Prime Now website and app, selling directly to customers. As a result, from Q4 2019/20 sales from Morrisons store on Prime Now will be reported within retail LFL rather than wholesale LFL. Morrisons will continue as a wholesaler for all Amazon's other UK grocery offers for customers, and those sales will continue to be reported in wholesale LFL.

As also recently announced, Morrisons will not be using the new Erith CFC for Morrisons.com until early 2021, with online home delivery orders instead being fulfilled by the existing Dordon CFC and increasing store-pick capacity. As a result, we will no longer split out the contribution to LFL from sales through CFCs.

People update

We continue to invest in the development and wellbeing of our colleagues. Over 400 Store Managers and People Managers have completed our 'Leading With Purpose' programme, and we have extended the scope of our technical training to keep improving the capability of our colleagues to deliver in-store process improvements. We continue to use 'My Morri', our digital platform for colleagues, to provide useful tools and resources, with recent additions such as 'My Wellbeing' providing helpful advice on topics such as nutrition, sleep, stress awareness and mental health.

We are modernising the way we work, reducing the contracted hours of our store management team, and implementing improved working patterns to provide greater flexibility to balance work and home. We are also updating in-store colleague areas, improving menus in our staff rooms, and installing new equipment such as fridges, water dispensers and coffee machines. As well as benefiting colleagues, particularly those working outside staff restaurant hours, this will remove an estimated 61 tonnes of plastic each year.

Listening and responding remains a key focus area. This year almost 80% of our colleagues contributed feedback in the 'Your Say' survey and we recorded a strong engagement score of 77%. We also held our fourth national 'Your Say' meeting in May, where representatives from stores, sites and the support centre met with executive and non-executive board directors to ask questions and share feedback on opportunities to continue to improve for customers and colleagues.

We continue to build a pipeline of new talent through graduate schemes, degree apprenticeships and craft apprenticeships, and were recently awarded 'Top Retail Employer' for school leavers for the second year running.

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.

Science-based carbon reduction target

We achieved our target to reduce operational carbon emissions by 30% by 2020 earlier than planned. We have now set a new target in collaboration with the Carbon Trust using a science-based methodology, to reduce absolute scope 1 and 2 carbon emissions by 33% by 2025, 53% by 2030 and 97% by 2050, from a 2017 baseline.

We believe that setting a science-based target creates a meaningful first step towards reducing our operational impact, and demonstrates our commitment to contribute to the global goals set out in the Paris Agreement in 2015 to limit global temperature increases to well below two degrees Celsius.

Farming apprenticeship fund

We have invested £2m of our government apprenticeship levy in developing the next generation of farmers. The funding will seek to equip aspiring future farmers with the skills and business knowledge needed to succeed in the industry, thereby helping farmers to provide for food manufacturers and retailers and meet the UK's food needs.

Arla UK 360

We were the first retailer to commit our entire milk supply to Arla Food's new farming standards programme, Arla UK 360. The standards cover six areas: animal health; people; environment and natural resources; community; economic reinvestment and resilience; and research and development. The move means approximately 200 Arla farmer owners will be directly supported by Morrisons to deliver key targets within these identified areas.

Environmental Sustainability Award

We were awarded a prestigious award for work on plastic reduction: Business in the Community's Responsible Business Award for Environmental Sustainability recognises companies that are taking urgent and innovative action to address key environmental challenges that affect society today. This accolade highlights our continued commitment to helping customers live their lives less reliant on plastic.

In addition, Compassion in World Farming has announced our Chippindale Foods' bee-friendly eggs project as winner of the 2019 Sustainable Food and Farming Award.

Increasing the amount of loose fruit and vegetables we sell

We were the first UK supermarket to introduce loose fruit and veg areas in our stores, helping our customers to go bag-free or to place items into a reusable bag. This follows the success of a trial in three stores in 2018, where we monitored the impact on food waste and customer demand. The loose fruit and veg areas will be in 60 stores by the end of 2019.

Reusable and recyclable paper carrier bags in all stores

We were the first UK supermarket to launch a reusable paper carrier bag in all of our stores. These bags are 100% PEFC accredited, suitable for reuse and can be recycled along with other domestic waste. No bleaches are used in the paper production process.

In developing the bags we have worked hard to ensure both that they are genuinely reusable and that production has an equivalent or lower carbon footprint than the plastic alternative.

Fishing net recycling project

Abandoned, lost and discarded fishing gear is thought to make up 10% of all marine litter and can take hundreds of years to decompose, posing a threat to marine life. Morrisons is working with Seafish, a non-departmental public body set up to support the UK seafood industry, to fund a fishing net recycling project in south-west England. The project provides facilities for fishermen to enable them to recycle old and damaged fishing nets for free in ports across the region.

CLIC Sargent and national 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 £9m, with £1.9m generated in the first half of 2019/20. We also supported other national charity appeals, raising over £600k for the Marie Curie Daffodil Appeal in March, and celebrated Armed Forces Day in June to 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 and helping in times of need.

Morrisons Foundation

The Morrisons Foundation continues to provide vital funding for local charities. So far this year, over £1.75m 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.

Consolidated income statement

26 weeks ended 4 August 2019

		26 weeks ended 4 August 2019 (unaudited)			Restated[1] 26 weeks ended 5 August 2018 (unaudited)			Restated[1] 52 weeks ended 3 February 2019		
	Note	**Before exceptionals £m**	**Exceptionals (note 4) £m**	**Total £m**	Before exceptionals £m	Exceptionals (note 4) £m	Total £m	Before exceptionals £m	Exceptionals (note 4) £m	Total £m
Revenue	3	**8,831**	**-**	**8,831**	8,800	-	8,800	17,735	-	17,735
Cost of sales		**(8,490)**	**(4)**	**(8,494)**	(8,458)	(30)	(8,488)	(17,039)	(44)	(17,083)
Gross profit		**341**	**(4)**	**337**	342	(30)	312	696	(44)	652
Other operating income		**44**	**-**	**44**	43	-	43	88	-	88
Profit/loss on disposal and exit of properties		**-**	**-**	**-**	-	(1)	(1)	-	-	-
Administrative expenses		**(133)**	**(2)**	**(135)**	(139)	4	(135)	(274)	(34)	(308)
Operating profit		**252**	**(6)**	**246**	246	(27)	219	510	(78)	432
Finance costs	5	**(55)**	**-**	**(55)**	(61)	(33)	(94)	(120)	(33)	(153)
Finance income	5	**1**	**10**	**11**	2	8	10	5	18	23
Share of profit of joint venture (net of tax)		**-**	**-**	**-**	1	-	1	1	-	1
Profit before taxation		**198**	**4**	**202**	188	(52)	136	396	(93)	303
Taxation	6	**(46)**	**-**	**(46)**	(44)	(3)	(47)	(93)	23	(70)
Profit for the period attributable to the owners of the Company		**152**	**4**	**156**	144	(55)	89	303	(70)	233
Earnings per share (pence)										
Basic	8			**6.56**			3.80			9.89
Diluted	8			**6.47**			3.73			9.67

[1] For further details on the restatement of the reported results for IFRS 16 for the 26 weeks ended 5 August 2018 and the 52 weeks ended 3 February 2019, see notes 1 and 22.

Consolidated statement of comprehensive income

26 weeks ended 4 August 2019

Other comprehensive income/(expense)	Note	**26 weeks ended 4 August 2019 (unaudited) £m**	Restated[1] 26 weeks ended 5 August 2018 (unaudited) £m	Restated[1] 52 weeks ended 3 February 2019 £m
Items that will not be reclassified to profit or loss				
Remeasurement of defined benefit pension schemes	14	**50**	240	100
Tax on defined benefit pension schemes		**(9)**	(41)	(17)
		41	199	83
Items that may be reclassified subsequently to profit or loss				
Cash flow hedging movement		**4**	41	9
Tax on items that may be reclassified subsequently to profit or loss		**(2)**	(5)	(1)
Exchange differences on translation of foreign operations		**-**	1	-
		2	37	8
Other comprehensive income for the period, net of tax		**43**	236	91
Profit for the period attributable to the owners of the Company		**156**	89	233
Total comprehensive income for the period attributable to the owners of the Company		**199**	325	324

[1] For further details on the restatement of the reported results for IFRS 16 for the 26 weeks ended 5 August 2018 and the 52 weeks ended 3 February 2019, see notes 1 and 22.

Consolidated balance sheet

4 August 2019

	Note	**4 August 2019 (unaudited) £m**	Restated[1] 5 August 2018 (unaudited) £m	Restated[1] 3 February 2019 £m
Assets				
Non-current assets				
Goodwill and intangible assets	9	**392**	414	404
Property, plant and equipment	10	**7,076**	7,011	7,094
Right-of-use assets	11	**923**	987	929
Investment property	12	**59**	63	60
Pension asset	14	**774**	852	730
Investment in joint venture		**47**	54	47
Debtors		**8**	8	8
Derivative financial assets	17	**22**	28	15
		9,301	9,417	9,287
Current assets				
Stock		**583**	646	713
Debtors		**341**	344	344
Derivative financial assets	17	**26**	38	19
Cash and cash equivalents	16	**225**	203	264
		1,175	1,231	1,340
Assets classified as held-for-sale	13	**38**	41	39
		1,213	1,272	1,379
Liabilities				
Current liabilities				
Creditors		**(2,991)**	(3,071)	(3,070)
Borrowings	17	**(403)**	(181)	(178)
Lease liabilities	16	**(69)**	(64)	(69)
Derivative financial liabilities	17	**(2)**	(1)	(5)
Current tax liabilities		**(22)**	(25)	(27)
		(3,487)	(3,342)	(3,349)
Non-current liabilities				
Borrowings	17	**(842)**	(1,015)	(1,110)
Lease liabilities	16	**(1,314)**	(1,362)	(1,328)
Derivative financial liabilities	17	**(1)**	(1)	(2)
Pension liability	14	**(23)**	(18)	(42)
Deferred tax liabilities		**(430)**	(460)	(414)
Provisions		**(74)**	(85)	(96)
		(2,684)	(2,941)	(2,992)
Net assets		**4,343**	4,406	4,325
Shareholders' equity				
Share capital	18	**240**	237	237
Share premium	18	**189**	177	178
Capital redemption reserve		**39**	39	39
Merger reserve		**2,578**	2,578	2,578
Retained earnings and other reserves		**1,297**	1,375	1,293
Total equity attributable to the owners of the Company		**4,343**	4,406	4,325

[1] For further details on the restatement of the reported results for IFRS 16 for the 26 weeks ended 5 August 2018 and the 52 weeks ended 3 February 2019, see notes 1 and 22.

Consolidated cash flow statement

26 weeks ended 4 August 2019

	Note	**26 weeks ended 4 August 2019 (unaudited) £m**	Restated[1] 26 weeks ended 5 August 2018 (unaudited) £m	Restated[1] 52 weeks ended 3 February 2019 £m
Cash flows from operating activities				
Cash generated from operations	15	**567**	541	977
Interest paid		**(61)**	(65)	(120)
Taxation paid		**(46)**	(38)	(76)
Net cash inflow from operating activities		**460**	438	781
Cash flows from investing activities				
Interest received		**-**	-	1
Dividends received from joint venture	21	**-**	-	7
Proceeds from sale of property, plant and equipment, investment property and assets classified as held-for-sale		**3**	4	22
Purchase of property, plant and equipment and investment property		**(173)**	(146)	(381)
Purchase of intangible assets		**(39)**	(39)	(77)
Acquisition of business (net of cash received)		**-**	(3)	(3)
Net cash outflow from investing activities		**(209)**	(184)	(431)
Cash flows from financing activities				
Purchase of trust shares	18	**(3)**	(2)	(9)
Settlement of share awards	18	**(2)**	(5)	(5)
Proceeds from exercise of employee share options		**12**	19	20
New borrowings		**-**	107	275
Repayment of borrowings		**(53)**	(235)	(306)
Costs incurred on repayment of borrowings	4	**-**	(30)	(30)
Repayment of lease obligations		**(36)**	(34)	(69)
Dividends paid	7	**(208)**	(198)	(289)
Net cash outflow from financing activities		**(290)**	(378)	(413)
Net decrease in cash and cash equivalents		**(39)**	(124)	(63)
Cash and cash equivalents at start of period		**264**	327	327
Cash and cash equivalents at end of period	16	**225**	203	264

Reconciliation of net cash flow to movement in net debt[2] in the period

	Note	**26 weeks ended 4 August 2019 (unaudited) £m**	Restated[1] 26 weeks ended 5 August 2018 (unaudited) £m	Restated[1] 52 weeks ended 3 February 2019 £m
Net decrease in cash and cash equivalents		**(39)**	(124)	(63)
Cash inflow from increase in borrowings		**-**	(107)	(275)
Debt acquired on acquisition of business		**-**	(2)	(2)
Cash outflow from repayment of borrowings		**53**	235	306
Cash outflow from repayment of lease obligations		**36**	34	69
Non-cash movements		**(14)**	(5)	(43)
Opening net debt		**(2,394)**	(2,386)	(2,386)
Closing net debt	16	**(2,358)**	(2,355)	(2,394)

[1] For further details on the restatement of the reported results for IFRS 16 for the 26 weeks ended 5 August 2018 and the 52 weeks ended 3 February 2019, see notes 1 and 22.

[2] Net debt is defined in the Glossary.

Consolidated statement of changes in equity

26 weeks ended 4 August 2019 (unaudited)	Note	Share capital £m	Share premium £m	Capital redemption reserve £m	Merger reserve £m	Hedging reserve £m	Retained earnings £m	Total equity £m
		Attributable to the owners of the Company						
At 4 February 2019 (reported)		237	178	39	2,578	10	1,589	4,631
Change in accounting policies	22	-	-	-	-	-	(306)	(306)
At 4 February 2019 (restated)		237	178	39	2,578	10	1,283	4,325
Profit for the period		-	-	-	-	-	156	156
Other comprehensive income/(expense):								
Cash flow hedging movement		-	-	-	-	4	-	4
Remeasurement of defined benefit pension schemes	14	-	-	-	-	-	50	50
Tax in relation to components of other comprehensive income		-	-	-	-	(1)	(10)	(11)
Total comprehensive income for the period		-	-	-	-	3	196	199
Purchase of trust shares	18	-	-	-	-	-	(3)	(3)
Employee share option schemes:								
Share-based payments charge		-	-	-	-	-	20	20
Settlement of share awards	18	-	-	-	-	-	(2)	(2)
Share options exercised		3	11	-	-	-	(2)	12
Dividends	7	-	-	-	-	-	(208)	(208)
Total transactions with owners		3	11	-	-	-	(195)	(181)
At 4 August 2019		**240**	**189**	**39**	**2,578**	**13**	**1,284**	**4,343**

Consolidated statement of changes in equity (continued)

							Attributable to the owners of the Company	
26 weeks ended 5 August 2018 (unaudited)	Note	**Share capital** **£m**	**Share premium** **£m**	**Capital redemption reserve** **£m**	**Merger reserve** **£m**	**Hedging reserve** **£m**	**Retained earnings** **£m**	**Total equity** **£m**
At 5 February 2018 (reported)		236	159	39	2,578	2	1,531	4,545
Change in accounting policies	22	-	-	-	-	-	(295)	(295)
At 5 February 2018 (restated)		236	159	39	2,578	2	1,236	4,250
Profit for the period (restated)		-	-	-	-	-	89	89
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	14	-	-	-	-	-	240	240
Tax in relation to components of other comprehensive income		-	-	-	-	(7)	(39)	(46)
Total comprehensive income for the period		-	-	-	-	34	291	325
Purchase of trust shares	18	-	-	-	-	-	(2)	(2)
Employee share option schemes:								
Share-based payments charge		-	-	-	-	-	17	17
Settlement of share awards	18	-	-	-	-	-	(5)	(5)
Share options exercised	18	1	18	-	-	-	-	19
Dividends	7	-	-	-	-	-	(198)	(198)
Total transactions with owners		1	18	-	-	-	(188)	(169)
At 5 August 2018 (restated)		**237**	**177**	**39**	**2,578**	**36**	**1,339**	**4,406**

Consolidated statement of changes in equity (continued)

		Attributable to the owners of the Company						
52 weeks ended 3 February 2019	Note	**Share capital £m**	**Share premium £m**	**Capital redemption reserve £m**	**Merger reserve £m**	**Hedging reserve £m**	**Retained earnings £m**	**Total equity £m**
At 5 February 2018 (reported)		236	159	39	2,578	2	1,531	4,545
Change in accounting policies	22	-	-	-	-	-	(295)	(295)
At 5 February 2018 (restated)		236	159	39	2,578	2	1,236	4,250
Profit for the period (restated)		-	-	-	-	-	233	233
Other comprehensive income/(expense):								
Cash flow hedging movement		-	-	-	-	9	-	9
Remeasurement of defined benefit pension schemes	14	-	-	-	-	-	100	100
Tax in relation to components of other comprehensive income		-	-	-	-	(1)	(17)	(18)
Total comprehensive income for the period		-	-	-	-	8	316	324
Purchase of trust shares	18	-	-	-	-	-	(9)	(9)
Employee share option schemes:								
Share-based payments charge		-	-	-	-	-	34	34
Settlement of share awards	18	-	-	-	-	-	(5)	(5)
Share options exercised	18	1	19	-	-	-	-	20
Dividends	7	-	-	-	-	-	(289)	(289)
Total transactions with owners		1	19	-	-	-	(269)	(249)
At 3 February 2019 (restated)		**237**	**178**	**39**	**2,578**	**10**	**1,283**	**4,325**

1. General information and basis of preparation

Wm Morrison Supermarkets PLC (the 'Company') is a public limited company incorporated in the United Kingdom under the Companies Act 2006 (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 2019/20 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 4 August 2019 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 52 weeks ended 3 February 2019 has been extracted from the 2018/19 Annual Report and Financial Statements. Certain comparatives have been restated on adoption of IFRS 16 '*Leases*'. See note 22 for further detail.

The financial statements included in the 2018/19 Annual Report and 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 2019/20 interim financial report was approved by the Board of Directors on 11 September 2019.

The Directors' assessment of the Group's ability to continue as a going concern is based on cash flow forecasts for the Group and the committed borrowing and debt facilities of the Group. These forecasts include consideration of future trading performance, working capital requirements, retail market conditions and the wider economy.

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

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

Basis of preparation

The condensed consolidated interim financial statements of the Group for the 26 weeks ended 4 August 2019 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 2018/19 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

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 2018/19 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.

1. General information and basis of preparation (continued)

Adoption of new accounting standards
From 4 February 2019, the following standards, amendments and interpretations were adopted by the Group:

Amendment to IAS 19 'Employee Benefits'

An amendment to IAS 19 *'Employee Benefits'* was published in February 2018. The amendment applies prospectively in connection with accounting for plan amendments, curtailments and settlements.

The amendment requires entities to use updated assumptions to determine current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement. The Group concluded that the amendment did not have a material impact on these condensed consolidated interim financial statements.

IFRIC 23 'Uncertainty over income tax treatments'

IFRIC 23 *'Uncertainty over income tax treatments'* was issued in June 2017. The interpretation covers how the Group accounts for taxation, where there is some uncertainty over whether treatments in the tax return will be accepted by HMRC or the relevant overseas jurisdictions.

Each uncertain treatment (or combination of treatments) is considered for whether it will be accepted, and if probable taxable profits/losses, tax bases, unused tax losses, unused tax credits and tax rates are accounted for consistently with the tax return. The Group accounts for each treatment using whichever of the two allowed measurement methods is expected to best predict the final outcome – the single most likely outcome or a probability weighted-average value of a range of possible outcomes.

The Group adopted the modified retrospective approach to transition on 4 February 2019. Under this approach, no restatement of comparative financial statements was required. The Group has referred to the IFRIC guidance, including DI/2015/1 in previous periods, and the accounting policy prior to the adoption of IFRIC 23 applied similar principles for selecting measurement methods as in the new interpretation.

IFRS 16 'Leases'

IFRS 16 '*Leases*' was published in January 2016 and replaces IAS 17 *'Leases*', IFRIC 4 *'Determining whether an Arrangement contains a Lease*', SIC-15 *'Operating Leases-Incentives'* and SIC-27 *'Evaluating the Substance of Transactions Involving the Legal Form of a Lease*'. The standard applies a single recognition and measurement approach for all applicable leases under which the Group is the lessee.

The Group has lease contracts for property and equipment. Before the adoption of IFRS 16, at the inception date leases in which substantially all the risks and rewards of ownership were retained by the lessor were classified as operating leases; all other leases were classified as finance leases. Under the previous standard, lease payments on operating leases were recognised as rental costs in the consolidated income statement on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under prepayments and accruals in the consolidated balance sheet respectively.

The Group has applied IFRS 16 for the first time in the 26 weeks ended 4 August 2019 using the fully retrospective transition approach. In accordance with this transition method, the Group has applied IFRS 16 at the date of initial application as if it had already been effective at the commencement date of existing lease contracts. Accordingly, the comparative information in these condensed consolidated interim financial statements has been restated. As required by IAS 34 *'Interim Financial Reporting'*, the nature and effect of these changes on lessee accounting are disclosed below and in note 22.

As part of the transition to IFRS 16, the Group elected to use the practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Group has also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets'). Lease payments on short-term leases and leases of low-value assets are recognised as an expense in the consolidated income statement on a straight-line basis over the lease term.

1. General information and basis of preparation (continued)

Adoption of new accounting standards (continued)
IFRS 16 'Leases' (continued)

Upon adoption of IFRS 16, for leases where the Group is a lessee, the Group recognises a right-of-use asset and a lease liability at the lease commencement date. The Group's new accounting policies for leases are detailed below:

Lessee accounting
a) Right-of-use assets

Right-of-use assets are stated at cost less accumulated depreciation and accumulated impairment losses. Right-of-use assets are initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred, less any lease incentives received.

Right-of-use assets are depreciated on a straight line basis from the commencement date to the earlier of the end of the useful life of the right-of-use asset or at the end of the lease term. Right-of-use assets are reduced by impairment charges (and increased by impairment reversals) where necessary, and adjusted for certain remeasurements of the lease liability.

The carrying value of investment properties held on the balance sheet includes properties which are held as right-of-use assets, where leased assets are held to earn rental income.

b) Lease liabilities

Lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise fixed payments, including in-substance fixed payments, and applicable variable lease payments (which depend on an index or a rate).

Each lease payment is allocated between the capital repayment of the liability and the finance cost element. The finance cost is charged to the consolidated income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Lease liabilities are remeasured when there is a change in future lease payments arising from a change in an index or rate or a lease modification. On the occurrence of a significant event or change in circumstance within the control of the Group, the Group will re-assess whether it will exercise a purchase, extension or termination option of the individual lease and the lease liability will be remeasured if necessary.

Lessor accounting
Lessor accounting under IFRS 16 is substantially unchanged from IAS 17 as disclosed in the 2018/19 Annual Report and Financial Statements, except for sub-leases which were previously classified as operating leases. These have been re-assessed as to whether the lease is either operating or financing in nature using the requirements of IFRS 16.

For more details on the impact of IFRS 16 on the condensed consolidated financial statements, see note 22.

1. General information and basis of preparation (continued)

Judgements and estimates
In preparing the condensed consolidated interim financial statements, the Group is required to make accounting judgements, assumptions and estimates. The judgements, assumptions and estimation methods are consistent with those applied to the 2018/19 Annual Report and Financial Statements, with the exception of leases (following the adoption of IFRS 16) as detailed below:

Critical accounting judgements

Lease assessments
IFRS 16 requires judgement to be applied in assessing a lease. The main elements of the judgement are:

- determining whether or not a contract contains a lease;
- establishing whether or not it is reasonably certain that an extension option will be exercised; and
- considering whether or not it is reasonably certain that a termination option (or break) will not be exercised.

Sources of estimation uncertainty

Lease estimation
When accounting for lease liabilities, the Group applies an appropriate discount rate to use on commencement or modification of a lease. The assumptions used in determining the discount rate are regularly evaluated and are based on historical experience and other factors which the Directors believe to be reasonable.

When assessing whether right-of-use assets are impaired, the Group uses the same approach taken for property, plant and equipment, intangible assets and investment property as reported in the 2018/19 Annual Report and Financial Statements.

Principal risks and uncertainties
The Group has chosen to identify ‘Brexit’ as a separate principal risk. Previously this risk was reflected across a number of principal risks identified by the Group as reported in the 2018/19 Annual Report and Financial Statements. How and when the UK will leave the EU presents ongoing uncertainty to the UK economy and continues to impact consumer confidence. This could have a negative impact on the operational environment for the Group and the UK generally.

RISKS	DESCRIPTION	MITIGATION
Brexit	Brexit and how and when the UK will leave the EU presents ongoing uncertainty to the UK economy and continues to impact consumer confidence. Failure to adequately prepare for any scenario could have significant implications on our business performance, including; supply chain disruption; availability; changes to taxes and tariffs; and the ability to secure labour.	• A business wide Stability Group is in place co-ordinating operational impact assessments and scenario planning. We have focused action plans for our peak trading period which coincides with a revised deadline of 31 October 2019 for the UK to leave the EU; • We continue to actively engage with key suppliers to assess specific impacts to our business and maintain a strong focus on UK sourcing; • We have achieved Authorised Economic Operator status to enable more straight forward border checks. • We have also been working with our suppliers and freight providers to identify alternative supply routes; • The Group has a treasury policy in place for hedging to mitigate risks on currency fluctuations. We have assessed and continue to plan for potential changes to taxes and tariffs; and • We continue to invest in process automation and adapt our labour model. Our Manufacturing and Logistics sites have specific people plans in place.

1. General information and basis of preparation (continued)

Principal risks and uncertainties (continued)
Other than identifying Brexit as a separate risk, the Board believes that since the publication of the 2018/19 Annual Report and Financial Statements there has been no other material change to the Group's risk exposure and appropriate mitigating actions are in place to manage them.

Our updated principal risks and uncertainties can be summarised as follows:

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

Our risk management process incorporates the identification and management of emerging risks, alongside our known principal risks. More information on the principal risks and how the Group mitigates those risks can be found on pages 24 to 25 of the 2018/19 Annual Report and Financial Statements. You can view the 2018/19 Annual Report and Financial Statements online on our corporate website at www.morrisons-corporate.com

The Board
The Board of Directors that served during the 26 weeks to 4 August 2019 and their respective responsibilities were:

Andrew Higginson – Chairman*
David Potts – Chief Executive
Trevor Strain – Chief Finance and Commercial Officer
Rooney Anand*
Neil Davidson*
Kevin Havelock*
Tony Van Kralingen*
Belinda Richards *
Paula Vennells*

* 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.

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. In particular, the Group considered its retail outlets, the fuel sale operation, the manufacturing entities, online operations and wholesale supply. The Directors' conclusion is that the Group has one operating segment, that of retailing.

3. Revenue

	26 weeks ended 4 August 2019 (unaudited) £m	26 weeks ended 5 August 2018 (unaudited) £m	52 weeks ended 3 February 2019 £m
Sale of goods in-store and online	**6,536**	6,610	13,265
Other sales	**398**	305	705
Total sales excluding fuel	**6,934**	6,915	13,970
Fuel	**1,897**	1,885	3,765
Total revenue	**8,831**	8,800	17,735

All revenue is derived from contracts with customers.

4. Profit before exceptionals

Profit before exceptionals is defined as profit before exceptional items and net pension interest. Further detail on profit before tax and exceptionals, profit before exceptionals after tax and earnings per share before exceptionals is provided in the Glossary.

The Directors consider that these adjusted profit and adjusted earnings per share measures referred to in the results provide useful information for shareholders on ongoing trends and performance. The adjustments made to reported profit/loss are to: exclude exceptional items, which are significant in size and/or nature; exclude net pension interest; and to apply a normalised tax rate of 23.5% (5 August 2018: 23.5%, 3 February 2019: 23.5%).

Profit before exceptionals and earnings per share before exceptionals measures are not recognised measures under EU-adopted IFRS and may not be directly comparable with adjusted measures used by other companies. The classification of items excluded from profit before exceptionals requires judgement including considering the nature, circumstances, scale and impact of a transaction. Reversals of previous exceptional items are assessed based on the same criteria.

4. Profit before exceptionals (continued)

Given the significance of the Group's property portfolio and the quantum of impairment and property-related provisions recognised in the consolidated balance sheet, movements in impairment and other property-related provisions would typically be included as exceptional items, as would significant impairments of other non-current assets.

Despite being a recurring item, the Group has chosen to also exclude net pension interest from profit before exceptionals as it is not part of the operating activities of the Group, and its exclusion is consistent with the way it has historically been treated and with how the Directors assess the performance of the business.

	26 weeks ended 4 August 2019 (unaudited) £m	Restated[1] 26 weeks ended 5 August 2018 (unaudited) £m	Restated[1] 52 weeks ended 3 February 2019 £m
Profit after tax	156	89	233
Add back: tax charge for the period[2]	46	47	70
Profit before tax	202	136	303
Adjustments for:			
Impairment and provision for onerous contracts[2]	-	-	10
Profit/loss arising on disposal and exit of properties[2]	-	1	-
Costs associated with the repayment of borrowings[2]	-	33	33
Pension exceptional items[2]	-	-	26
Other exceptional items[2]	6	26	42
Net pension interest[2]	(10)	(8)	(18)
Profit before tax and exceptionals	198	188	396
Normalised tax charge at 23.5% (5 August 2018: 23.5%, 3 February 2019: 23.5%)[2,3]	(46)	(44)	(93)
Profit before exceptionals after tax	152	144	303
Earnings per share before exceptionals (pence)			
Basic (note 8)	6.38	6.13	12.85
Diluted (note 8)	6.29	6.01	12.57

[1] For further details on the restatement of the reported results for IFRS 16 for the 26 weeks ended 5 August 2018 and the 52 weeks ended 3 February 2019, see notes 1 and 22.

[2] Adjustments marked 2 decrease post-tax adjusted earnings by £4m (5 August 2018: £55m increase, 3 February 2019: £70m increase) as shown in the reconciliation of earnings disclosed in note 8.

[3] Normalised tax is defined in the Glossary.

Impairment and provision for onerous contracts

There has been no charge (5 August 2018: £nil, 3 February 2019: £10m) for impairment and 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 4 August 2019.

The £10m charge in the 52 weeks ended 3 February 2019 consisted of:

- a net impairment reversal of £2m (£175m impairment reversal offset by a £173m impairment charge). The £173m impairment charge included £92m in relation to property, plant and equipment, £69m in relation to right-of-use assets, £1m in relation to investment property and £11m in relation to intangible assets. The £175m impairment reversal related to property, plant and equipment (£155m) and right-of-use assets (£20m);
- a net £11m charge recognised in relation to provisions for onerous contracts;
- amounts released from accruals for amounts provided for onerous commitments of £6m; and
- an increase in other property provisions of £7m mainly relating to provisions for dilapidations.

4. Profit before exceptionals (continued)

Profit/loss arising on disposal and exit of properties
In the 26 weeks ended 4 August 2019, there has been no profit/loss arising on disposal and exit of properties, net of fees incurred (5 August 2018: £1m loss, 3 February 2019: £nil).

Costs associated with the repayment of borrowings
In the 26 weeks ended 4 August 2019, there were no costs associated with the early repayment of borrowing facilities and other refinancing activities (5 August 2018: £33m, 3 February 2019: £33m).

The costs incurred in the 52 weeks ended 3 February 2019 comprised of £30m of financing charges on redemption of financial instruments (primarily premiums) (5 August 2018: £30m) and £3m of fees and premiums written off on the repayment of bonds (5 August 2018: £3m). There were no amounts relating to gains or losses reclassified to the consolidated income statement on termination of hedging arrangements, which had previously been recognised in reserves (5 August 2018: £nil).

Pension exceptional items
In the 26 weeks ended 4 August 2019, there have been no pension exceptional items (5 August 2018: £nil, 3 February 2019: £26m).

In the 52 weeks ended 3 February 2019, pension exceptional items of £26m included the following:

- Costs associated with the closure of pension schemes of £19m (5 August 2018: £nil) related to an exceptional curtailment charge following the closure of the Group's Retirement Saver Plan to future accrual in September 2018. Further detail is provided in note 14.
- Guaranteed minimum pension of £7m (5 August 2018: £nil) related to the estimated cost of equalising guaranteed minimum pension benefits for men and women, following a ruling by the High Court in October 2018. Further detail is provided in note 14.

Other exceptional items
Other exceptional items recognised in the 26 weeks ended 4 August 2019 of £6m include the following:

- a £4m charge for costs associated with improvements to the Group's distribution network as part of a programme to increase network capacity and support the accelerated roll out of wholesale supply (5 August 2018: £nil, 3 February 2019: £12m); and
- a £2m charge primarily in relation to previously recognised provisions for restructuring and other costs incurred including in relation to legal cases in respect of historic events (5 August 2018: £2m net credit, 3 February 2019: £2m net charge).

In the 52 weeks ended 3 February 2019, other exceptional items also included a £28m charge in relation to increased stock provisioning (5 August 2018: £28m charge) as the Group continued to automate its ordering systems. This led to operational changes and additional information regarding stock levels, and a change in methodology for estimating stock provisions.

5. Finance costs and income

	26 weeks ended 4 August 2019 (unaudited) £m	Restated[1] 26 weeks ended 5 August 2018 (unaudited) £m	Restated[1] 52 weeks ended 3 February 2019 £m
Interest payable on short-term loans and bank overdrafts	**(2)**	(1)	(3)
Interest payable on bonds	**(20)**	(26)	(48)
Interest payable on lease obligations	**(32)**	(33)	(66)
Interest capitalised (note 9)	**1**	1	1
Total interest payable	**(53)**	(59)	(116)
Provisions: unwinding of discount	**(1)**	(1)	(3)
Other finance costs	**(1)**	(1)	(1)
Finance costs before exceptionals[2]	**(55)**	(61)	(120)
Costs associated with the repayment of borrowings (note 4)	**-**	(33)	(33)
Finance costs	**(55)**	(94)	(153)
Interest income	**1**	2	4
Interest received on lease receivables	**-**	-	1
Finance income before exceptionals[2]	**1**	2	5
Net pension interest (notes 4 and 14)	**10**	8	18
Finance income	**11**	10	23
Net finance costs	**(44)**	(84)	(130)

[1] For further details on the restatement of the reported results for IFRS 16 for the 26 weeks ended 5 August 2018 and the 52 weeks ended 3 February 2019, see notes 1 and 22.

[2] Net finance costs before exceptionals marked [2] amount to £54m (5 August 2018: £59m, 3 February 2019: £115m). Net finance costs before exceptionals are defined in the Glossary.

6. Taxation

Tax charged in the consolidated income statement for the 26 weeks ended 4 August 2019 was £46m (5 August 2018: £47m, 3 February 2019: £70m). This has been calculated by applying the rate of tax which is expected to apply to the Group for the period ending 2 February 2020 using rates substantively enacted by 4 August 2019 as required by IAS 34 *'Interim Financial Reporting'*. This includes the impact of any adjustments in respect of prior periods.

The normalised rate of tax of 23.5% (5 August 2018: 23.5%, 3 February 2019: 23.5%) has been calculated using the full year projections and has been applied to profit before tax and exceptionals for the 26 weeks ended 4 August 2019. The standard rate of corporation tax of 19% (5 August 2018: 19%, 3 February 2019: 19%) for the 52 weeks ended 2 February 2020 has been applied to the exceptional profits and losses on an item by item basis for the 26 weeks ended 4 August 2019.

Legislation to reduce the standard rate of corporation tax to 17% from 1 April 2020 was included in Finance Act 2016 and was enacted in the prior period. Accordingly, deferred tax has been provided at 19% or 17% depending upon when the temporary difference is expected to reverse (5 August 2018: 19% or 17%, 3 February 2019: 19% or 17%).

Factors affecting current and future tax charges
The effective tax rate for the period was 23% (5 August 2018: 35%, 3 February 2019: 23%). 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.

7. Dividends

Amounts recognised as distributed to equity holders in the period:	**26 weeks ended 4 August 2019 (unaudited) £m**	26 weeks ended 5 August 2018 (unaudited) £m	52 weeks ended 3 February 2019 £m
Final dividend for the period ended 4 February 2018 of 4.43p	**-**	104	104
Special final dividend for the period ended 4 February 2018 of 4.00p	**-**	94	94
Interim dividend for the period ended 3 February 2019 of 1.85p	**-**	-	44
Special interim dividend for the period ended 3 February 2019 of 2.00p	**-**	-	47
Final dividend for the period ended 3 February 2019 of 4.75p	**113**	-	-
Special final dividend for the period ended 3 February 2019 of 4.00p	**95**	-	-
	208	198	289

The Directors propose an interim ordinary dividend of 1.93p per share, which will absorb an estimated £46m of shareholders' funds. The Directors also propose a special dividend of 2.00p per share, which will absorb an estimated £48m of shareholders' funds. These dividends will be paid on 1 November 2019 to shareholders who are on the register of members on 27 September 2019. 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 (5 August 2018: two, 3 February 2019: 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').

	26 weeks ended 4 August 2019 (unaudited) Pence		Restated[1] 26 weeks ended 5 August 2018 (unaudited) Pence		Restated[1] 52 weeks ended 3 February 2019 Pence	
	Basic	**Diluted**	Basic	Diluted	Basic	Diluted
EPS	**6.56**	**6.47**	3.80	3.73	9.89	9.67
EPS before exceptionals[2]	**6.38**	**6.29**	6.13	6.01	12.85	12.57
		£m		£m		£m
	Basic	**Diluted**	Basic	Diluted	Basic	Diluted
Basic earnings						
Earnings attributable to ordinary shareholders	**155.8**	**155.8**	89.3	89.3	233.1	233.1
Earnings before exceptionals						
Earnings attributable to ordinary shareholders	**155.8**	**155.8**	89.3	89.3	233.1	233.1
Adjustments to determine profit before exceptionals (note 4)	**(4.2)**	**(4.2)**	54.7	54.7	69.8	69.8
Earnings before exceptionals attributable to ordinary shareholders	**151.6**	**151.6**	144.0	144.0	302.9	302.9
		Millions		Millions		Millions
	Basic	**Diluted**	Basic	Diluted	Basic	Diluted
Weighted average number of shares						
Ordinary shares in issue/diluted ordinary shares	**2,374.7**	**2,408.3**	2,350.3	2,397.3	2,356.8	2,410.0

[1] For further details on the restatement of the reported results for IFRS 16 for the 26 weeks ended 5 August 2018 and the 52 weeks ended 3 February 2019, see notes 1 and 22.

[2] Basic earnings per share before exceptionals and diluted earnings per share before exceptionals are defined in the Glossary.

9. Goodwill and intangible assets

Net book value	**4 August 2019 (unaudited) £m**	5 August 2018 (unaudited) £m	3 February 2019 £m
At beginning of the period	**404**	428	428
Additions	**35**	35	79
Interest capitalised	**1**	1	1
Amortisation charge	**(48)**	(50)	(93)
Impairment charge	**-**	-	(11)
At end of the period	**392**	414	404

The net book value of goodwill and intangible assets principally consists of software development costs and licences of £382m (5 August 2018: £404m, 3 February 2019: £394m).

10. Property, plant and equipment

Net book value	**4 August 2019 (unaudited) £m**	Restated[1] 5 August 2018 (unaudited) £m	Restated[1] 3 February 2019 £m
At beginning of the period	**7,094**	7,027	7,027
Additions	**168**	183	397
Acquisition of business	**-**	5	5
Disposals	**(2)**	(3)	(15)
Transfers from investment property	**-**	6	6
Transfers to assets classified as held-for-sale	**-**	(37)	(41)
Depreciation charge	**(184)**	(170)	(348)
Net impairment reversal	**-**	-	63
At end of the period	**7,076**	7,011	7,094

[1] For further details on the restatement of the reported results for IFRS 16 for the 26 weeks ended 5 August 2018 and the 52 weeks ended 3 February 2019, see notes 1 and 22.

11. Right-of-use assets

Net book value	**4 August 2019 (unaudited) £m**	Restated[1] 5 August 2018 (unaudited) £m	Restated[1] 3 February 2019 £m
At beginning of the period	**929**	970	970
Additions	**23**	44	66
Depreciation charge	**(29)**	(27)	(58)
Net impairment charge	**-**	-	(49)
At end of the period	**923**	987	929

[1] For further details on the restatement of the reported results for IFRS 16 for the 26 weeks ended 5 August 2018 and the 52 weeks ended 3 February 2019, see notes 1 and 22.

Included within the table above are land and buildings with a net book value of £880m (5 August 2018: £948m, 3 February 2019: £895m) and plant and equipment with a net book value of £43m (5 August 2018: £39m, 3 February 2019: £34m).

12. Investment property

Net book value	**4 August 2019 (unaudited) £m**	Restated[1] 5 August 2018 (unaudited) £m	Restated[1] 3 February 2019 £m
At beginning of the period	**60**	69	69
Additions	**-**	1	1
Disposals	**-**	-	(1)
Transfers to property, plant and equipment	**-**	(6)	(6)
Depreciation charge	**(1)**	(1)	(2)
Impairment charge	**-**	-	(1)
At end of the period	**59**	63	60

[1] For further details on the restatement of the reported results for IFRS 16 for the 26 weeks ended 5 August 2018 and the 52 weeks ended 3 February 2019, see notes 1 and 22.

Included within the table above are right-of-use leasehold land and buildings with a net book value of £33m (5 August 2018: £36m, 3 February 2019: £34m).

13. Assets classified as held-for-sale

Net book value	**4 August 2019 (unaudited) £m**	5 August 2018 (unaudited) £m	3 February 2019 £m
At beginning of the period	**39**	4	4
Transfers from property, plant and equipment	**-**	37	41
Disposals	**(1)**	-	(6)
At end of the period	**38**	41	39

14. Pensions

The Group operates a number of defined benefit retirement schemes (together 'the Schemes') providing benefits based on a benefit formula that depends on factors including the employee's age and number of years of service. The Morrisons and Safeway Schemes provide pension benefits based on either the employee's compensation package and/or career average revalued earnings (the 'CARE Schemes'). The CARE Schemes are not open to new members and have been closed to future accrual in 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 in each year, which is revalued each year in line with inflation subject to a cap. The RSP was closed to future accrual in September 2018.

The disclosures below show the details of the Schemes combined:

	4 August 2019 (unaudited) £m	5 August 2018 (unaudited) £m	3 February 2019 £m
CARE Schemes	**774**	852	730
RSP	**(23)**	(18)	(42)
Net pension asset	**751**	834	688

14. Pensions (continued)

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

	26 weeks ended 4 August 2019 (unaudited) £m	26 weeks ended 5 August 2018 (unaudited) £m	52 weeks ended 3 February 2019 £m
Net pension asset at beginning of the period	**688**	594	594
Net pension interest	**10**	8	18
Settlement and curtailment gain	**-**	2	2
Curtailment charge from closure of the pension scheme	**-**	-	(19)
Remeasurement in other comprehensive income	**50**	240	100
Employer contributions	**4**	35	56
Current service cost	**-**	(43)	(53)
Past service cost (guaranteed minimum pension)	**-**	-	(7)
Administrative cost	**(1)**	(2)	(3)
Net pension asset at end of the period	**751**	834	688

At 4 August 2019, schemes in surplus have been disclosed within non-current assets on the consolidated balance sheet. The Group obtained 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 Scheme, 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.

Closure of the RSP
Following the conclusion of a consultation process, the Group announced the closure of the Group's RSP to future accrual in September 2018, resulting in an exceptional curtailment charge of £19m recognised in 52 weeks ended 3 February 2019 (5 August 2018: £nil). No further costs have been incurred in the 26 weeks ended 4 August 2019.

Guaranteed minimum pension
On 26 October 2018, the High Court issued a judgement in a claim involving Lloyds Banking Group's defined benefit pension schemes. This judgement concluded the schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. The issues determined by the judgement have a potential consequence for many other defined benefit pension schemes and are likely to result in an increase in the liabilities of the Morrisons and Safeway Schemes. The Group worked with the Trustees of the schemes and independent actuaries, and estimated the cost of equalising benefits at £7m. This cost was recognised in the consolidated income statement as an exceptional item in the 52 weeks ended 3 February 2019 (5 August 2018: £nil). Any subsequent changes to this amount will be treated as a change in actuarial assumption, recognised in other comprehensive income.

Defined contribution scheme
The Group opened a 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. 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. During the 26 weeks ended 4 August 2019, the Group paid contributions of £25m (5 August 2018: £5m, 3 February 2019: £28m) to the MPRS.

15. Cash generated from operations

	26 weeks ended 4 August 2019 (unaudited) £m	Restated[1] 26 weeks ended 5 August 2018 (unaudited) £m	Restated[1] 52 weeks ended 3 February 2019 £m
Profit for the period	**156**	89	233
Net finance costs	**44**	84	130
Taxation charge	**46**	47	70
Share of profit of joint venture (net of tax)	**-**	(1)	(1)
Operating profit	**246**	219	432
Adjustments for:			
Depreciation and amortisation	**262**	248	501
Impairment charge	**-**	-	173
Impairment reversal	**-**	-	(175)
Profit/loss on disposal and exit of properties	**-**	1	-
Adjustment for non-cash element of pension charges	**(5)**	7	21
Share-based payments charge	**20**	17	34
Decrease/(increase) in stock[2]	**130**	40	(27)
Increase in debtors[2]	**(10)**	(92)	(89)
(Decrease)/increase in creditors[2]	**(53)**	116	114
Decrease in provisions[2]	**(23)**	(15)	(7)
Cash generated from operations	**567**	541	977

[1] For further details on the restatement of the reported results for IFRS 16 for the 26 weeks ended 5 August 2018 and the 52 weeks ended 3 February 2019, see notes 1 and 22.

Total working capital inflow (the sum of items marked [2] above) is £44m in the period (5 August 2018: £49m inflow, 3 February 2019: £9m outflow). This includes £nil (5 August 2018: £nil, 3 February 2019: £12m) as a result of charges in respect of onerous contracts and accruals of onerous commitments, net of £37m (5 August 2018: £3m, 3 February 2019: £6m) of onerous payments and other non-operating payments of £nil (5 August 2018: £1m, 3 February 2019: £5m). When adjusted to exclude these items, the operating working capital inflow is £81m (5 August 2018: £53m inflow, 3 February 2019: £10m outflow).

16. Analysis of net debt[1]

	4 August 2019 (unaudited) £m	Restated[2] 5 August 2018 (unaudited) £m	Restated[2] 3 February 2019 £m
Cross-currency interest rate swaps[3]	**20**	15	9
Fuel and energy price contracts	**2**	13	6
Non-current financial assets	**22**	28	15
Foreign exchange forward contracts	**17**	7	3
Fuel and energy price contracts	**9**	31	16
Current financial assets	**26**	38	19
Bonds[3]	**(258)**	(71)	-
Other short-term borrowings[3]	**(145)**	(110)	(178)
Lease liabilities[3]	**(69)**	(64)	(69)
Foreign exchange forward contracts	**-**	(1)	(4)
Fuel and energy price contracts	**(2)**	-	(1)
Current financial liabilities	**(474)**	(246)	(252)
Bonds[3]	**(765)**	(1,018)	(1,013)
Revolving credit facility[3]	**(77)**	3	(97)
Lease liabilities[3]	**(1,314)**	(1,362)	(1,328)
Fuel and energy price contracts	**(1)**	(1)	(2)
Non-current financial liabilities	**(2,157)**	(2,378)	(2,440)
Cash and cash equivalents	**225**	203	264
Net debt[1]	**(2,358)**	(2,355)	(2,394)

[1] Net debt is defined in the Glossary.

[2] For further details on the restatement of the reported results for IFRS 16 for the 26 weeks ended 5 August 2018 and the 52 weeks ended 3 February 2019, see notes 1 and 22.

[3] Total net liabilities from financial activities (the sum of the items marked [3] in the table) is £2,608m in the 26 weeks ended 4 August 2019 (5 August 2018: £2,607m, 3 February 2019: £2,676m).

Cash and cash equivalents include restricted balances of £1m (5 August 2018: £4m, 3 February 2019: £3m) which are held by Farock Insurance Company Limited, a subsidiary of Wm Morrison Supermarkets PLC.

The Group has the following bank facilities:

- A syndicated committed revolving credit facility of £1.35bn. During the 26 weeks ended 4 August 2019, the Group extended this facility by a further year, resetting its five year term and resulting in a maturity date of June 2024. Commitment fees and interest charges are incurred at a spread above LIBOR. Undrawn committed headroom available on this facility was £1.27bn as at 4 August 2019.
- A £250m committed revolving credit facility to provide flexibility on refinancing the €280m euro bond when it matures in June 2020. The Group can borrow under the facility from 19 May 2020. The facility has an initial maturity date of July 2020 and includes options to extend for up to 24 months.
- A £100m 364 day committed revolving credit facility which matures in July 2020. This was undrawn as at 4 August 2019.

All committed bank facilities have the same financial covenants. In the event of default of covenants, the principal amounts of borrowings and any interest accrued become repayable on demand.

The Group also has a number of uncommitted facilities which are available to meet short-term borrowing requirements, and incur interest charges according to usage.

In the 26 weeks ended 4 August 2019, total payments made by the Group in respect of lease liabilities were £68m (5 August 2018: £67m, 3 February 2019: £135m).

17. Financial instruments

	4 August 2019 (unaudited) £m		5 August 2018 (unaudited) £m		3 February 2019 £m	
	Carrying amount £m	**Fair value £m**	Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m
Derivative financial assets	**22**	**22**	28	28	15	15
Total non-current financial assets	**22**	**22**	28	28	15	15
Derivative financial assets	**26**	**26**	38	38	19	19
Total current financial assets	**26**	**26**	38	38	19	19
Borrowings	**(403)**	**(408)**	(181)	(182)	(178)	(178)
Derivative financial liabilities	**(2)**	**(2)**	(1)	(1)	(5)	(5)
Total current financial liabilities	**(405)**	**(410)**	(182)	(183)	(183)	(183)
Borrowings	**(842)**	**(873)**	(1,015)	(1,096)	(1,110)	(1,182)
Derivative financial liabilities	**(1)**	**(1)**	(1)	(1)	(2)	(2)
Total non-current financial liabilities	**(843)**	**(874)**	(1,016)	(1,097)	(1,112)	(1,184)

The fair value of the sterling and euro denominated bonds are carried at amortised cost are measured using closing market prices (level 1) (5 August 2018 and 3 February 2019: level 1) All derivative financial instruments are categorised as level 2 instruments (5 August 2018 and 3 February 2019: 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.

18. Share capital and share premium

	Number of shares millions	Share capital £m	Share premium £m	**Total £m**
At 4 February 2019	2,368.3	237	178	**415**
Share options exercised	31.8	3	11	**14**
At 4 August 2019	2,400.1	240	189	**429**

Share options exercised

The Group issued 6,925,156 (5 August 2018: 11,281,189, 3 February 2019: 12,440,132) new shares to satisfy options exercised by employees during the period in respect of the Group's Share save schemes and 24,864,804 (5 August 2018 and 3 February 2019: nil) new shares to satisfy certain LTIP share awards which vested during the period. The additions to share capital and share premium from these share issues amounted to £14m in total (5 August 2018: £19m, 3 February 2019: £20m).

Trust shares and settlement of share awards

Included in retained earnings is a deduction of £24m (5 August 2018: £15m, 3 February 2019: £21m) in respect of own shares held at the balance sheet date. This represents the cost of 10,825,933 (5 August 2018: 7,520,347, 3 February 2019: 9,885,248) of the Group's ordinary shares (nominal value of £1.1m (5 August 2018: £0.8m, 3 February 2019: £1.0m)). These shares are held in a trust and were acquired to meet obligations under the Group's employee share plans using funds provided by the Group. The market value of the shares at 4 August 2019 was £21m (5 August 2018: £20m, 3 February 2019: £23m). The trust has waived its right to dividends. These shares are not treasury shares as defined by the London Stock Exchange.

18. Share capital and share premium (continued)

Trust shares and settlement of share awards (continued)
During the period, the Group acquired 1,492,176 (5 August 2018: 945,258, 3 February 2019: 3,945,258) of its own shares to hold in trust for consideration of £3m (5 August 2018: £2m, 3 February 2019: £9m), and utilised 551,491 (5 August 2018: 1,086,381, 3 February 2019: 1,721,480) trust shares to satisfy awards under the Group's employee share plans.

The Group paid £2m (5 August 2018: £5m, 3 February 2019: £5m) in cash on behalf of the employees, rather than selling shares on the employees' behalf to settle the employee's tax liability on vesting of share options.

19. Commercial income

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

Type of commercial income	**Description**	**Recognition**
Marketing and advertising funding	Examples include income in respect of in-store and online 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 for the two types of commercial income are detailed as follows:

	26 weeks ended 4 August 2019 (unaudited) £m	26 weeks ended 5 August 2018 (unaudited) £m	52 weeks ended 3 February 2019 £m
Marketing and advertising funding	30	11	51
Volume-based rebates	58	76	135
Total commercial income	88	87	186

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

	4 August 2019 (unaudited) £m	5 August 2018 (unaudited) £m	3 February 2019 £m
Commercial income trade debtors	6	3	4
Accrued commercial income	37	33	28
Commercial income due, offset against amounts owed	14	22	27
	57	58	59

At 8 September 2019, £3m of the £6m commercial income trade debtor balance had been settled and £6m of the £37m accrued commercial income balance had been invoiced and settled. In addition, £11m of the £14m commercial income due had been offset against payments made. As at 8 September 2019, £59m of the £59m of commercial income held on the balance sheet at 3 February 2019 had been settled.

20. 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, 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 additional future commitment is estimated at up to £32m (5 August 2018: £31m, 3 February 2019: £31m).

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 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 appeals have been concluded. During the 52 weeks ended 3 February 2019, the High Court rejected this appeal and the Group is now appealing to the Supreme Court. 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 in these condensed consolidated interim financial statements.

21. 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 2018/19 Annual Report and Financial Statements.

During the 26 weeks ended 4 August 2019, the Group received a dividend of £nil (5 August 2018: £nil, 3 February 2019: £7m) from MHE JVCo Limited. The Group has a 51.1% interest in MHE JVCo Limited.

22. Change in accounting policies

The Group has adopted the fully retrospective approach to transition for IFRS 16 *'Leases'* and under this approach, the opening consolidated balance sheet as at 5 February 2018 and the comparative consolidated balance sheets as at 5 August 2018 and at 3 February 2019 have been restated.

Impact on the consolidated income statement

The adoption of IFRS 16 resulted in changes to the consolidated income statement, as previously recognised straight-line rental costs were removed and replaced with a depreciation charge on the right-of-use assets and a finance cost on the lease liabilities. The impact of IFRS 16 in the 52 weeks ended 3 February 2019 and the 26 weeks ended 5 August 2018 was to change each line as follows:

			52 weeks ended 3 February 2019 £m			26 weeks ended 5 August 2018 £m
	Before exceptionals £m	Exceptionals £m	Total £m	Before exceptionals £m	Exceptionals £m	Total £m
Cost of sales	45	-	45	23	-	23
Gross profit	**45**	**-**	**45**	**23**	**-**	**23**
Profit/loss on disposal and exit of properties	-	(2)	(2)	-	(1)	(1)
Adminstrative expenses	-	(5)	(5)	-	-	-
Operating profit	**45**	**(7)**	**38**	**23**	**(1)**	**22**
Finance costs	(56)	-	(56)	(28)	-	(28)
Finance income	1	-	1	-	-	-
Profit before taxation	**(10)**	**(7)**	**(17)**	**(5)**	**(1)**	**(6)**
Taxation	2	4	6	1	-	1
Profit for the period attributable to the owners of the Company	**(8)**	**(3)**	**(11)**	**(4)**	**(1)**	**(5)**

During the 52 weeks ended 3 February 2019, the following lines in the consolidated income statement were principally impacted by IFRS 16:

Impact on profit before exceptionals after tax

- Cost of sales – a net credit of £45m was recognised, being the reversal of previously recognised rent payments (£103m) offset by the depreciation charge on the right-of-use assets and leased assets in investment property (£58m) (5 August 2018: net credit of £23m, being rent payments reversed of £50m offset by the depreciation charge of £27m).
- Net finance costs – additional finance costs of £55m were recognised on IFRS 16 lease liabilities (5 August 2018: £28m).
- The net impact of all of the adjustments in the table above reduced reported profit before tax and exceptionals by £10m (5 August 2018: £5m) and profit before exceptionals after tax by £8m (5 August 2018: £4m).

Impact on exceptional items

- Profit/loss on disposal and exit of properties – an additional £2m of lease disposal costs were recognised (5 August 2018: £1m).
- Administrative expenses – an additional £5m net charge was recognised (5 August 2018: £nil) being the net impact of additional impairment from applying IFRS 16 of £53m (being £49m charge for right-of-use assets, £3m charge for property, plant and equipment and £1m charge for investment property) offsetting the reversal of previously recognised onerous lease provisions and amounts provided for onerous commitments (£48m).
- The net impact of all of the adjustments in the table above reduced exceptionals after tax by £3m (5 August 2018: £1m).
- All of the above items were classified as exceptional items in line with the Group's policy (see note 4 for further details).

22. Change in accounting policies (continued)

Impact on the consolidated balance sheet
Upon adoption of IFRS 16, the Group recognised right-of-use assets (representing the right to use the underlying assets) and lease liabilities for lease payments on the discounted future obligations.

The impact of IFRS 16 as at 5 February 2018, 5 August 2018 and at 3 February 2019 was to change each line as follows:

	3 February 2019 £m	5 August 2018 £m	5 February 2018 £m
Assets			
Property, plant and equipment	(218)	(215)	(216)
Right-of-use assets	929	987	970
Investment property	34	36	36
Debtors	8	8	8
Non-current assets	753	816	798
Debtors	(3)	(3)	(3)
Current assets	(3)	(3)	(3)
Liabilities			
Creditors	15	52	60
Lease liabilities	(69)	(64)	(59)
Current liabilities	(54)	(12)	1
Lease liabilities	(1,328)	(1,362)	(1,354)
Deferred tax liabilities	69	64	63
Provisions	257	197	200
Non-current liabilities	(1,002)	(1,101)	(1,091)
Net assets	(306)	(300)	(295)
Shareholders' equity			
Retained earnings and other reserves	(306)	(300)	(295)
Total equity attributable to the owners of the Company	(306)	(300)	(295)

As at 3 February 2019, IFRS 16 principally impacted the following lines in the consolidated balance sheet:

- Right-of-use assets of £929m (5 August 2018: £987m, 5 February 2018: £970m) were recognised and presented separately in the consolidated balance sheet. Included within this balance were assets reclassified from property, plant and equipment of £218m (5 August 2018: £215m, 5 February 2018: £216m).
- Investment property right-of-use assets of £34m (5 August 2018: £36m, 5 February 2018: £36m), have been recognised in respect of leasehold investment property.
- Lease liabilities of £1,397m (5 August 2018: £1,426m, 5 February 2018: £1,413m) were recognised and split between current and non-current on the face of the consolidated balance sheet.
- Deferred tax liabilities decreased by £69m (5 August 2018: £64m, 5 February 2018: £63m).
- Provisions reduced by £257m (5 August 2018: £197m, 5 February 2018: £200m) as onerous lease provisions are derecognised on application of IFRS 16.
- The net impact of all of the adjustments in the table above has decreased retained earnings and other reserves by £306m (5 August 2018: £300m, 5 February 2018: £295m).

22. Change in accounting policies (continued)

Impact on the consolidated cash flow statement

The net cash movement has not changed following the adoption of IFRS 16. However, the presentation in the consolidated cash flow statement has changed, with lease payments, which were previously recognised within cash flows from operating activities, being split between the interest element (which remains within cash flows from operating activities) and the capital element (now disclosed within cash flows from financing activities). This is detailed below:

	52 weeks ended 3 February 2019 £m	26 weeks ended 5 August 2018 £m
Cash flows from operating activities		
Cash generated from operations	135	67
Interest paid	(66)	(33)
Net cash inflow from operating activities	69	34
Cash flows from financing activities		
Repayment of lease obligations	(69)	(34)
Net cash outflow from financing activities	(69)	(34)
Net movement in cash and cash equivalents	-	-

During the 52 weeks ended 3 February 2019, the following lines in the consolidated cash flow statement were principally impacted by IFRS 16:

- Cash generated from operations – increased by £135m (5 August 2018: £67m) as straight-line rent payments are no longer recognised.
- Interest paid – £66m of interest payments were recognised relating to the finance element of lease payments (5 August 2018: £33m).
- Repayment of lease obligations – £69m of payments were recognised relating to the capital element of lease payments (5 August 2018: £34m).
- There was no net impact of these adjustments on cash flow in the period (5 August 2018: £nil).

Glossary

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

On transition to IFRS 16, the definitions of net debt and return on capital employed (ROCE) changed. Net debt now includes current and non-current lease liabilities. Previously, ROCE took into account the operating lease rentals charge (on land and buildings) as part of the return and a lease adjustment (10 times rent charged) for the capital employed element. Following adoption of IFRS 16 and the recognition of lease liabilities and assets, these adjustments are no longer necessary in the ROCE calculation. Amounts relating to these measures included within this statement have been restated unless detailed otherwise.

<table>
<tr><th>Measures</th><th>Closest equivalent IFRS measure</th><th>Definition and purpose</th><th>Reconciliation for the interim 2019/20 Group measures [1]</th></tr>
<tr><td colspan="4">Profit measures</td></tr>
<tr><td>Like-for-like (LFL) sales growth</td><td>Revenue</td><td>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.

The measure is used widely in the retail industry as an indicator of ongoing sales performance. It is also a key measure for Director and management remuneration.</td><td><table>
<tr><th></th><th>26 weeks ended 4 August 2019 %</th></tr>
<tr><td>Group LFL (exc. fuel)</td><td>0.2%</td></tr>
<tr><td>Group LFL (inc. fuel)</td><td>0.2%</td></tr>
<tr><td>Net new space (inc. fuel)</td><td>0.2%</td></tr>
<tr><td>Total revenue year-on-year</td><td>0.4%</td></tr>
</table></td></tr>
<tr><td>Total sales growth</td><td>Revenue</td><td>Including fuel:
Percentage change in year-on-year total reported revenue.

Excluding fuel:
Percentage change in year-on-year total sales excluding fuel.

This measure illustrates the total year-on-year sales growth.

This measure is a key measure for Director and management remuneration.</td><td>A reconciliation of total sales including and excluding fuel is provided in note 3.</td></tr>
<tr><td>Profit before tax and exceptionals</td><td>Profit before tax</td><td>Profit before tax and exceptionals is defined as profit before tax, exceptional items and net pension interest. This excludes exceptional items which are significant in size and/or nature and net pension interest.

This measure is a key measure used by the Directors. It provides key information on ongoing trends and performance of the Group and is used for Director and management remuneration.</td><td>A reconciliation of this measure is provided in note 4.</td></tr>
</table>

[1] 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 the interim 2019/20 Group measures [1]
Profit measures (continued)			
Profit before exceptionals after tax	Profit after tax	Profit before tax and exceptionals after a normalised tax charge. This measure is used by the Directors as it provides key information on ongoing trends and performance of the Group, including a normalised tax charge.	£152m being profit before tax and exceptionals of £198m less a normalised tax charge of £46m (see note 4).
Operating profit before exceptionals	Operating profit [2]	Reported operating profit before exceptional items, which are significant in size and/or nature. This measure is used by the Directors as it provides key information on on-going trends and performance of the Group.	£252m being reported operating profit (£246m) before exceptional items of (£6m).
Net finance costs before exceptionals	Finance costs	Reported net finance costs excluding the impact of net pension interest 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 ongoing cost of financing excluding the impact of exceptional items.	A reconciliation of this measure is provided in note 5.
Basic earnings per share before exceptionals	Basic earnings per share	Basic earnings per share based on profit before exceptionals after tax rather than reported profit after tax. This measure is a key measure used by the Directors. It provides key information on ongoing trends and performance of the Group and is used for Director and management remuneration, and in setting the dividend policy.	A reconciliation of this measure is included in note 8.
Diluted earnings per share before exceptionals	Diluted earnings per share	Diluted earnings per share based on profit before exceptionals after tax rather than reported profit after tax.	A reconciliation of this measure is included in note 8.
Tax measures			
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 exceptional items and net pension interest. 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 2 February 2020. Details of the normalised tax rate used in the 26 weeks ended 4 August 2019 is provided in note 6 of the condensed consolidated interim financial statements.

[1] 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).

[2] 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 the interim 2019/20 Group measures [1]
Cash flows and net debt measures			
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.	£244m being the movement in net debt (£36m) before payment of dividends (£208m).
Net debt	No direct equivalent	Net debt is cash and cash equivalents, non-current financial assets and current financial assets, less current and non-current borrowings, current financial liabilities and non-current financial liabilities, and current and non-current lease liabilities.	A reconciliation of this measure is provided in note 16.
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 15.
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 15.
Other measures			
Return on Capital Employed (ROCE)	No direct equivalent	ROCE is calculated as return divided by average capital employed. Return is defined as annualised profit before exceptionals after tax adjusted for net finance costs before exceptionals. Capital employed is defined as average net assets excluding net pension assets and liabilities, less average net debt. This measure is used by the Directors as it is a key ratio in understanding the performance of the Group.	ROCE (7.1%) equals return divided by average capital employed: Return (£421m) = Profit before exceptionals after tax annualised (£311m) adjusted for annualised net finance costs before exceptionals (£110m). Average capital employed (£5,939m) = Average net assets excluding the net pension asset (£3,582m), and average net debt (£2,357m)

[1] 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 condensed consolidated 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 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 3 February 2019. A list of current Directors is maintained on the Wm Morrison Supermarket PLC website: www.morrisons-corporate.com

By order of the Board

Jonathan Burke
Company Secretary
11 September 2019

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 4 August 2019. 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 IAS 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 4 August 2019;
- the consolidated income statement for the period then ended;
- 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 IAS 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 for the 26 week period ended 4 August 2019, 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 for the 26 week period ended 4 August 2019 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
11 September 2019

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.