Regulatory Story

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Company	Morrison(Wm.)Supermarkets PLC
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Morrison(Wm.)Supermarkets PLC
12 September 2013

INTERIM RESULTS FOR THE HALF YEAR TO 4 AUGUST 2013
Operational progress in a challenging environment; focusing on execution

Financial summary

- Total turnover £8.9bn in line with last year (2012/13: £8.9bn)
- Total store sales up 0.8% (2012/13: up 1.3%). Like-for-like store sales down 1.6% (2012/13: down 0.9%)
- Underlying profit(1) down 10% to £401m (2012/13: £445m)
- Underlying earnings per share down 2% to 12.86p (2012/13: 13.09p)
- Profit before tax £344m (2012/13: £440m)
- Interim dividend up 10% to 3.84p (2012/13: 3.49p)
- Net debt of £2,529m (2012/13: £1,680m)
- Gearing of 48% (2012/13: 32%)

Financial strategy

- Financial strategy updated
- Reduced capital expenditure targets announced
- New dividend policy confirmed
- Property estate being reviewed

Strategic highlights

- Convenience - 33 M local convenience stores now trading and performing well: on track to have 100 stores operating this year. New convenience distribution centre secured for the North
- Multi-channel - on schedule with online food proposition to launch in January 2014
- IT systems upgrade programme progressing well - providing the foundation for further cost savings in 2014/15
- Fresh Formats - tailored fresh food proposition now in 169 stores: on track for over 200 stores this year
- Significant productivity improvements in store. Electronic ordering introduced
- Good progress on expanding manufacturing capability

Operating highlights

- Seven new supermarkets opened, including one replacement
- 2,800 own brand products successfully launched
- Strengthened management team in place
- Employer of the Year(2)

Sir Ian Gibson, Non-Executive Chairman, said:

"Consumer confidence and market conditions have remained challenging in the first half. We have continued to invest in and develop our customer offer and this has been reflected by an improved sales performance compared to the second half of last year. Our financial position is strong and we remain focused on maximising returns from our assets and delivering superior shareholder returns. Once again our interim dividend is increased by 10%, in line with our previous commitment."

Dalton Philips, Chief Executive, said:

"Our strategy for growth in convenience and online is now set. Today we are outlining our financial strategy, which will support our key financial objectives of growing underlying earnings, generating cash and delivering superior total shareholder returns.

This is against an economic backdrop which remains difficult for the consumer, but where our relentless focus on providing great value and quality to our customers, and improving the way we communicate Morrisons unique points of difference, have been reflected in a steady improvement in our like-for-like sales performance.

We have also made significant progress in building our presence in the key growth channels of convenience and online. By the end of the year we will have 100 M local convenience stores, around half of which will be in London and the South East, and we've secured a new distribution centre in Bury to support our convenience stores in the North. In parallel we've been working at pace on our online offer; the final pillar of our strategy. Morrisons.com will be making home deliveries of our great fresh food by the end of January 2014, supported through our long term service agreement with Ocado."

Outlook

Whilst early indications of a recovery in the UK economy are encouraging, we are yet to see this impact on consumers' pockets. We have therefore developed our financial and operational plans on the basis that there will be no significant change to the challenging economic environment in the near future. We anticipate an improvement in our sales performance during the second half and accordingly the Board believes the Group's performance for the full year will be broadly in line with its previous expectations. Our strategic initiatives are laying the foundations for good progress in the year to January 2015, and beyond.

Notes:

[1] *Profit before taxation, property disposals, multi-channel and convenience development costs and IAS 19 pension interest*
[2] *The Grocer Gold Awards 2013*

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

Dial in details :

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Replay facility available for 7 days:

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ENDS

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

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

Financial Strategy

Morrisons has consistently demonstrated its ability to deliver a strong financial performance through top-line growth, strong cost control and improving free cash flow.

Looking to the future we see great opportunities for Morrisons to grow and deliver significant value for its stakeholders. As we do so we will adhere to our core, underlying financial principles: conservative and prudent accounting policies, well funded pension schemes, a robust balance sheet and a strong, investment grade credit rating. These principles will continue to remain fundamental to our business.

Growth opportunities
As the still maturing, fourth competitor in the UK grocery retail sector, we believe there remain significant growth opportunities for our business arising from four principal areas:

- continuing to improve the trading performance of our core supermarket estate;
- reaching the 6.4m households that do not have ready access to a Morrisons store;
- developing a substantial presence in the convenience and online channels which will increase our accessible market by around 40%; and
- maximising self-help measures to deliver further cost and operating efficiency across our business.

Our level of financial gearing remains relatively conservative among our peers and we have a strong investment grade credit rating. We will optimise the returns from our growth opportunities while continuing to maintain our traditional financial prudence and balance sheet strength. Capital discipline remains at the heart of our investment philosophy.

Capital expenditure
We have been accelerating our entry into new retail channels and are continuing the group-wide IT systems improvements necessary to position Morrisons future as a national UK multi-channel, multi-format competitor. By January 2014 the vast majority of our investment in the necessary infrastructure, network expansion and additional manufacturing capacity will have been completed. The current financial year, therefore, represents the peak of our investment phase.

We believe that, given the structural changes that are taking place in the UK grocery market, our future top line growth will be driven principally through our online and convenience channels, both of which are relatively capital-light compared to developing supermarket space.

In the future we will reduce our commitment to new supermarket space, limiting our expansion to around 350,000 square feet annually from 2014/15. This will represent slightly less than half of the average rate of growth in our supermarket space over the last five years.
Taking these measures together we anticipate that our capital expenditure will reduce significantly in the financial year 2014/15 to around £850m (2013/14 forecast: £1.2bn). Thereafter, we would expect the annual rate to be maintained at around £650m.

Working Capital
We are committed to efficient working capital management. Our investment in upgrading our IT systems throughout the business continues and will provide significant opportunities to optimise our control of working capital over the medium term and generate significant free cash flow.

Property
Morrisons property portfolio has an estimated market value of around £9bn. Over 90% of our estate is freehold, a considerably greater proportion than our major competitors. We expect to see the proportion of freehold properties reduce naturally as our convenience store programme expands. Additionally, in order to provide flexibility in the way we use our resources, we anticipate that a greater proportion of our new store acquisitions programme will be weighted towards leasehold properties.

We intend to manage our property portfolio more actively in future. We have commenced a review to assess the extent to which there may be opportunities to realise value for shareholders from our estate, whilst maintaining our traditionally prudent approach to financial management. This review is being undertaken within the context that there are clear control and flexibility benefits with freehold ownership and that the majority of our core estate will continue to be owned and managed on that basis.

Shareholder returns
In March 2011 the Group committed to a minimum annual dividend increase of 10% for three years. The current year is the final year of that commitment. From 2014/15 onwards the Board will maintain a progressive dividend policy targeting cover, over the medium term, of around two times underlying earnings.

We also anticipate that a combination of reduced capital expenditure, improvements in working capital and more active property estate management is likely to result in the release of capital that is surplus to the ongoing needs of the business. In such circumstances, and subject to maintaining a strong, investment grade credit rating, we would anticipate returning surplus capital to shareholders in an appropriate form.

Capital allocation framework
We will allocate capital within our business in accordance with an established framework, our first priority being investing to support our estate and infrastructure and to reduce our cost base. Thereafter we will maintain debt ratios which support a strong investment grade credit rating, before investing in profitable growth opportunities and paying dividends in line with policy. Any capital surplus to these requirements will be returned to shareholders in an appropriate form over time.

A further update on our financial strategy will be provided at our Preliminary results announcement in March 2014.

Financial overview

This report covers trading for the 26 weeks ended 4 August 2013.

Total turnover during the period was £8.9bn, in line with last year. Store turnover of £6.8bn, excluding fuel, was up by 0.8%, which included a like-for-like decrease of 1.6% and a contribution of 2.5% from new stores. Fuel sales fell by 3.5% to £2.1bn.

Operating profit was £381m, 20% lower than in the previous year with the operating margin reducing by 100bps to 4.3%. In addition to the impact of negative like-for-like sales and the structural cost increases we face each year, the most significant element of the fall in operating profit was our decision to improve our customer offer by further investing in gross margin. We were able to partially offset these headwinds by managing our cost base tightly.

After adjusting for the costs of investing in new business development, including the write off of £27m of our investment in the development of our own online business, underlying operating profit fell by £40m (8%) and operating margin by 40bps.

Net finance costs were £37m, an increase over the prior period of £2m. Before the impact of IAS 19 pension interest, the increase was £4m.

Underlying profit(1) reduced to £401m (10%), compared to £445m in the prior period.

Underlying basic earnings per share (EPS) reduced by 2% to 12.9p (2012/13: 13.1p) reflecting the decrease in underlying profit. This was partially offset by a reduction in the rate of corporation tax and the positive impact of the Group's equity retirement programme which concluded in March.

Profit before tax was £344m (2012/13: £440m).

The Group generated strong operating cash flow of £613m, 26% lower than in the prior period reflecting the reduced profits in the period and the absence of a £100m working capital timing difference that benefited the prior year. Total capital investments, including joint ventures, of £561m were £145m more than last year but in line with expectations, in what is a peak year for capex. Following the completion of our equity retirement programme in March, purchases of shares fell by £272m. Overall we had a net cash outflow of £9m(3) compared to an inflowin the first half of last year.

The Group's net debt grew, as planned, during the period, to £2,529m (2012/13: £1,680m). Gearing increased to 48%, but remains at a relatively conservative level for the sector.
The Group continues to maintain a strong balance sheet position in line with our stated principles. This is securely financed by a number of long dated bonds and by revolving credit facilities of £1,350m with our banks, of which £875m remained undrawn at period end. In July 2013 we increased the funds available to the Group and further improved the maturity profile of our borrowings, by issuing a €700m Euro bond with institutional investors,

repayable in 2020.

In March 2011 we established a policy of maintaining a progressive dividend and increasing payments by a minimum of 10% annually in each of the three years to 2013/14. The Board is therefore pleased to confirm its intention to increase the interim dividend by 10% to 3.84 pence per share (2012/13: 3.49p). The dividend will be paid on 11 November 2013 to shareholders on the register on 4 October 2013.

Return on Capital Employed (ROCE) is a key performance measure for the Group and underpins our focus on capital discipline and on delivering improved shareholder returns over time. We are currently in an investment phase for the business during which ROCE is planned to decrease. During the period ROCE was 9.1% (FY2012/13: 9.6%).

Market overview

Whilst there are early signs that the UK economy has started to turn a corner, the grocery market continues to be a very challenging environment in which to operate. Although there are some signs of respite, with GDP growth in the second quarter of the year double the first quarter's pace(4) and consumer confidence increasing to its highest level since 2010(5), the recovery is proving to be slow and fragile.

Market growth was driven by inflation, which averaged 2.7%(4) during the period.
CPI food inflation has fallen since the start of the year although it remains high, averaging 4.0% through the first half of the year(4). Household incomes continued to be squeezed, with real disposable incomes falling and expected to remain subdued for the forthcoming year(5), (6).

Consumers are continuing to react to these pressures by becoming more discerning, and seeking to get better value for money by both shopping across multiple channels and using innovative approaches to the way they shop. They are increasingly shopping around, with over 40%(7) of shoppers typically visiting multiple supermarkets within the same shopping trip, enabling them to source the best products, prices and promotions and to reduce fuel consumption by combining multiple shops. Declining volumes across the grocery market reflected shoppers choosing to put fewer items in their basket, as a means of sticking rigidly to a set budget, and buying only necessary items.

Online is expected to grow faster than any other channel(8), with customers increasingly choosing to shop online to help calculate what they're spending as well as reducing fuel consumption. One in five consumers now buy online every month(9), with 9% using it as their main grocery channel, up from 7% at the start of the year(9). The proportion of all shoppers who bought food or groceries online was 23%, up from 21% in the prior year(10), whilst the value spent on online grocery grew by 16.1% during the year to £6.5bn(8). Online sales now account for 3.9%(8) of the UK grocery market and are expected to grow significantly faster than traditional grocery over the coming years.

Trading from branded to own label products has also been prominent across the industry. Unrelenting economic pressures have resulted in customers choosing alternatives for commonly used core essentials, resulting in strong growth in own label ranges(11).

Across all types of consumer, price is regarded as the most important consideration when choosing both where to shop and what to buy. There are however signs of a move back towards quality with 36% of consumers saying quality is their main focus, versus 33% one year ago(9). Following the exposure of horsemeat contamination in the first quarter of the year, consumers have increasingly focused on better quality products, with higher standards of provenance.

Trading

The economic environment continued to be challenging for consumers. Customers continue to check prices carefully and focus on finding value. We did not let them down, offering keen everyday pricing throughout our range together with great deals.

We have made good progress in finding innovative ways of adding real value to their shopping experience with Morrisons, with relevant promotions complemented by sharper pricing. New national promotional leaflets have targeted different customer groups with the products most relevant to them. Our new Pick of the Street programme together with a selection of 50p produce and our "3 for £10" meat and fish offer has ensured that there's always great value across Market Street. We also launched our 100% availability promise so that our customers are guaranteed to get those key items. Our innovative Pay Day Bonus has proved very successful and has acted as a strong loyalty driver.

During the period we made good progress in communicating our unique points of difference to our customers, with a new and refocused marketing campaign, supported by an instore communications programme that included highlighting our academy trained craftspeople, new market street uniforms and improved signage.

An improvement in each of our four key customer metrics: service, freshness, value and shopping experience, confirmed that the unique Morrisons offer is clearly resonating with our customers.

Total store sales increased by 0.8% including a contribution from new space of 2.5%. Whilst we once again saw an increase in our customer numbers with a total of 11.8 million visiting our stores each week, they continued to manage their expenditure tightly with fewer items on average in the basket than in the previous period. On a like-for-like basis there was a 1.3% decrease in customer numbers with like-for-like turnover (ex-fuel) down by 1.6%. In both cases we saw an improvement in these metrics in the second quarter.

Strategy update and operating review

Morrisons has set out its goal of constantly improving its business whilst leveraging its unique production capabilities and in-house craft skills to deliver a compelling and distinctive offer to its customers. It's within this context that we've been executing our strategy.

We have strengthened our management team, bringing in new skills to complement our existing expertise, in order to provide us with the breadth and depth of talent we need to operate successfully in this changing retail environment.

Our commitment to outstanding retailing standards and great quality food was reflected in our winning of the *SuperMeat and Fish* Retailer of the Year[12] award, for the second year running, as well as five Gold *Grocer* Own Label Food and Drink awards[13].

Fresh Formats

Providing our customers with outstanding service and great fresh food at unrivalled value for money in an engaging and distinctive shopping environment is a key element of Morrisons strategy. Our Fresh Formats allow us to really showcase the food we make and the talents of our colleagues. Through the transformation of our produce sections and our counters, by expanding our fresh food offer and by introducing new ranges in response to customer demand, we have been able to create a unique shopping experience for our customers. Supported by a comprehensive and focused training programme, these in-store developments have enabled us to deliver an even higher level of service to our customers, who enjoy shopping in this environment.

During the period we introduced tailored versions of Fresh Format into 64 of our stores across the country, including seven new stores, at a peak rate of four per week. We have now applied the new concept to 169 of our stores which accounts for 34% of our core estate and represents 43% of total current store sales.

The results to date have been very encouraging and we are on track to meet our target of opening 100 Fresh Format stores in the year. Fresh Format will account for around 55% of our total store sales by the end of the year.

Strengthening Own Brand

In 2010 we set out our ambition to establish a family of own brand products that customers believe is "worth switching supermarkets for". We have made strides towards our goal of establishing an own brand range that offers outstanding quality at great prices and fulfils our brand promise of "Friendly People Making Great Food Affordable for Everyone."

During the period we continued to invest in developing our own brand offer, particularly relevant for customers who are seeking to manage food inflation and seek reassurance on quality. We've improved product formulations, improved ingredients and where there have been gaps, we've introduced new ranges. We've enhanced the look and feel of the packaging, introducing brighter colours and clear price marking, making it easier for customers to see what they're actually buying and what they're paying.

We have also introduced, Nutmeg, our own range of children's clothing which is now in over 150 stores and is performing strongly. One year after it was first launched, our value range, M savers, is still growing ahead of the market[11] and the core Morrisons range, has seen some 1,400 lines introduced into our stores during the period. Overall our total own brand participation increased by over 100 basis points year on year[10].

As planned, by November we will have completed the initial phase of the programme and re-launched over 10,000 products. Our focus is already shifting with a newly established and dedicated sourcing team investigating product flow across the supply chain, to ensure we're maximising our opportunities from this significant area.

Vertical Integration

Our unique vertically integrated supply chain is one of Morrisons great assets and is a fundamental point of competitive advantage in how we source and sell fresh products. It is key to meeting our ambition of leading in fresh food as it allows costs to be managed, provenance to be guaranteed and enables us to be responsive to demand.

During the period we've continued to invest in expanding our capabilities. We've doubled the capacity at our Wakefield bakery and expanded the pork processing capacity at our Colne abattoir by 60%. In addition we've also added a new melon cutting room in Thrapston.

The new seafood processing site in Grimsby, which we opened in the third quarter of last year, is progressing well and is now handling around 60 fresh fish and seafood lines.

In July we entered into a joint venture agreement with Global Pacific to establish a facility in Boston, which will enable us to take full control of our entire banana ripening requirements.

Extending our self-help

We constantly seek to find ways to operate more effectively and drive cost out of our operations, whilst continuing to deliver great service to our customers. During the period, we continued to modernise the business and made further significant progress towards our three year goal of removing £300m of costs from our cost base by 2013/14.

Procurement
Our colleagues have really stepped up to our challenge of identifying unnecessary costs in the business and our indirect procurement programme is on track to meet our three year target of delivering £100m of savings from these initiatives by the end of this year.

In-store efficiency
In our stores we have continued to utilise technology to deliver further efficiencies. Following the installation of electronic counting facilities during the period, cash, which had previously been counted by hand every day, is now counted automatically in each of our stores. Tablets, which allow our store management to place their orders directly with the supply chain, are replacing a laborious manual system. At the end of the period they had been introduced in 25% of our stores and will have been introduced across the entire store base by the end of the year.

These changes are among a number of measures which are being implemented in our stores which will enable us to meet our cost savings target of £100m by the end of the current year.

Working towards top class systems
Over the past three years we have been investing in an essential programme of IT infrastructure development to enable us to tackle historical systems weaknesses and provide a platform to support our future business.

We have already transformed the systems in our meat manufacturing business and continue to improve those in our supply chain. Critical enhancements to our commercial and retail capabilities are being implemented including the introduction of a central data platform where store, product and sales information will be housed together for the first time. By centralising basic tasks we'll dramatically improve the efficiency of our core processes. We are on track to deliver benefits target of £100m by the end of this year.

Whilst our prime focus has been supporting our core supermarket operation, we've also been investing in developing systems that will allow us to deal with the increasing demands of a multi-format, multi-channel business. These include a convenience-specific stock ordering system, the integration of third party systems such as Warehouse Management for our Feltham convenience distribution centre (CDC) and enhancement of our new Oracle system to accommodate sales transactions with Ocado, all of which allow us to expand through partnership.

Growing our multi-channel presence

We made great progress during the period in accelerating our multi-channel presence. Kiddicare, a leading baby and infant merchandiser, continues to make steady progress and during the period we opened a further six of the ten stores we acquired from Best Buy. The final store, in Hayes, opened in August.

We also continued to expand presence in the fast-growing convenience and online markets, two channels which will increase the size of our potential market by 40%.

Advancing convenience
The UK convenience market continues to grow at a faster rate than the rest of the UK retail market[8]. Morrisons is seeking to create a new and different convenience shopping experience, which captures the benefits of our vertical integration capability.

Convenience shopping will be a key driver of our future growth. By leveraging Morrisons core strengths in quality, affordable fresh food, we have developed a unique and compelling proposition within the sector, with 50% of sales space dedicated to fresh food and a price leading proposition. Stores are tailored to meet local needs.

During the period we added a further 21 M local stores bringing the total to 33. The pace of our rollout programme will accelerate through the third quarter as the conversion of the 62 stores we acquired from Blockbuster, Jessops and HMV earlier this year is completed. By the end of the year, we will have opened 100 M local stores and expect to open a similar number in 2014/15. Around half of these stores will support our growth agenda in London and the South East, an area where Morrisons has historically been under-represented.

In parallel with the store opening programme we've been establishing the necessary support infrastructure to enable us to deliver these growth plans. Our new CDC in West London is building towards scale to support our expansion in the South East. We have also secured a second CDC in Bury to support our convenience store programme in the North. This will be open by the end of this year.

Advancing food online
Online food is a fast growing channel that complements core grocery and convenience shopping and is key to supporting multi-channel access to consumers.

In July we concluded a unique agreement with Ocado that will enable Morrisons to enter the online grocery market quickly, and with a profitable business model. The total capital investment of £216m, of which £171m has been incurred in the period, includes the acquisition and extension of the Dordon customer fulfilment centre and systems integration.

We've been making good progress in preparing for the launch. Systems integration is going well, the new team is in place and the product range is being finalised. The new service will be launched as planned by January 2014, far earlier than would have been possible had we elected to develop an online offering in-house.

By the end of this financial year, using the best technology and logistics in the sector and utilising our unique craft skills and manufacturing capability, we will be delivering a truly differentiated Morrisons offer right to our customers' front doors.

Corporate responsibility and community

In May, we published this year's corporate responsibility review 'More of what matters'. This document provides details on our progress and commitments to responsible retailing.

For the second year, the review was independently verified by our assurance providers, Two Tomorrows, to AA1000AS (2008) standard. The assurance statement from the assessors was published in full in the review and is available online at www.morrisons.co.uk/cr

We reported on our progress on the responsible sourcing of key commodities and further applied research from the Morrisons Farming Programme including renewable energy in farming, carbon footprinting, dairy cow housing and sustainable soya usage in animal production. Completed research reports can be found online at www.morrisons.co.uk/farming

We also reported on our progress to encourage responsible fishing, both at home and abroad, to ensure the integrity of our sourcing practices is as high as the quality of the seafood we sell. We maintained our membership and participation of the Sustainable Seafood Coalition and became a founding partner (and the first UK food retailer) to join the Global Sustainable Seafood Initiative which has been set up to deliver a three year benchmark of 75 global seafood certification schemes. We're also working with the Seafish Industry Authority to improve health and safety conditions for fishermen because of the unacceptable level of fatality and injury onboard fishing vessels.

In 2010, we communicated our commitment to reducing operational carbon emissions within our business by 30% in absolute terms by 2020 (from a 2005 baseline). We are now at the midpoint of this journey; our most recent figures reveal 22.3% reduction in our carbon emissions, which means we are on track to achieving our target.

We hit our target to raise £4m by the end of our 2012/13 financial year for our charity partner, Save the Children. The total amount raised by Morrisons to date is £5.9m, funds will go towards their Families and Schools Together programme, making a real and lasting difference to children in the UK.

Our award winning Let's Grow programme returned for its fifth year. Since 2008, Let's Grow has donated £14m worth of gardening equipment in total and over 28,000 schools have registered. This year, the programme was awarded the first ever Business in the Community's European Corporate Social Responsibility (CSR) Award in recognition of its responsible and sustainable business practice.

Colleagues

In June we won *The Grocer's* 'Employer of the Year' for the fourth year running[(2)]. This recognised our work to bring the best out of people, ensuring our colleagues get the time, qualifications and support they need to grow and develop their skills.

The Morrisons Academy provides opportunities for new recruits and existing colleagues to enrol as an apprentice or gain other qualifications. This year alone, we will take 10,000 colleagues through Apprenticeships. Business in the Community once again accredited the Morrisons Academy with a 'Big Tick' at the Responsible Business Awards in June.

Outlook

Whilst early indications of a recovery in the UK economy are encouraging, we are yet to see this impact on consumers' pockets. We have therefore developed our financial and operational plans on the basis that there will be no significant change to the challenging economic environment in the near future. We anticipate an improvement in our sales performance during the second half and accordingly the Board believes the Group's performance for the full year will be broadly in line with its previous expectations. Our strategic initiatives are laying the foundations for good progress in the year to January 2015, and beyond.

Notes:
[1] *Profit before taxation, property disposals, multi-channel and convenience development costs and IAS 19 pension interest*
[2] *The Grocer Gold Awards 2013*
[3] *Net decrease in cash and cash and cash equivalents, excluding new borrowings and the repayment of existing facilities*
[4] *ONS July 2013*
[5] *Bloomberg Finance LP*
[6] *Capital Economics UK Data Response Retail Sales (Jul) - 15 August 2013*
[7] *IGD ShopperVista- March 2013*
[8] *IGD UK Channel forecasts 2013 - 2018 - August 2013*
[9] *IGD ShopperVista - July 2013*
[10] *Kantar Worldpanel - 52 weeks ended 18 August 2013*
[11] *Kantar Worldpanel - 12 weeks ended 18 August 2013*
[12] *SuperMeat and Fish awards 2013*
[13] *Grocer own label food and drink awards 2013*

Wm Morrison Supermarkets PLC
Condensed consolidated financial statements

Consolidated statement of comprehensive income
26 weeks ended 4 August 2013

	Note	**26 weeks ended 4 August 2013 (unaudited)**	26 weeks ended 29 July 2012 (unaudited)	53 weeks ended 3 February 2013 (audited)
		£m	£m	£m
Turnover	2	**8,938**	8,939	18,116
Cost of sales		**(8,374)**	(8,319)	(16,910)
Gross profit		**564**	620	1,206
Other operating income		**39**	39	80
Administrative expenses		**(222)**	(184)	(336)
Losses arising on property transactions		**-**	-	(1)
Operating profit		**381**	475	949
Finance costs	3	**(38)**	(37)	(75)
Finance income	3	**1**	2	5
Profit before taxation		**344**	440	879
Taxation	4	**(77)**	(111)	(232)
Profit for the period attributable to the owners				

	Note			
of the Company		**267**	329	647
Other comprehensive income				
Items that will not be reclassified to profit or loss:				
Actuarial loss arising on the defined benefit pension schemes	8	**-**	-	(6)
Tax on defined benefit schemes		**(3)**	-	(1)
		(3)	-	(7)
Items that may be reclassified subsequently to profit or loss:				
Cash flow hedging movement		**(8)**	(6)	(2)
Tax on cash flow hedging movement		**2**	1	(1)
		(6)	(5)	(3)
Other comprehensive income for the period, net of tax		**(9)**	(5)	(10)
Total comprehensive income for the period attributable to the owners of the Company		**258**	324	637
Earnings per share (pence)	5			
- basic		**11.49**	13.29	26.65
- diluted		**11.44**	13.18	26.57

Consolidated balance sheet

4 August 2013

	Note	**4 August 2013 (unaudited) £m**	29 July 2012 (unaudited) £m	3 February 2013 (audited) £m
Assets				
Non-current assets				
Goodwill and intangible assets	6	**480**	363	415
Property, plant and equipment	7	**8,861**	8,076	8,616
Investment property	7	**127**	254	123
Investment in joint venture	14	**60**	-	-
Investments		**31**	31	31
Other financial assets		**14**	-	-
		9,573	8,724	9,185
Current assets				
Stocks		**762**	688	781
Debtors		**331**	316	291
Other financial assets		**1**	1	5
Cash and cash equivalents		**255**	297	265
		1,349	1,302	1,342
Liabilities				
Current liabilities				
Creditors		**(2,222)**	(2,099)	(2,130)
Other financial liabilities		**(205)**	(12)	(55)
Current tax liabilities		**(109)**	(164)	(149)
		(2,536)	(2,275)	(2,334)
Non-current liabilities				
Other financial liabilities		**(2,594)**	(1,966)	(2,396)
Deferred tax liabilities		**(442)**	(448)	(471)
Net pension liabilities	8	**(22)**	(11)	(20)
Provisions		**(65)**	(78)	(76)
		(3,123)	(2,503)	(2,963)
Net assets		**5,263**	5,248	5,230
Shareholders' equity				
Called up share capital	15	**233**	244	235
Share premium		**122**	107	107
Capital redemption reserve		**39**	28	37
Merger reserve		**2,578**	2,578	2,578
Retained earnings and hedging reserve		**2,291**	2,291	2,273
Total equity attributable to owners of the Company		**5,263**	5,248	5,230

Consolidated cash flow statement

26 weeks ended 4 August 2013

	Note	**26 weeks ended 4 August 2013 (unaudited) £m**	26 weeks ended 29 July 2012 (unaudited) £m	53 weeks ended 3 February 2013 (audited) £m
Cash flows from operating activities				
Cash generated from operations	9	**613**	833	1,432
Interest paid		**(27)**	(21)	(85)
Taxation paid		**(146)**	(127)	(243)
Net cash inflow from operating activities		**440**	685	1,104
Cash flows from investing activities				
Interest received		**-**	1	3
Proceeds from the sale of property, plant and equipment		**4**	2	5
Acquisition of businesses, net of cash acquired	13	**-**	(36)	(36)
Investment in joint venture	14	**(60)**	-	-
Purchase of property, plant and equipment and investment property		**(392)**	(309)	(846)
Purchase of intangible assets		**(109)**	(71)	(134)
Net cash outflow from investing activities		**(557)**	(413)	(1,008)
Cash flows from financing activities				
Purchase of shares for cancellation	15	**(53)**	(260)	(514)
Purchase of treasury shares	15	**-**	(65)	(65)
Proceeds from issue of treasury and new shares for employee share schemes	15	**22**	33	42
New borrowings		**590**	393	843
Repayment of borrowings		**(258)**	(105)	(81)
Dividends paid to equity shareholders	12	**(193)**	(186)	(270)
Net cash inflow/(outflow) from financing activities		**108**	(190)	(45)
Net (decrease)/increase in cash and cash equivalents		**(9)**	82	51
Cash and cash equivalents at start of period		**263**	212	212
Cash and cash equivalents at end of period	10	**254**	294	263

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

	Note	**26 weeks ended 4 August 2013 (unaudited) £m**	26 weeks ended 29 July 2012 (unaudited) £m	53 weeks ended 3 February 2013 (audited) £m
Net (decrease)/increase in cash and cash equivalents		**(9)**	82	51
Cash outflow from decrease in debt and lease financing		**258**	105	81
Cash inflow from increase in loans		**(590)**	(393)	(843)
Other non-cash movements		**(7)**	(3)	1
Opening net debt		**(2,181)**	(1,471)	(1,471)
Closing net debt	10	**(2,529)**	(1,680)	(2,181)

Consolidated statement of changes in equity

	Note	**Share capital**	**Share premium**	**Capital Redemption reserve**	**Merger reserve**	**Hedging reserve**	**Retained earnings**	**Total equity**
		Attributable to the owners of the Company						
		£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Current half year (unaudited)								

At 3 February 2013		**235**	**107**	**37**	**2,578**	**(14)**	**2,287**	**5,230**
Profit for the period		**-**	**-**	**-**	**-**	**-**	**267**	**267**
Other comprehensive income:								
Cash flow hedging movement		**-**	**-**	**-**	**-**	**(8)**	**-**	**(8)**
Tax in relation to components of other comprehensive income		**-**	**-**	**-**	**-**	**(1)**	**-**	**(1)**
Total comprehensive income for the period		**-**	**-**	**-**	**-**	**(9)**	**267**	**258**
Shares purchased for cancellation	15	**(2)**	**-**	**2**	**-**	**-**	**(53)**	**(53)**
Employees share options schemes:								
Share based payments		**-**	**-**	**-**	**-**	**-**	**(1)**	**(1)**
Share options exercised	15	**-**	**15**	**-**	**-**	**-**	**7**	**22**
Dividends	12	**-**	**-**	**-**	**-**	**-**	**(193)**	**(193)**
Total transactions with owners		**(2)**	**15**	**2**	**-**	**-**	**(240)**	**(225)**
At 4 August 2013		**233**	**122**	**39**	**2,578**	**(23)**	**2,314**	**5,263**
Prior half year (unaudited)								
At 29 January 2012	Note	253	107	19	2,578	(12)	2,452	5,397
Profit for the period		-	-	-	-	-	329	329
Other comprehensive income:								
Cash flow hedging movement		-	-	-	-	(6)	-	(6)
Tax in relation to components of other comprehensive income		-	-	-	-	1	-	1
Total comprehensive income for the period		-	-	-	-	(5)	329	324
Shares purchased for cancellation	15	(9)	-	9	-	-	(260)	(260)
Purchase of treasury shares	15	-	-	-	-	-	(65)	(65)
Employees share options schemes:								
Share-based payments		-	-	-	-	-	5	5
Share options exercised	15	-	-	-	-	-	33	33
Dividends	12	-	-	-	-	-	(186)	(186)
Total transactions with owners		(9)	-	9	-	-	(473)	(473)
At 29 July 2012		**244**	**107**	**28**	**2,578**	**(17)**	**2,308**	**5,248**

Consolidated statement of changes in equity (continued)

		Attributable to the owners of the Company						
		Share capital	Share premium	Capital Redemption reserve	Merger reserve	Hedging reserve	Retained earnings	Total equity
	Note	£m	£m	£m	£m	£m	£m	£m
53 weeks ended 3 February 2013 (audited)								
At 29 January 2012		253	107	19	2,578	(12)	2,452	5,397
Profit for the period		-	-	-	-	-	647	647
Other comprehensive income:								
Actuarial loss arising in the pension scheme		-	-	-	-	-	(6)	(6)
Cash flow hedging movement		-	-	-	-	(2)	-	(2)
Tax in relation to components of other comprehensive income		-	-	-	-	-	(2)	(2)
Total comprehensive income for the period		-	-	-	-	(2)	639	637
Shares purchased for cancellation	15	(18)	-	18	-	-	(514)	(514)
Employees share options schemes:								
Treasury share purchases and utilisation for share options	15	-	-	-	-	-	(24)	(24)
Share-based payments		-	-	-	-	-	4	4
Dividends	12	-	-	-	-	-	(270)	(270)
Total transactions with owners		(18)	-	18	-	-	(804)	(804)
At 3 February 2013		**235**	**107**	**37**	**2,578**	**(14)**	**2,287**	**5,230**

Notes to the condensed financial statements

26 weeks ended 4 August 2013

1 UNDERLYING EARNINGS

The Directors consider that the underlying earnings and underlying adjusted earnings per share measures referred to in the Interim results provide useful information for shareholders on underlying trends and performance. The adjustments are made to reported profit to (a) remove the impact of pension interest cost volatility on the Statement of comprehensive income; (b) remove losses or profits arising on property transactions since they do not form part of the Group's principal activities; (c) remove significant costs that do not relate to the Group's core activities; and (d) apply a tax rate of 25.4% (29 July 2012: 27.2% and 3 February 2013: 26.5%), being an estimated normalised tax rate.

	26 weeks ended 4 August 2013 (unaudited) £m	26 weeks ended 29 July 2012 (unaudited) £m	53 weeks ended 3 February 2013 (audited) £m
Profit after tax	**267**	329	647
Add back: tax charge for the period [1]	**77**	111	232
Profit before tax	**344**	440	879
Adjustments for:			
Net pension interest cost [1]	**-**	2	4
Losses arising on property transactions [1]	**-**	-	1
Multi-channel and convenience development [1]	**57**	3	17
Underlying earnings before tax	**401**	445	901
Normalised tax charge at 25.4%/27.2%/26.5% [1]	**(102)**	(121)	(239)
Underlying earnings after tax charge	**299**	324	662

Adjustments marked [1] increase underlying earnings by £32m (29 July 2012: decrease £5m, 3 February 2013: increase £15m), as shown in reconciliation of earnings disclosed in note 5.

2 TURNOVER

	26 weeks ended 4 August 2013 (unaudited) £m	26 weeks ended 29 July 2012 (unaudited) £m	53 weeks ended 3 February 2013 (audited) £m
Sale of goods in stores	**6,755**	6,701	13,674
Fuel	**2,065**	2,139	4,241
Total store based sales	**8,820**	8,840	17,915
Other sales	**118**	99	201
Total turnover	**8,938**	8,939	18,116

3 FINANCE COSTS AND INCOME

	26 weeks ended 4 August 2013 (unaudited) £m	26 weeks ended 29 July 2012 (unaudited) £m	53 weeks ended 3 February 2013 (audited) £m
Interest payable on short term loans and bank overdrafts	**(6)**	(6)	(11)
Interest payable on bonds and loan notes	**(39)**	(30)	(69)
Interest capitalised	**8**	5	15
Total interest payable	**(37)**	(31)	(65)
Other finance costs	**(1)**	(4)	(6)
Net pension interest cost	**-**	(2)	(4)
Finance costs	**(38)**	(37)	(75)
Bank interest received	**-**	1	3
Amortisation of bonds	**1**	1	2
Finance income	**1**	2	5
Net finance costs	**(37)**	(35)	(70)

4 TAXATION

The standard rate of corporation tax in the UK changed from 24% to 23% with effect from 1 April 2013.

The Finance Bill 2013 was substantively enacted on 2 July 2013. This legislation included a further reduction of the corporation tax rate to 21% in April 2014 and 20% in April 2015.

The tax charged within the interim report has been calculated by applying the effective rate of tax which is expected to apply to the Group for the period ending 2 February 2014 of 22.4% using rates substantively enacted by 4 August 2013, as required by IAS 34 Interim financial reporting. The charge therefore incorporates the reduction of the deferred tax rate to 21% and to 20% which has reduced the half-year tax charge by £30m, of which £3m has been recognised in other comprehensive income.

5 EARNINGS PER SHARE

Basic earnings per share are calculated by dividing earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period, excluding those held by the Group as treasury shares.

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

Underlying earnings per share
It is the Directors' view that underlying earnings per share is a fairer reflection of the underlying results of the business.

	26 weeks ended 4 August 2013 (unaudited)		26 weeks ended 29 July 2012 (unaudited)		53 weeks ended 3 February 2013 (audited)	
	pence		pence		pence	
	Basic	**Diluted**	Basic	Diluted	Basic	Diluted
Basic earnings per share	**11.49**	**11.44**	13.29	13.18	26.65	26.57
Underlying earnings per share	**12.86**	**12.82**	13.09	12.98	27.26	27.17

	£m		£m		£m	
	Basic	**Diluted**	Basic	Diluted	Basic	Diluted
Basic earnings						
Earnings attributable to ordinary shareholders	**267**	**267**	329	329	647	647
Underlying earnings						
Earnings attributable to ordinary shareholders	**267**	**267**	329	329	647	647
Adjustments to determine underlying profit (note 1)	**32**	**32**	(5)	(5)	15	15
Underlying earnings attributable to ordinary shareholders	**299**	**299**	324	324	662	662

	Millions		Millions		Millions	
	Basic	**Diluted**	Basic	Diluted	Basic	Diluted
Weighted average number of shares						
Ordinary shares in issue/diluted ordinary shares	**2,324.3**	**2,333.0**	2,475.2	2,496.4	2,428.0	2,435.0

6 GOODWILL AND INTANGIBLE ASSETS

	4 August 2013 (unaudited) £m	29 July 2012 (unaudited) £m	3 February 2013 (audited) £m
Net book value			
At beginning of the period	**415**	303	303
Additions at cost	**111**	71	134
Interest capitalised	**3**	2	7
Write off of investment in own online business	**(27)**	-	-
Amortisation	**(22)**	(13)	(29)
At end of the period	**480**	363	415

As a result of the agreement signed with Ocado, the Group has reassessed the useful life of certain intangible assets relating to development of its own online platform, resulting in a write down of £27m. (See significant accounting policies.)

7 CAPITAL EXPENDITURE AND COMMITMENTS

a) Property, plant and equipment	**4 August 2013 (unaudited)**	29 July 2012 (unaudited)	3 February 2013 (audited)
	£m	£m	£m
Net book value			
At beginning of the period	**8,616**	7,943	7,943
Acquisition of businesses (note 13)	**4**	20	20
Additions at cost	**415**	273	854
Interest capitalised	**5**	3	8
Transfers (to)/from investment property	**(6)**	-	132
Disposals	**(2)**	(2)	(6)
Depreciation charge for the period	**(171)**	(161)	(335)
At end of the period	**8,861**	8,076	8,616

b) Investment properties

	4 August 2013 (unaudited)	29 July 2012 (unaudited)	3 February 2013 (audited)
	£m	£m	£m
Net book value			

At beginning of period	**123**	259	259
Additions at cost	**2**	-	-
Depreciation charge for the period	**(2)**	(5)	(4)
Transfers from/(to) property, plant and equipment	**6**	-	(132)
Disposals	**(2)**	-	-
At end of period	**127**	254	123

c) Capital commitments
Contracts placed for future capital expenditure not provided in the financial statements amount to £92m (29 July 2012: £168m, 3 February 2013: £77m).

8 PENSIONS

At the balance sheet date a review of market conditions, used to derive the defined benefit pension scheme assumptions, was carried out. Assumptions have been updated using a methodology consistent with the period ended 3 February 2013, resulting in an increase to net pension liabilities of £2m in the period.

As explained further in the significant accounting policies, the Group has adopted IAS 19 (2011) during the period ended 4 August 2013.

9 CASH FLOWS FROM OPERATING ACTIVITIES

	26 weeks ended 4 August 2013 (unaudited) £m	26 weeks ended 29 July 2012 (unaudited) £m	53 weeks ended 3 February 2013 (audited) £m
Profit for the period	**267**	329	647
Adjustments for:			
Taxation	**77**	111	232
Depreciation	**173**	166	339
Amortisation	**22**	13	29
Write down of aborted online costs	**27**	-	-
Loss on disposal of property, plant and equipment	**-**	-	1
Net finance cost	**37**	35	70
Other non-cash changes	**(1)**	4	1
Contributions in excess of pension service cost	**-**	(2)	-
Decrease/(increase) in stocks	**19**	71	(22)
(Increase)/decrease in debtors	**(40)**	4	29
Increase in creditors and provisions	**32**	102	106
Cash generated from operations	**613**	833	1,432

10 ANALYSIS OF NET DEBT

	4 August 2013 (unaudited) £m	29 July 2012 (unaudited) £m	3 February 2013 (audited) £m
Cash and cash equivalents	**255**	297	265
Bank overdrafts	**(1)**	(3)	(2)
Cash and cash equivalents per cash flow	**254**	294	263
Derivative financial instruments	**15**	1	5
Financial assets	**15**	1	5
Short term borrowings	**(200)**	-	(50)
Derivative financial instruments	**(4)**	(9)	(3)
Current financial liabilities (excluding bank overdrafts)	**(204)**	(9)	(53)
Bonds	**(1,948)**	(1,347)	(1,346)
Private placement loan notes	**(164)**	(159)	(156)
Floating credit facility	**(471)**	(445)	(671)
Other unsecured loans	**-**	-	(200)
Derivative financial instruments	**(11)**	(8)	(16)
Finance lease obligations	**-**	(7)	(7)
Non-current financial liabilities	**(2,594)**	(1,966)	(2,396)
Net debt	**(2,529)**	(1,680)	(2,181)

11 FINANCIAL INSTRUMENTS

	Carrying amount £m	**Fair value £m**

Non-current financial assets		
Derivatives	**14**	**14**
Current financial assets		
Derivatives	**1**	**1**
Current financial liabilities		
Short-term borrowings	**(201)**	**(201)**
Derivatives	**(4)**	**(4)**
Total current financial liabilities	**(205)**	**(205)**
Non-current financial liabilities		
Derivatives	**(11)**	**(11)**
Borrowings	**(2,583)**	**(2,696)**
Total non-current financial liabilities	**(2,594)**	**(2,707)**

All financial instruments carried at fair value within the Group at 4 August 2013 are financial derivatives and all are categorised as Level 2 instruments. Level 2 fair values for simple over-the-counter derivatives are determined by reference to prices available from the markets on which the instruments are traded.

On 19 June 2013, the Group issued a €700m Euro bond at a fixed interest rate of 2.25% expiring June 2020. This is part of the Group's £3bn Euro Medium Term Note programme. On the same date, the Group entered into cross-currency swaps with a total notional value of €700m, which effectively fix the Group's principal and interest cash flows in respect of the bond. The Group has designated this arrangement as a cash flow hedge.

On 27 June 2013 the Group entered into fixed-to-floating interest rate swaps in respect of £200m of the £400m bond expiring in 2026. The Group has designated this arrangement as a fair value hedge.

During the period, the Group has amended its financial risk policy such that the maximum proportion of foreign currency exposure that will be hedged is increased to 85% of forecasted purchases within the next 12 months. Other aspects of the Group's financial risk management objectives and policies are consistent with those disclosed in the Annual report and financial statements 2012/13.

12 DIVIDENDS

	26 weeks ended 4 August 2013 (unaudited) £m	26 weeks ended 29 July 2012 (unaudited) £m	53 weeks ended 3 February 2013 (audited) £m
Equity dividends paid in the period	**193**	186	270

The dividend paid in the period represents the cash payment of the final dividend of 8.31p from the 53 weeks ended 3 February 2013 (3 February 2013: 7.53p for the 52 weeks ended 29 January 2012 and 3.49p for the 26 weeks dated 29 July 2012).

The Directors are proposing an interim dividend of 3.84p per share which will be paid on 11 November 2013 to shareholders who are on the register of members on 4 October 2013. The interim dividend will absorb an estimated £90m of shareholders' funds. This amount will be charged to retained earnings when paid.

13 BUSINESS COMBINATIONS

IFRS 3 *Business combinations* has been applied to the acquisitions completed during the period.

On 24 July 2013 Wm Morrison Produce Limited acquired 51% of the equity of Global Ripeners Limited, a company within Global Pacific group, for £4m cash consideration. This acquisition further expands the Group's manufacturing capability in a key product, bananas. Global Pacific has retained 49% of the issued share capital. As part of the transaction a put and call option has been put in place between the Group and Global Pacific. As a result of the nature of these options, Global Ripeners Limited has been treated as a 100% subsidiary from acquisition, with the stake of Global Pacific being treated as debt. The fair value of the Group's commitment in relation to the 49% shareholding at the date of acquisition is £4m. No goodwill arose on this acquisition and plant and machinery of £4m has been recognised in the Group. Global Ripeners Limited had £4m of cash on acquisition.

On 31 July 2013, Global Ripeners Limited changed its name to Wm Morrison Bananas Limited.

14 INVESTMENT IN FOOD ONLINE

On 25 July 2013, Morrisons entered into an agreement with Ocado to provide operational and distribution services in relation to Morrisons' online grocery offering.

As part of the agreement, Morrisons has acquired a Customer Fulfilment Centre (CFC) in Dordon, which is leased back to Ocado under an operating lease. This acquisition has been effected via the purchase of 100% of the equity of Last Mile Developments Limited (LMD), which is controlled by, and becomes a subsidiary of, the Group. The Directors have considered the application of IFRS 3 Business Combinations to this acquisition and concluded that it is not in the scope of this standard. LMD is a single-asset leasing vehicle with no strategic processes and so does not meet the definition of a business. Consequently, the cash consideration paid of £81m has been allocated to Property in the Consolidated Balance Sheet and Cash Flow Statement. Rental income earned by LMD during the period from completion to 4 August 2013 has been included in the Consolidated statement of comprehensive income and is immaterial to the Group's results. The Directors have considered the impact of IFRS 10 Consolidated financial statements, which will be applicable from the Group's year ending January 2015, and determined that the Group continues to control LMD on application of that standard.

In addition, Morrisons has entered into a joint venture agreement with Ocado in respect of a company (MHE JV Co), which owns the plant and equipment at the Dordon CFC. Each party owns 50% of the equity of MHE JV Co. Decisions regarding the MHE JV Co require the unanimous consent of both parties and so MHE JV Co has been accounted for as a jointly-controlled entity accordingly. Morrisons uses equity accounting for its jointly-controlled entities and consequently has recognised an investment in equity-accounted investees in the Consolidated Balance Sheet and Cash Flow Statement of £60m. The share of MHE JV Co's profits for the period ended 4 August 2013 is immaterial to the Group's results. The Directors have considered the impact of

IFRS 11 Joint arrangements, which will be applicable from the Group's year ending January 2015, and determined that the Group continues to jointly control MHE JV Co on application of that standard.

Further, Morrisons has invested £30m in the technology required to operate an online grocery business, which is recognised in the Group's software intangibles.

Under the operating agreement between Morrisons and Ocado, Morrisons incurs fees in respect of the costs of operating the Dordon CFC. Fees in the period ending 4 August 2013 have been charged to profit and are immaterial to the Group's results.

15 SHARE CAPITAL

Shares purchased for cancellation
The Group acquired 20,338,000 (nominal value £2m) (29 July 2012: 92,149,574, nominal value £9m; 3 February 2013: 185,805,022, nominal value £18m) of its own shares through purchases in the open market between 4 February 2013 and 8 March 2013 (29 July 2012: 30 January 2012 and 27 July 2012; 3 February 2013: 30 January 2012 and 3 February 2013). The total amount paid to acquire the shares, net of tax, was £53m (29 July 2012: £260m; 3 February 2013: £514m) and has been deducted from retained earnings within shareholders' equity. These shares have been cancelled and represent 0.9% of issued share capital at the period end (29 July 2012: 3.8%; 3 February 2013: 7%).

Purchase and utilisation of treasury shares
During the 26 weeks ended 4 August 2013, the Company made no purchases of treasury shares. In 2012/13 the Group acquired 23,803,406 (nominal value £2m) shares to hold as treasury shares for the purposes of satisfying the employee share option schemes and long term incentive plans. The total amount paid to acquire the shares net of tax was £65m and was deducted from retained earnings within shareholders' equity.

During the period, the Group utilised 2,770,220 (29 July 2012: 16,608,243; 3 February 2013: 21,033,186) treasury shares to satisfy options exercised by employees during the period. Proceeds received on exercise of these shares amounted to £7m (29 July 2012: £33m; 3 February 2013: £42m).

At 4 August 2013, no treasury shares remain (29 July 2012: 7,195,163; 3 February 2013: 2,770,220).

Issue of new shares
In addition to the utilisation of treasury shares, the Group issued 6,401,670 (29 July 2012 and 3 February 2013: 60,783) new shares to satisfy options exercised by employees during the period. Proceeds received on exercise of these shares amounted to £15m (29 July 2012 and 3 February 2013: £0.1m)

16 SEGMENTAL REPORTING

The Management Board is the Group's chief operating decision-maker. There are no differences from the Annual report and financial statements 2012/13 in the basis of segmentation. The Directors consider there to be one operating segment, that of retailing.

The Management Board uses the underlying profit figure to measure performance. A reconciliation of underlying profit to the statutory position can be found in note 1. The Management Board also reviews a balance sheet containing assets and liabilities which is as shown within the consolidated balance sheet.

Responsibility statement

We confirm that to the best of our knowledge:

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

By order of the Board

11 September 2013

The Board

The Board of Directors that served during the 26 weeks to 4 August 2013 and their respective responsibilities were:

Sir Ian Gibson - Chairman*
Dalton Philips - Chief Executive Officer
Richard Pennycook - Group Finance Director (resigned 10 April 2013)
Trevor Strain - Group Finance Director (appointed 10 April 2013)
Richard Gillingwater * (appointed 1 March 2013)
Nigel Robertson * (resigned 13 March 2013)
Philip Cox *
Penny Hughes *
Johanna Waterous *
* Non-Executive Director

Principal risks and uncertainties

The principal risks and uncertainties set out in Wm Morrison Supermarkets PLC's Annual report and financial statements for the 53 weeks ended 3 February 2013 remain the same for this Half-yearly financial report. Those risks and uncertainties can be summarised as follows:

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

- Business change
- Business interruption
- Business strategy
- Colleague engagement and retention
- Customer proposition

- Financial and treasury
- Food and product safety
- IT Systems
- Regulation
- Reputation
- Space optimisation

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

- Foreign currency risk
- Liquidity risk
- Credit risk

More information on the principal risks and how the Group mitigates those risks can be found on pages 28 and 29 of the Annual report and financial statements 2012/13. You can view the Annual report and financial statements 2012/13 online on our corporate website, www.morrisons.co.uk/corporate/ar2013

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

The Half-yearly financial report 2013/14 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 financial information contained in the Half-yearly financial report 2013/14 in respect of the 53 weeks ended 3 February 2013 has been extracted from the Annual report and financial statements 2012/13 which have been filed with the Registrar of Companies. The auditor's report on these financial statements was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under Section 498 of the Companies Act 2006.

The half-yearly results for the current and comparative periods are unaudited. The auditor has carried out a review of the Half-yearly financial report 2013/14 and their report is set out below.

The Half-yearly financial report 2013/14 was approved by the Board of Directors on 11 September 2013.

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

Basis of preparation
This Half-yearly financial report 2013/14 is the condensed consolidated financial information of the Group for the 26 weeks ended 4 August 2013. It has been prepared in accordance with the Disclosure and Transparency Rules of the UK Financial Services Authority and the requirements of IAS 34 *Interim financial reporting* as adopted by the European Union. It should be read in conjunction with the Annual report and financial statements for the 53 weeks ended 3 February 2013 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.co.uk/corporate/ar2013

Significant accounting policies
The accounting policies applied by the Group in these condensed consolidated financial statements are consistent with those set out in Wm Morrison Supermarkets PLC Annual report and financial statements for the 53 weeks ended 3 February 2013.

In preparing the condensed consolidated financial statements, management are required to make accounting judgements, assumptions and estimates. The judgements, assumptions and estimation methods are consistent with those applied to the Annual report and financial statements for the 53 weeks ended 3 February 2013. Certain judgements arising for the first time during the period ended 4 August 2013 are discussed in note 14.

As further described in note 14, during the period, the Group has entered into an agreement with Ocado to provide operational and distribution services in relation to Morrisons' online grocery offering.

As a result of this commercial decision, development costs of £27m representing investment in Morrisons' own platform for the provision of grocery online are no longer expected to generate future economic benefits for the Group and management has written these off accordingly. Consequently, intangible assets are reduced and administrative expenses increased by £27m. This cost does not relate to the Group's core activities and so is excluded from underlying earnings.

The following new standards, amendments to standards and interpretations are mandatory for the first time for the financial year beginning 4 February 2013.

IAS 19 (2011) *Employee benefits*
As a result of IAS 19 (2011), the Group has changed its accounting policy with respect to the basis for determining the income or expense related to the net pension liability. Under IAS 19 (2011), the Group determines the net interest expense (or income) for the period on the net pension liability (or asset) by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual
period to the net pension liability (or asset) at the beginning of the annual period, taking into account any changes in the net pension liability (or asset) during the period as a result of contributions and benefit payments. Previously, the Group determined interest income on plan assets based on their long-term rate of return.

The effect of this change in the 26 weeks ending 4 August 2013 is to reduce net interest income on the net pension liability by £7m (29 July 2012: net interest payable reduced by £2m, 3 February 2013: net interest payable reduced by £5m) and increase administration costs in operating profit by £1m (29 July 2012: £1m, 3 February 2013: £2m). Actuarial losses in other comprehensive income are reduced by £8m (29 July 2012: actuarial gains reduced by £3m, 3 February 2013: actuarial losses increased by £3m). There is no effect on the net pension liability in the balance sheet. The results for the 26 weeks ended 29 July 2012 and the 53 weeks ended 3 February 2013 have not been restated for the change described above because the change is immaterial to the Group's results in the comparative periods presented.

IAS 1 (amendment) *Presentation of items of other comprehensive income*
As a result of the amendments to IAS 1, the Group has modified the presentation of items of other comprehensive income in order to present separately items that would be reclassified to profit or loss in the future from those that would never be. Comparative information has been represented accordingly.

IFRS 13 *Fair value measurement*
IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurement, when such measurements are required or permitted by other IFRSs. In particular, it unifies the definition of fair value as the

price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date. It also replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7 *Financial Instruments: Disclosures*. Some of these disclosures are specifically required in interim financial statements; accordingly, the Group has included additional disclosures in this regard (see note 11).

In accordance with the transitional provisions of IFRS 13, the Group has applied the new fair value measurement guidance prospectively and has not provided any comparative information for new disclosures. The change had no impact on the measurement of the Group's assets and liabilities.

During the period ended 4 August 2013, the Group has invested in a joint venture (see note 14). The Group's accounting policy for joint ventures is as follows:

Jointly controlled entities are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for the strategic financial and operating decisions.
Investments in jointly controlled entities are accounted for under the equity method and are initially recognised at cost.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of the equity accounted investees, after adjustment to align the accounting policies with those of the Group, from the date that joint control commences until the date that joint control ceases.

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

Independent review report to Wm Morrison Supermarkets PLC

Introduction
We have been engaged by the Company to review the condensed set of financial statements in the Half-yearly financial report for the 26 weeks ended 4 August 2013 which comprises the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated cash flow statement and the related explanatory notes. We have read the other information contained in the Half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the Disclosure and Transparency Rules ('the DTR') of the UK's Financial Conduct Authority ('the UK FCA'). Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities
The Half-yearly financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the Half-yearly financial report in accordance with the DTR of the UK FCA.

The annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the EU. The condensed set of financial statements included in this Half-yearly financial report has been prepared in accordance with IAS 34 *Interim financial reporting* as adopted by the EU.

Our responsibility
Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the Half-yearly financial report based on our review.

Scope of review
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 UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the Half-yearly financial report for the 26 weeks ended 4 August 2013 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FCA.

Adrian Stone
for and on behalf of KPMG Audit Plc
Chartered Accountants
1 The Embankment
Neville Street
Leeds, LS1 4DW

11 September 2013

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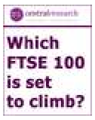

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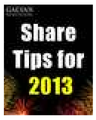

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