Morrisons
Since 1899

News Release

Release date: 10 September 2020

INTERIM RESULTS FOR THE HALF YEAR TO 2 AUGUST 2020
Responding and growing

Financial summary

- Group like-for-like (LFL) sales[(1)] ex-fuel/ex-VAT up 8.7% (2019/20: up 0.2%)
- Q2 Group LFL ex-fuel/ex-VAT up 12.3% (Q2 2019/20: down 1.9%), including a very strong retail contribution to LFL of 11.1% (Q2 2019/20: down 2.4%)
- Total revenue down 1.1% to £8.73bn (2019/20: £8.83bn), significantly impacted by very low demand for fuel during and after lockdown, which is now rebuilding
- Total revenue ex-fuel up 8.8% to £7.55bn (2019/20: £6.93bn)
- PBT and exceptionals[(2)] down 25.3% to £148m (2019/20: £198m), after COVID-19 direct net costs of £62m (£155m costs, partly offset by £93m lower business rates)
- Basic EPS before exceptionals[(2)] down 26.2% to 4.71p (2019/20: 6.38p)
- Statutory profit before tax down 28.2% to £145m (2019/20: £202m)
- Free cash outflow[(3)] £228m (2019/20: inflow £244m), due primarily to the temporary impact on working capital of the lower demand for fuel
- Net debt £2,802m (2019/20 year end: £2,458m)
- Interim ordinary dividend up 5.7% to 2.04p (2019/20: 1.93p). Decision on special dividend remains deferred

Strategic and operating highlights

- In response to the unprecedented COVID-19 challenges, we adopted a purpose to guide us: 'To play our full part in feeding the nation – it's more than our job'
- Deployed Morrisons assets to protect and support colleagues, customers, local communities, the NHS, smaller suppliers, British farmers and charities
- Very strong ex-fuel sales growth sustained throughout the first half
- Substantial investment in price, payroll and service, which continues into second half
- Growing in new stores, formats, online and wholesale
- Online and home delivery order capacity up fivefold, with five new growth channels: Morrisons.com store pick, food boxes, doorstep, 'Morrisons on Amazon' and Deliveroo
- Introduced more flexible and productive ways of working into head office
- Recruited over 45,000 new and temporary colleagues
- Increased our target to reduce own-brand plastic packaging from 25% to 50% by 2025

Financial targets update

- £1bn annualised wholesale supply sales target almost achieved
- Start supplying the remaining c.240 McColl's stores during the second half
- Due to the exceptional circumstances created by COVID-19 we are not reporting against our £75m–£125m incremental profit target
- We are confident of continued strong momentum into the second half, improved free cash flow and net debt, and another year of profit growth

David Potts, Chief Executive, said:

"From the start of the pandemic we stepped up and put the company's assets at the disposal of the country to help feed the nation. Morrisons is at the heart of local communities and responded quickly when it mattered most, and we are very grateful for the British public's appreciation of all the vital work our colleagues are doing. I believe we are seeing the renaissance of British supermarkets.

"We are now looking forward to holding on to what we created in the first half, building on our colleagues' inspiration and innovation, and sustaining the momentum of a broader, stronger Morrisons. I'd like to again thank every Morrisons colleague for their incredible efforts: you've earned your key worker status several times over."

Andrew Higginson, Chairman, said:

"I am so proud of all our colleagues, including our leadership team, for the contribution they are making during the COVID-19 crisis. From the first days of the virus and lockdown our teams have continued to turn in for work and serve our customers, whatever their own personal concerns. It is a tremendous effort, and Morrisons has played a leading role in keeping the nation's food supply open. In so doing, we have been able to help customers, colleagues, local communities and other key stakeholders such as the NHS, smaller suppliers, British farmers and charities."

Dividend update

The 2020/21 interim ordinary dividend is 2.04p per share, up 5.7% (2019/20: 1.93p), reflecting the strong first-half trading performance and our confident outlook.

As stated at both our 2019/20 preliminary results in March and Q1 2020/21 trading statement in May, we had anticipated announcing another final special dividend relating to the second half of 2019/20, which was the period before the onset of COVID-19. However, given the unprecedented nature of events and uncertainty around COVID-19, we determined it would be prudent to defer the decision on both occasions.

While we have a good understanding of how COVID-19 is currently affecting our business and visibility of future cash flows, our decision regarding the second half 2019/20 special dividend remains deferred. This prudent approach reflects some sustained uncertainty around the potential future impact of COVID-19 on both our customers' behaviour and the broader British economy. We will again review our decisions around both the second half 2019/20 and full year 2020/21 special dividends at the time of our preliminary results in March 2021. In future we will take a decision on a potential special dividend once a year, at the time of our preliminary results in March.

Outlook

Despite the unprecedented crisis and many challenges of the first half, our business responded very well and our trading performance was strong.

As previously described, COVID-19 has led us to incur many extra direct costs as we help feed the nation. In total these extra direct costs were c.£155m during the first half, as listed in Figure 1. They were part-mitigated by four months of business rates relief of £93m, meaning a net first half COVID-19 cost of £62m which is reported within profit before tax and exceptionals. In May we estimated that the costs relating directly to COVID-19 during 2020/21 would be broadly offset by the in-year business rates cost saving*. This remains our expectation: we anticipate that the £62m first-half net cost will be offset by a similar second-half net benefit, with extra COVID-19 specific costs at around half the level of the first half and a full six months of rates relief of c.£137m.

As well as the timing of direct COVID-19 costs/lower business rates, the mix of the very strong first-half sales growth was weighted towards online channels and lower margin categories. In addition, fuel sales growth was very negative, our cafés were temporarily closed, and we invested in supporting our colleagues, NHS workers and farmers with extra discounts. We also continued to invest in price cuts, and delayed planned productivity initiatives to focus on our response to COVID-19. While some of these margin impacts may persist into the second half, we are confident that we have a plan for continued LFL growth and that our ongoing programme of significant price cuts and investment in service for customers will drive continued operational gearing.

In wholesale, we are to start supplying the remaining c.240 McColl's stores during the second half, and now expect to be supplying all by early 2021. In addition, during the second half the same-day delivery service 'Morrisons on Amazon' will become available to millions of customers on the Amazon.co.uk website.

We are confident of continued strong momentum into the second half, improved free cash flow and net debt, and another year of growth in profit before tax and exceptionals.

* For 2020/21, we estimate April to January business rates relief of £230m (£2m higher than our estimate in May) in England and Scotland, of which four monthly instalments would have been due in the first half and six in the second half. For 2021/22, we will receive business rates relief for February and March 2021, and resume payments in April 2021.

Figure 1 – Estimated 2020/21 COVID-19 direct net (costs)/lower business rates

£m change year-on-year	**H1**	**H2 estimate**
Extra payroll	(47)	
Extra cost of colleague bonus**	(35)	(30-35)
Colleague and customer protection	(25)	
Food banks and other donations	(9)	
Other costs (inc. extra seasonal waste/markdown, extra distribution costs)	(39)	
Total COVID-19 direct costs	**(155)**	**(70-85)**
Lower business rates	93	137
Total net (cost)/benefit	**(62)**	**c.60**

*** We are paying a 6% 'thank you' guaranteed annual bonus for all frontline colleagues, up threefold on last year*

Figure 2 – H1 2020/21 profit reconciliation

£m	**H1 19/20**	**H1 20/21**	**Y-on-Y**
Statutory operating profit	246	**190**	(22.8)%
Statutory profit before tax	202	**145**	(28.2)%
Exceptional items:			
– Impairment and provision for onerous contracts	-	**(4)**	
– Restructuring and store closure costs	-	**15**	
– Net pension interest income***	(10)	**(8)**	
– Other exceptional items	6	**-**	
Operating profit before exceptionals	252	**201**	(20.2)%
Profit before tax and exceptionals	**198**	**148**	**(25.3)%**

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

Figure 3 – LFL sales performance (ex-VAT, reported in accordance with IFRS 15)

	2019/20					2020/21		
	Q1	**Q2**	**H1**	**H2**	**FY**	**Q1**	**Q2**	**H1******
Retail contribution to LFL	0.2%	(2.4)%	(1.1)%	(1.7)%	(1.4)%	5.1%	11.1%	7.9%
Wholesale contribution to LFL	2.1%	0.5%	1.3%	0.0%	0.6%	0.6%	1.2%	0.8%
Group LFL ex-fuel	**2.3%**	**(1.9)%**	**0.2%**	**(1.7)%**	**(0.8)%**	**5.7%**	**12.3%**	**8.7%**
Group LFL inc-fuel	2.7%	(2.2)%	0.2%	(2.5)%	(1.1%)	(3.9%)	2.1%	(1.1)%

*****As previously announced, Q1 2020/21 was extended by a week to 14 weeks and compared to the same 14 weeks last year to allow for the later May bank holiday this year and to ensure comparable trading periods. As a result, Q2 was 12 weeks and compared to the same 12 weeks last year.*

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 (PBT) and exceptionals:** defined as profit before tax, exceptional items and net retirement benefit interest. **Earnings per share (EPS) before exceptionals:** based on profit before exceptional items and net retirement benefit 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 2. See Note 8 for a reconciliation between basic EPS and EPS before exceptionals.

(3) **Free cash flow:** defined as movement in net debt before the payment of dividends. Free cash flow for the period is an outflow of £228m (2019/20: inflow of £244m), being the increase in net debt of £344m (2019/20: £36m lower) adjusted for dividends paid of £116m (2019/20: £208m).

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

This announcement includes inside information.

– 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

During the first half of 2020/21, all our efforts were fully focused on deploying our assets in the best way to enable our colleagues to help feed the nation during the COVID-19 crisis. Those colleagues responded with extraordinary dedication and professionalism, and our business performed very well.

Group LFL excluding fuel was up 8.7%, comprising a retail contribution of 7.9% and wholesale contribution of 0.8%.

Q2 accelerated significantly on Q1 with Group LFL excluding fuel of 12.3%, comprising retail of 11.1% and wholesale of 1.2%.

Total revenue was £8.73bn, down 1.1% year on year. Total revenue growth excluding fuel was up 8.8%.

Fuel sales were down 37.4% to £1.19bn, severely affected during lockdown and the immediate aftermath by the impact of COVID-19. Fuel sales volume has been gradually recovering throughout Q2.

For retail, LFL sales had been improving since the start of 2020 and improved again before the impact of COVID-19, to flat for the first four weeks of 2020/21. Trading during the rest of Q1 was volatile, with stocking up driving very strong sales, then negative LFL during the initial lockdown and Easter period, followed by a significant improvement towards the end of Q1. LFL improved further into Q2 and remained very strong throughout, with some moderation towards the end of the quarter as the eat-out market began to open up. Growth in all our online and home delivery channels – Morrisons.com, Amazon, food boxes, doorstep delivery and Deliveroo – was very substantial during the first half.

For wholesale, sales to our convenience store operator partners were strong throughout the first half. Sales at the 30 trial McColl's to Morrisons Daily conversions were strong, and we will start supplying the remaining c.240 McColl's stores during the second half.

Operating profit before exceptionals was down 20.2% to £201m (2019/20: £252m), with margin down 55 basis points (bps) to 2.3%. EBITDA before exceptionals was down 8.2% to £472m (2019/20: £514m), with margin down 42 bps to 5.4%.

Profit was temporarily impacted by the considerable costs of COVID-19, especially extra payroll, bonus, colleague and customer safety protection measures, distribution costs, and seasonal waste and markdown, plus various initiatives for food banks, charities and local communities. In total these extra costs were c.£155m during the first half. They were part-mitigated by four months of business rates relief of £93m, meaning a net first half COVID-19 cost impact of £62m. Without this extra cost, operating profit before exceptionals would have grown £11m year on year, with margin up 16 bps and EBITDA margin up 29 bps.

Net finance costs before exceptionals were £53m (2019/20: £54m).

Profit before tax and exceptionals was down 25.3% to £148m (2019/20: £198m). Without the extra net £62m COVID-19 direct costs/lower business rates, profit before tax and exceptionals would have grown £12m (+6.1%) year on year.

As well as the impact of the direct COVID-19 net costs, operational leverage was limited as the mix of the very strong first-half sales growth was weighted towards lower margin ambient grocery categories, beers, wines and spirits, and online, while sales in higher margin food-to-go and our Market Street service counters were severely limited for a period, and our café business was closed between late March and early July. Profit was also impacted by the very low demand for fuel, our efforts to support colleagues, NHS workers and farmers with extra discounts, and by temporary delays to various productivity initiatives as we focused all our efforts on playing our full part in feeding the nation.

Mitigating these profit impacts, underlying operational gearing was strong, helped by the benefits of vertical integration and the further significant investment in price cuts driving strong volume growth, and we again performed well in reducing both shrink and the number of less effective promotions.

Due to the exceptional circumstances created by COVID-19, we are not reporting against our target for £75m–£125m incremental profit from wholesale, services, online and interest.

Exceptional items recognised outside profit before tax and exceptionals were a net £3m (Figure 2). Of these, there was a £9m restructuring charge for modernising our ways of working at head office. As we adopt more digital and flexible initiatives for colleagues we are moving to a more streamlined structure in the centre, with fewer senior colleagues and broader, bigger roles for more junior colleagues. This is simplifying and speeding up the business, and improving our efficiency and productivity. In addition, there was a £6m cost relating to a slight delay in the retail restructuring that we announced in January. There was also a £4m net credit relating to impairment and provision for onerous contracts, and net retirement benefit interest income was £8m.

Basic EPS before exceptionals was down 26.2% to 4.71p (2019/20: 6.38p).

Cash capital expenditure was £200m (2019/20: £212m).

There was a free cash outflow of £228m (2019/20: £244m inflow). This was due primarily to an operating working capital outflow of £284m, which was caused by temporarily significantly lower fuel sales together with a low retail price for fuel, plus the impact of paying our smaller suppliers immediately and some investment in stock availability. In addition, first half profit was lower due to the impact of COVID-19.

Group net debt was £2,802m, compared to £2,458m at the end of 2019/20. Excluding lease liabilities, net debt was £1,412m (2019/20 year end: £1,082m).

The interim ordinary dividend is up 5.7% to 2.04p (2019/20 1.93p).

Three new supermarkets opened in the period, in Amble, Bradwell and Stirchley, plus a Nutmeg store on our Bolsover site, with an overall net increase of c.67k square feet.

Return on capital employed (ROCE) was 6.2%, down from the first half of 2019/20 (7.1%) due to the temporary impact of COVID-19.

COVID-19 and strategy update

COVID-19 has created unprecedented challenges and changed both our near-term priorities and how we operate. In responding to the crisis we adopted a purpose to guide us through the pandemic: 'To play our full part in feeding the nation – it's more than our job'. All our recent efforts have been focused on that purpose: protecting our colleagues and customers, and working together with our own food makers and our other suppliers to provide food to all across Britain, especially the self-isolating and the most in need.

Initially that response focused on protecting our colleagues and customers with screens, sanitiser, social distancing measures, extra cleaning, other hygiene initiatives and extra marshals. We also guaranteed pay for sick, self-isolating and other affected colleagues, and tripled the annual bonus for those on the frontline, while recruiting over 45,000 new colleagues to both cover absence and to invest significantly in expanding our online and home delivery services, including a free doorstep delivery service for the most vulnerable.

In addition, we are paying c.3,000 smaller suppliers immediately and giving extra discounts to our colleagues, 10% off for NHS workers and 5% for our farmer suppliers. We are spending £10m to restock Britain's foodbanks, have made various donations to homeless charities, and developed new boxes and bulk delivery services to provide vital supplies to customers, charities and local authorities quickly and at great prices.

In the early phases of the pandemic (panic buying and lockdown) when food retailers were one of the few lifelines able to function in British society, the Government's quick decision on business rates relief for all retailers allowed us the certainty and flexibility to apply some of these initiatives immediately, when any delay would have made the situation even worse. While these initiatives have initially cost us considerably more than the rates relief, we are pleased and proud that we were able to act so quickly and decisively for all our stakeholders, and that many of the initiatives still continue into the second half. We have summarised our COVID-19 initiatives in Appendix 1.

The business has managed the near-term challenges of COVID-19 well, while also remaining focused on our longer-term Fix, Rebuild, Grow, Sustain strategy. Some planned Fresh Look, productivity and customer service initiatives were slightly delayed during the initial stages of the crisis, but we have continued to grow a broader, stronger Morrisons throughout and are hitting the ground running as lockdown gradually eases.

We plan to emerge from the crisis even better for customers. Head office processes and structures are being simplified and digitised to encourage more permanent remote working and greater freedom for teams to effect change and improvement more quickly. We want to continue to seize what seem like step-change opportunities in the online and at-home markets, holding on to the new growth we have created so far and developing new ideas, in both retail and wholesale, to be even bigger and better in the future. Value will remain at the heart of Morrisons: whether or not Britain's recession is prolonged, great prices and good quality are paramount, and we are currently redoubling our efforts on delivering those, as well as continuing to invest in jobs and service to provide the best shopping trip we possibly can.

Our growth will continue to be capital light, we will always strictly adhere to the principles of our capital allocation framework, and will review the uses of free cash flow each year.

Seven priorities update

Throughout the years of our turnaround, while executing our Fix, Rebuild, Grow, Sustain strategy, we have been guided by our priorities. This has been especially so recently, with our priorities providing a framework for responding and growing during COVID-19.

1. To be more competitive

Value is of paramount importance to our customers, and even more so in periods of economic uncertainty and recession. We have continued to improve the Morrisons price list by investing in prices and improving product specification, packaging and merchandising across hundreds of our customers' favourite items. Inflation was flat throughout the first half, including deflation in some categories such as fruit & veg, leading to a further improvement in our relative competitiveness for customers.

In addition, we have substantial cost-saving, productivity, and COGS opportunities which we are accessing in partnership with our suppliers. These include distribution and supply chain costs, mix, volume-related discounts, replenishment, packaging and digitisation. These give us extra opportunities to invest further in price, service and range, and keep improving the shopping trip for customers.

We have also extended our great-value offer into other areas such as non-food and fuel. For example, we have introduced flat pricing across our Nutmeg kids clothing offer, allowing standardised prices across all ages and sizes, starting with the Back to School range. As lockdown eased, we also acted quickly to reduce the fuel price to below 100p per litre for unleaded, our lowest price since 2016.

2. To serve customers better

Our colleagues have been outstanding during the crisis, facing into unprecedented challenges with professionalism, enthusiasm and resourcefulness. We adapted well to the many new practical demands around social distancing, such as extra protection, queues, marshals and hygiene. We also introduced new initiatives, such as speedy shopping to ensure our smaller-basket shoppers can access and navigate our stores quickly.

In addition, our online and home delivery offer expanded at unprecedented pace, with order capacity up fivefold during the first half. Most customers across Britain have access to several different options, with almost every Morrisons supermarket now offering at least one home delivery service.

For Morrisons.com, we more than doubled the number of weekly home deliveries during the first half, well in excess of the 60% increase we initially planned for. This was achieved, together with our partner Ocado, through a substantial increase in the number of store-pick stores (up from 33 to 193) and a further optimisation of the capacity in the Dordon customer fulfilment centre. In addition, from a trial of just six stores in March, we now offer click-and-collect pick-up from almost 280 Morrisons stores.

Home delivery for customers has been further extended beyond Morrisons.com. During the first half we launched the 'Food Box Company', with production facilities at our food manufacturing sites and depots to prepare food boxes which are delivered direct to customers' houses by a third party. Many different home delivery food boxes have been introduced, all available either online or via a telephone call. These were initially aimed at providing essentials to vulnerable and self-isolating people, and then extended to other options such as British meat, gluten free, BBQ, Ramadan, and more recently, a 'Five Meals to Feed a Family of Four' scratch cook box for £30, which is just £1.50 per meal. In addition, we have formed a partnership with Deliveroo to deliver groceries in as little as 30 minutes to customers, currently available from over 180 Morrisons stores.

During the period we also significantly expanded 'Morrisons on Amazon', the same-day online home delivery service. At the time of the 2019/20 preliminary results in March, the service operated from 17 Morrisons stores in eight cities. It has now been extended nationwide to around 50 stores, covering most major cities and many towns. New areas covered include Edinburgh, Cardiff, Bristol, Portsmouth, Cambridge and most of the major conurbations of the West and East Midlands, as well as more London stores thereby expanding delivery coverage to over 90% of Greater London postcodes. In addition, since half-year end, we and Amazon have jointly announced that 'Morrisons on Amazon' is now available on Amazon.co.uk, initially in Leeds, and expanding to millions of Prime members across the country before the end of the year. These initiatives further strengthen our partnership, and give more customers in more cities and towns across Britain easier access to a full Morrisons range including, for the first time, many fresh Market Street items.

We are constantly looking to improve the shopping trip for customers. Although our plans for a new colleague structure were slightly delayed by the pandemic they are now complete, and we have thousands more colleagues on the shop floor to serve customers better. We have removed over 3,000 managerial roles and created 7,000 new customer-facing roles, further aligning our shop floor with our food maker, shopkeeper credentials.

With our service counters and Market Street now fully reopen, we are also making additional payroll investments for customers in these areas. This means more specialist fresh food hours, particularly on our service counters and in key departments such as fruit & veg. Initial trial stores have been successful, with improvements in both sales and profit, and we now intend to introduce these initiatives into many more stores.

3. Find local solutions

Morrisons has continued to champion and support local farmers, growers and other suppliers, especially during this more difficult period, where the temporary closure of a substantial part of the catering industry continues to affect many. Right at the start of the crisis we moved to immediate payment for c.3,000 small suppliers and increased the eligibility threshold to £1m of annual sales from £100,000, which meant a £65m working capital investment to support our local partners.

We are also supporting many local products. For example, in Yorkshire we are selling 'Fettle' cheese, which is made by a local, family-run company, in over sixty stores across the county. It is a version of feta made from sheep's milk which was previously in falling demand due to the steep decline of the catering sector during COVID-19.

In addition, we recently announced the acquisition of Lansen Nursery, a leading supplier of outdoor plants based in Spalding, Lincolnshire. The acquisition complements our existing

Flowerworld business, and means we will offer more locally grown horticulture and become more competitive for customers.

Our supermarkets are now even more at the centre of the local communities they serve. Each store's Community Champion has been allocated more hours to help local charities and community groups. These colleagues are also personally distributing doorstep delivery orders to vulnerable and self-isolating customers in their local catchment areas.

Local convenience shopping is proving more popular with customers during COVID-19. Sales to our convenience store operator partners – including McColl's, Rontec, MPK, Harvest Energy, and Sandpiper CI in the Channel Islands – were strong throughout the first half. Together with 55 of our own Morrisons Daily forecourt shops, we now supply over 1,300 convenience stores, all of which are serving customers in their local catchments. Overall for wholesale supply, we are almost at our target of £1bn of annualised sales.

During the second half we are to start supplying the remaining c.240 McColl's local convenience stores that we do not already supply. We expect to be supplying all c.240 by early 2021, slightly later than initially expected as the roll-out has been delayed due to the impact of COVID-19.

4. Develop popular and useful services

Many of our popular and useful services have been severely disrupted during the first half with many, such as Timpsons, closed during the crisis, and our own important café business closed between late March and early July.

However, it has also been a period of innovation for services. Our very popular new doorstep delivery service is a telesales offer, introduced at all our stores and offering a lifeline for the elderly and most vulnerable who do not have access to online or other help. Customers simply call a central support number, order groceries largely from a pre-set list by talking directly to a Morrisons colleague, and the groceries are delivered next day by the local store's Community Champion. In a variation of this service, we have recently agreed with McCarthy & Stone, the leading developer and manager of retirement communities, to provide a doorstep delivery service to all its homeowners in almost 450 neighbourhoods across the UK.

In addition, we have recently launched a new wholesale supply bulk delivery service. We have started to supply local councils, care homes and some charities, such as The Salvation Army, across Britain with great-value bulk supplies at wholesale prices.

Our existing popular and useful services are also starting to re-open. For example, from mid-June we became the first supermarket to open a national takeaway service, with all of our 402 cafés offering new hot-to-go dishes, such as two portions of fish and chips for £10. From 4th July, when catering restrictions were relaxed, we launched our café business, with 320 open for the first time since March. We installed 11,000 protective screens and introduced new social distancing protocols to keep our customers and colleagues safe. The cafés were launched with a new menu, including many traditional favourites at great value prices.

5. To simplify and speed up the organisation

COVID-19 has required and empowered a renewed pace, determination and creativity at Morrisons. One of our five ways of working is 'freedom within the framework', which has been key in enabling new innovation. For example, our new boxes and doorstep delivery initiatives went from idea to execution very quickly, and our home delivery services have multiplied as we found new and innovative ways to adapt and grow our various offers.

We are determined to embed these simpler, quicker ways of working into Morrisons. During the first half we completed our restructuring of colleague roles in stores, with a significant increase in customer-facing roles. We have also recently reorganised the offices in the centre, moving to a more modern, digitalised structure, allowing colleagues fewer, more flexible and more remote working hours across a six-day week. We have reduced the number of senior roles and introduced bigger, broader roles elsewhere, thereby allowing the flexibility and freedom for individuals and teams to organise themselves so as to effect change, efficiency and improvement more quickly. New and young talent is now shining through at Morrisons and is the driving force behind many of our best new ideas.

6. To make core supermarkets strong again

COVID-19 has prompted a reappraisal of Morrisons supermarkets by many customers, with the return of the 'big weekly shop' and a greater appreciation of the full breadth of our range, our great prices, friendly customer service and food-maker expertise. We intend to keep investing in improving the shopping trip further and maintain the momentum of this renaissance of supermarkets.

We have also made significant further progress in new store and new format development during the first half. We opened three new stores, in Amble, Bradwell and Stirchley, plus a new clothing and home & leisure Nutmeg store at our site in Bolsover. In addition, developing learnings from our new Canning Town store, we have recently converted our store in Manchester Piccadilly to include a food-to-go Market Kitchen. This includes a 'dark kitchen', where food is freshly prepared behind the scenes in store and delivered to customers by Deliveroo. As usual, we will take learnings from all these new stores and new formats and, where appropriate, incorporate them into our Fresh Look and modular plans.

7. Naturally Digital

Naturally Digital has enabled many of our new initiatives and our new ways of working. For example, doorstep delivery, £45 contactless payments, the systems behind the growth in online and with Amazon, plus the step-change in the restructuring of our central offices to more remote and flexible working, have all been powered by new digital technology and methods.

In addition, we are also starting to trial a new Scan and Go app that allows customers to scan shopping via their smartphone and pay quickly at the checkout.

Financial strategy and update

Capital allocation framework

A strong balance sheet is the foundation of our Fix, Rebuild, Grow, Sustain strategy. Debt is low, the property estate is predominantly freehold, and the pension is in a net surplus position. Capital expenditure has halved since its peak and is at a sustainably lower level. In recent years, we have generated significant and sustained levels of free cash flow, and managed the business with consistent capital discipline and capital allocation principles.

Shareholder returns

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.

Our policy is for the ordinary annual dividend to be sustainable and covered around two times by underlying EPS.

The interim ordinary dividend is 2.04p, up 5.7% (2019/20: 1.93p).

As stated at both our 2019/20 preliminary results in March and Q1 2020/21 trading statement in May, we had anticipated announcing another final special dividend relating to the second half of 2019/20, which was the period before the onset of COVID-19. Instead, given the unprecedented nature of events and uncertainty around COVID-19, we determined it would be prudent to defer the decision on both occasions.

While we have a good understanding of how COVID-19 is currently affecting our business and visibility of future cash flows, our decision regarding the second half 2019/20 special dividend remains deferred. This prudent approach reflects some sustained uncertainty around the potential future impact of COVID-19 on both our customers' behaviour and the broader British economy. We will again review our decisions around both the second half 2019/20 and full year 2020/21 special dividends at the time of our preliminary results in March 2021. In future we will take a decision on a potential special dividend once a year, at the time of our preliminary results in March.

Cash flow and working capital

Free cash flow was an outflow of £228m (2019/20: inflow of £244m). This was due primarily to an operating working capital outflow of £284m (2019/20: £81m inflow). Although the very strong retail sales were favourable for working capital, there was a large impact from lower fuel demand as customers took significantly fewer car journeys, especially at the start of COVID-19. Very low fuel prices also impacted cash flow. We expect the fuel effect will be temporary; it is already reversing as fuel sales are improving. In addition: there was a £65m impact from paying small suppliers immediately, which was slightly higher than previously announced as more suppliers than initially expected were able to benefit from the scheme; we invested in higher stock availability levels; and first half profit was lower due to the impact of COVID-19.

There has been a change in the rules around UK corporation tax quarterly instalments, with companies now paying tax in the year to which it relates. As previously guided, we paid quarterly tax instalments for second half 2019/20 and first half 2020/21, which resulted in an additional tax payment in the period.

Capital expenditure/depreciation and amortisation

Cash capital expenditure was £200m (2019/20: £212m), and we still expect full-year capital expenditure of c.£525m. We opened four new stores during the first half as planned and expect to open a further three in the second half. Our refits were largely paused during the first half, with only two Fresh Looks completed. We plan to restart our Fresh Look programme during the second half, with 25 projects expected. During the first half we also introduced a new people system and fresh warehouse management system..

In addition, we incurred £7m of onerous cash payments in the first half and now expect c.£25m for 2020/21. This is higher than previously guided as we are now anticipating a small number of additional re-negotiations of legacy leases. Our programme around onerous cash payments for freehold stores is now complete.

Depreciation and amortisation was £271m (2019/20: £262m), and we still expect full year 2020/21 to be c.£550m.

Debt and interest

Group net debt was £2,802m (2019/20 year end: £2,458m). Excluding lease liabilities, net debt was £1,412m (2019/20 year end: £1,082m). The increase was mostly due to the temporary outflow in working capital, which we expect to normalise as fuel sales continue to recover. We expect net debt to improve during the second half.

Morrisons continues to operate from a very robust financial position, with a strong balance sheet, low debt and a strong debt maturity profile. In the early stages of the COVID-19 crisis, we took the opportunity to further improve our liquidity. On attractive financial terms, we extended one £100m revolving credit facility (RCF) from July, and put in place another three new £100m RCFs, taking our total RCF facilities from £1.45bn to £1.75bn. Of the £1.75bn, £1.35bn runs until 2025, and the four £100m facilities run for a year with two having options to extend by six months. As at the end of the first half we were £470m drawn on our RCF, with still very significant liquidity headroom.

Net finance costs before exceptionals were £53m, down £1m from last year (2019/20: £54m). We still expect full year 2020/21 net finance costs before exceptionals to be c.£105m as previously guided.

Pension

The net pension accounting surplus was £880m (£944m as at 2 February 2019/20). First-half net pension interest income was £8m (2019/20: £10m), again reported outside of profit before tax and exceptionals.

Net new space

As well as the three new stores and the Nutmeg clothing and home & leisure store that we opened during the first half, we plan to open a further three stores in the second half. We still expect 2020/21 net new space sales contribution (ex-fuel) to be 0.3%.

Future reporting

Due to the exceptional circumstances created by COVID-19 we are not reporting against our target for £75m–£125m incremental profit from wholesale, services, online and interest.

In future, we intend to take decisions on a potential special dividend once a year at the time of our preliminary results in March.

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.

Recognising the vital role of Britain's food banks during the COVID-19 crisis, we are donating £10m of food supplies to help to meet increased demand across our local communities. The food was distributed through our Community Champions (in-store colleagues who work with the local community) to where it was most needed.

As charity shops were forced to close temporarily, we offered Marie Curie and CLIC Sargent workers the opportunity to work in our stores alongside our Community Champions. By joining forces we were able to better support elderly and vulnerable customers with their shopping trip and do even more in the local community.

The Morrisons Foundation also set up a special fund to support charities working with homeless people. In just 12 weeks, £570,000 was donated to charities across the UK providing shelter, hot meals and essential supplies to rough sleepers who are particularly vulnerable to COVID-19.

COVID-19 is an unprecedented challenge for many of the farmers, fishermen and other food makers that supply us. As well as paying our smaller suppliers immediately, at the height of the pandemic our fresh food counters stepped in to offer fresh meat and fish products that, in normal times, may otherwise have been supplied to cafés and restaurants. In addition, one of our new food boxes is a British Food Box, containing products from our 'For Farmers' range. For every box sold, there is a £1 donation to British Farming Charities via The Prince's Countryside Fund.

We continued our sponsorship of Farm24, an initiative which celebrates British Farming. To support social distancing we used digital channels to share stories from our farmers and local suppliers, giving customers and colleagues a chance to learn more about British agriculture.

Reducing our plastic footprint

Reducing plastic packaging is consistently highlighted as one of the top three issues our customers care most about in our annual corporate responsibility survey. We are responding at pace on this issue, and have recently increased our target to reduce our own-brand primary plastic packaging from 25% to 50% by 2025.

Following the introduction of paper carrier bags at checkouts in all our stores, one in three customers has already made the switch from plastic bags to paper. We are now planning to remove all plastic ‘bags for life’ from checkouts, if a trial in eight stores proves popular.

Tackling deforestation

We have made a commitment for key commodities, including soy, palm and timber, to assure zero deforestation or conversion of high conservation value land in our supply chains by 2025. Building on the progress we have made in our palm supply chains, which are now Roundtable on Sustainable Palm Oil certified, we have implemented an action plan for soy, another important commodity widely used in agricultural supply chains. We will be requiring sustainability certification for soy used as an ingredient in own-brand products from 2021, and we are working towards introducing certified soy in animal feeds.

We have also become members of the UK Roundtable on Sustainable Soy, a collaboration between the UK Government and industry which includes a commitment to source soya that is cultivated in a way that protects against conversion of forests and valuable native vegetation.

Good Calf Award

We have been awarded the Good Calf Award as part of the 2020 Good Farm Animal Welfare Awards, presented on behalf of Compassion in World Farming. This was in recognition of our joint venture partnership with Arla Foods and Buitelaar to set up a new higher welfare dairy beef scheme. By 2025, we aim for all Morrisons dairy beef to be sourced as part of this scheme.

Partnering with the Better Cotton initiative

Morrisons has committed to sourcing 100% of cotton used in its Nutmeg clothing range as Better Cotton by 2025. The Better Cotton initiative makes global cotton production better for the people who produce it, better for the environment it grows in, and better for the sector’s future. Additionally, Nutmeg is participating in the CanopyStyle initiative, which is focused on ending the use of ancient and endangered forests in viscose clothing. By 2022, Nutmeg will take steps to ensure that all man-made cellulosic fibres used in its clothing range, such as viscose, come from responsibly managed forest sources.

Focusing on human rights in our supply chain

As a responsible retailer we understand that our customers and stakeholders expect us to be transparent about how we operate.

We have published details of all first-tier factories producing our Nutmeg branded range of clothing and our own-brand food and non-food products, including data relating to gender and access to worker representation. In addition, we have signed up to the UN Women's Empowerment Principles, which are designed to advance gender equality and women's empowerment in the workplace, marketplace and community.

Supporting those with hidden disabilities

Morrisons has joined the sunflower lanyard scheme. This is a national initiative designed to act as a discreet sign that somebody has a hidden disability like autism, mental ill-health, dementia or sensory impairments, which may mean they need a little extra help or time when shopping. Lanyards are free of charge to customers and available at all our stores.

We see this as particularly important during the current pandemic as lanyards may help us identify customers who might be exempt from wearing a face covering due to their hidden disability.

Raising vital funds for our charity partner

Our partnership with CLIC Sargent aims to raise £16m by February 2022. Whilst COVID-19 has meant we have had to adapt our ways of working, it hasn't stopped our colleagues and customers from raising vital funds to support young cancer patients and their families. Together, in the first half of 2020 we raised £1.5m, bringing the total since the partnership began to over £12.5m. Money raised in the final two years of the partnership will fund a brand new CLIC Sargent Home from Home in Manchester, where families from all over the country will stay whilst undergoing treatment nearby.

Appendix 1 – COVID-19 initiatives during H1 2020/21

Protecting our colleagues and customers:

- Protective screens introduced around the till area of almost 6,500 main bank checkouts in ten days, plus further screens introduced at self-service tills, and in front of checkouts, pharmacy counters and customer service desks
- Social distancing measures at all Morrisons sites, including marshal-controlled entry, basket-only queuing and reconfigured customer flow at all our stores
- Hand sanitiser, gloves and masks available for all store colleagues
- Increased cleaning and other hygiene initiatives at all our sites
- Temporarily closed cafés, food-to-go and service counters, all of which have now successfully re-opened incorporating protection and social distancing measures
- Contactless in-store card payment limit lifted from £30 to £45

Supporting colleagues, customers, suppliers, local communities and the NHS:

- Enhanced pay guarantees for sick, self-isolating and affected colleagues, plus greater flexibility around shifts and annual leave
- A 6% 'thank you' guaranteed annual bonus for all frontline colleagues, up threefold on last year, and payable quarterly rather than at year end
- Colleague discount increased
- A hardship fund to support colleagues in financial difficulty due to the crisis
- Recruited over 45,000 new and temporary colleagues in stores, manufacturing, supply chain, and in online and home delivery as we significantly expand capacity
- No colleagues furloughed
- A new wholesale bulk delivery service for local councils, care homes and charities
- Investment in higher stock availability, plus immediate payment to all our c.3,000 small suppliers which has been a temporary working capital investment of c.£65m
- A 5% Morrisons discount for our c.3,000 British farmer suppliers
- £10m of food being distributed by Morrisons Community Champions to help re-stock Britain's food banks
- £500,000 of emergency funds being donated by the Morrisons Foundation to homeless charities to help them through the extra demands of the crisis
- NHS workers' hour early in the morning, allowing queue-free access
- NHS workers' 10% Morrisons discount
- NHS workers' click-and-collect food boxes delivered to hospital car parks

Feeding the nation:

- Morrisons colleagues on the frontline, in stores, manufacturing, supply chain and home delivery recognised by government as key workers
- 'Morrisons on Amazon' now nationwide, and soon becoming available to millions of customers on Amazon.co.uk
- Online and home delivery order capacity up fivefold, Morrisons.com home deliveries more than doubled, and click-and-collect service now at almost 280 stores
- Many types of home delivery food boxes introduced, initially providing essentials for the vulnerable and self-isolating, and since expanded into new options
- A free doorstep delivery telesales grocery service introduced at all our stores for the most vulnerable and elderly without access to online or help
- A partnership with Deliveroo to deliver groceries in as little as 30 minutes to customers by courier from over 180 Morrisons stores

Consolidated income statement

26 weeks ended 2 August 2020

		26 weeks ended 2 August 2020 (unaudited)			26 weeks ended 4 August 2019 (unaudited)			52 weeks ended 2 February 2020		
	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	**8,734**	**-**	**8,734**	8,831	-	8,831	17,536	-	17,536
Cost of sales		**(8,437)**	**(6)**	**(8,443)**	(8,490)	(4)	(8,494)	(16,855)	(52)	(16,907)
Gross profit		**297**	**(6)**	**291**	341	(4)	337	681	(52)	629
Other operating income		**45**	**-**	**45**	44	-	44	94	-	94
Profit/loss on disposal and exit of properties		**-**	**-**	**-**	-	-	-	-	66	66
Administrative expenses		**(141)**	**(5)**	**(146)**	(133)	(2)	(135)	(262)	(6)	(268)
Operating profit		**201**	**(11)**	**190**	252	(6)	246	513	8	521
Finance costs	5	**(57)**	**-**	**(57)**	(55)	-	(55)	(111)	-	(111)
Finance income	5	**4**	**8**	**12**	1	10	11	5	19	24
Share of profit of joint venture (net of taxation)		**-**	**-**	**-**	-	-	-	1	-	1
Profit before taxation		**148**	**(3)**	**145**	198	4	202	408	27	435
Taxation	6	**(35)**	**(40)**	**(75)**	(46)	-	(46)	(94)	7	(87)
Profit for the period attributable to the owners of the Company		**113**	**(43)**	**70**	152	4	156	314	34	348
Earnings per share (pence)										
Basic	8			**2.92**			6.56			14.60
Diluted	8			**2.91**			6.47			14.44

Consolidated statement of comprehensive income

26 weeks ended 2 August 2020

Other comprehensive (expense)/income	Note	**26 weeks ended 2 August 2020 (unaudited) £m**	26 weeks ended 4 August 2019 (unaudited) £m	52 weeks ended 2 February 2020 £m
Items that will not be reclassified to profit or loss				
Remeasurement of defined benefit schemes	14	**(75)**	50	231
Tax on defined benefit schemes		**(1)**	(9)	(38)
		(76)	41	193
Items that may be reclassified subsequently to profit or loss				
Cash flow hedging movement		**21**	4	(57)
Exchange differences on translation of foreign operations		**2**	-	(2)
Tax on items that may be reclassified subsequently to profit or loss		**(3)**	(2)	10
		20	2	(49)
Other comprehensive (expense)/income for the period, net of tax		**(56)**	43	144
Profit for the period attributable to the owners of the Company		**70**	156	348
Total comprehensive income for the period attributable to the owners of the Company		**14**	199	492

Consolidated statement of financial position

As at 2 August 2020

	Note	**2 August 2020 (unaudited) £m**	4 August 2019 (unaudited) £m	2 February 2020 £m
Assets				
Non-current assets				
Goodwill and intangible assets	9	**386**	392	381
Property, plant and equipment	10	**7,120**	7,076	7,147
Right-of-use assets	11	**960**	923	942
Investment property	12	**58**	59	58
Retirement benefit surplus	14	**909**	774	960
Investment in joint venture		**39**	47	39
Trade and other receivables		**69**	8	71
Derivative financial assets	17	**3**	22	-
		9,544	9,301	9,598
Current assets				
Inventories		**691**	583	660
Trade and other receivables		**365**	341	353
Derivative financial assets	17	**6**	26	1
Current tax assets		**18**	-	-
Cash and cash equivalents	16	**229**	225	305
		1,309	1,175	1,319
Assets classified as held-for-sale	13	**6**	38	3
		1,315	1,213	1,322
Total assets		**10,859**	10,514	10,920
Liabilities				
Current liabilities				
Trade and other payables		**(2,787)**	(2,991)	(3,051)
Borrowings	17	**(47)**	(403)	(237)
Lease liabilities	16	**(72)**	(69)	(72)
Derivative financial liabilities	17	**(20)**	(2)	(36)
Current tax liabilities		**-**	(22)	-
		(2,926)	(3,487)	(3,396)
Non-current liabilities				
Borrowings	17	**(1,577)**	(842)	(1,108)
Lease liabilities	16	**(1,318)**	(1,314)	(1,304)
Derivative financial liabilities	17	**(6)**	(1)	(7)
Retirement benefit deficit	14	**(29)**	(23)	(16)
Deferred tax liabilities		**(502)**	(430)	(472)
Provisions		**(54)**	(74)	(76)
		(3,486)	(2,684)	(2,983)
Total liabilities		**(6,412)**	(6,171)	(6,379)
Net assets		**4,447**	4,343	4,541
Shareholders' equity				
Share capital	18	**241**	240	240
Share premium	18	**198**	189	192
Capital redemption reserve		**39**	39	39
Merger reserve		**2,578**	2,578	2,578
Retained earnings and other reserves		**1,391**	1,297	1,492
Total equity attributable to the owners of the Company		**4,447**	4,343	4,541

Consolidated statement of cash flows

26 weeks ended 2 August 2020

	Note	**26 weeks ended 2 August 2020 (unaudited) £m**	26 weeks ended 4 August 2019 (unaudited) £m	52 weeks ended 2 February 2020 £m
Cash flows from operating activities				
Cash generated from operations	15	**130**	567	1,017
Interest paid		**(64)**	(61)	(104)
Taxation paid		**(67)**	(46)	(87)
Net cash (outflow)/inflow from operating activities		**(1)**	460	826
Cash flows from investing activities				
Interest received		**-**	-	1
Dividends received from joint venture	21	**-**	-	9
Proceeds from the disposal of property, plant and equipment, right-of-use assets, investment property and assets classified as held-for-sale		**4**	3	34
Purchase of property, plant and equipment, right-of-use assets and investment property		**(162)**	(173)	(429)
Purchase of intangible assets		**(38)**	(39)	(81)
Acquisition of business (net of cash received)		**-**	-	(1)
Net cash outflow from investing activities		**(196)**	(209)	(467)
Cash flows from financing activities				
Purchase of trust shares	18	**-**	(3)	(10)
Settlement of share awards	18	**(10)**	(2)	(2)
Proceeds from exercise of employee share options		**6**	12	14
New borrowings		**517**	-	347
Repayment of borrowings		**(237)**	(53)	(278)
Repayment of lease obligations		**(39)**	(36)	(87)
Dividends paid	7	**(116)**	(208)	(302)
Net cash inflow/(outflow) from financing activities		**121**	(290)	(318)
Net (decrease)/increase in cash and cash equivalents		**(76)**	(39)	41
Cash and cash equivalents at start of period		**305**	264	264
Cash and cash equivalents at end of period	16	**229**	225	305

Reconciliation of net cash flow to movement in net debt[1] in the period

	Note	**26 weeks ended 2 August 2020 (unaudited) £m**	26 weeks ended 4 August 2019 (unaudited) £m	52 weeks ended 2 February 2020 £m
Net (decrease)/increase in cash and cash equivalents		**(76)**	(39)	41
Cash inflow from increase in borrowings		**(517)**	-	(347)
Cash outflow from repayment of borrowings		**237**	53	278
Cash outflow from repayment of lease liabilities		**39**	36	87
Non-cash movements on lease liabilities		**(53)**	(22)	(66)
Other non-cash movements		**26**	8	(57)
Opening net debt[1]		**(2,458)**	(2,394)	(2,394)
Closing net debt[1]	16	**(2,802)**	(2,358)	(2,458)

[1] Net debt is defined in the Glossary.

Consolidated statement of changes in equity

26 weeks ended 2 August 2020 (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 3 February 2020		240	192	39	2,578	(37)	1,529	4,541
Profit for the period		-	-	-	-	-	70	70
Other comprehensive income/(expense):								
Cash flow hedging movement		-	-	-	-	21	-	21
Exchange differences on translation of foreign operations		-	-	-	-	-	2	2
Remeasurement of defined benefit schemes	14	-	-	-	-	-	(75)	(75)
Tax in relation to components of other comprehensive income		-	-	-	-	(3)	(1)	(4)
Total comprehensive income/(expense) for the period		-	-	-	-	18	(4)	14
Employee share option schemes:								
Share-based payments charge		-	-	-	-	-	10	10
Settlement of share awards	18	-	-	-	-	-	(9)	(9)
Share options exercised		1	6	-	-	-	-	7
Dividends	7	-	-	-	-	-	(116)	(116)
Total transactions with owners		1	6	-	-	-	(115)	(108)
At 2 August 2020		**241**	**198**	**39**	**2,578**	**(19)**	**1,410**	**4,447**

Consolidated statement of changes in equity (continued)

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		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 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**

52 weeks ended 2 February 2020	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		237	178	39	2,578	10	1,283	4,325
Profit for the period		-	-	-	-	-	348	348
Other comprehensive (expense)/income:								
Cash flow hedging movement		-	-	-	-	(57)	-	(57)
Exchange differences on translation of foreign operations		-	-	-	-	-	(2)	(2)
Remeasurement of defined benefit schemes	14	-	-	-	-	-	231	231
Tax in relation to components of other comprehensive income		-	-	-	-	10	(38)	(28)
Total comprehensive (expense)/income for the period		-	-	-	-	(47)	539	492
Purchase of trust shares	18	-	-	-	-	-	(10)	(10)
Employee share option schemes:								
Share-based payments charge		-	-	-	-	-	26	26
Settlement of share awards	18	-	-	-	-	-	(2)	(2)
Share options exercised		3	14	-	-	-	(3)	14
Tax in relation to components of equity		-	-	-	-	-	(2)	(2)
Dividends	7	-	-	-	-	-	(302)	(302)
Total transactions with owners		3	14	-	-	-	(293)	(276)
At 2 February 2020		**240**	**192**	**39**	**2,578**	**(37)**	**1,529**	**4,541**

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 00358949). The Company is domiciled in the United Kingdom and its registered address is Hilmore House, Gain Lane, Bradford, BD3 7DL.

The 2020/21 condensed consolidated interim financial statements do not constitute financial statements within the meaning of Section 434 of the Companies Act 2006 and do not include all of the information and disclosures required for full annual financial statements.

The condensed consolidated interim financial statements for the 26 weeks ended 2 August 2020 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 2 February 2020 has been extracted from the 2019/20 Annual Report and Financial Statements.

The financial statements included in the 2019/20 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 2020/21 interim financial report was approved by the Board of Directors on 9 September 2020.

Going concern

The condensed consolidated interim financial statements have been prepared on the going concern basis as the Directors have a reasonable expectation that the Group has adequate resources for a period of at least 12 months from the date of approval, having reassessed the principal risks facing the Group and determined that there are no material uncertainties to disclose.

The COVID-19 pandemic has had a significant impact on customer behaviour during the 26 weeks ended 2 August 2020, with stockpiling in the early weeks of the pandemic and then the effects of transitioning in and out of initial lockdown across the UK. This has created unprecedented challenges for the sector and impacted the Group's near-term priorities. The Group responded quickly to these challenges, to play its part in feeding the nation. As an essential retailer providing groceries across the UK, all stores continued to trade throughout the period, and with increasing trends towards the 'in-home' market, supermarket and online sales have had strong like-for-like growth during the 26 weeks ended 2 August 2020. Fuel sales were affected by reduced demand from customers in the immediate aftermath of entering lockdown, although this has begun to recover. Profit before tax and exceptionals was temporarily impacted in the period by the considerable direct costs associated with COVID-19, which were only partly mitigated by four months of business rates relief.

The Directors' assessment of the Group's ability to continue as a going concern includes an assessment of cash flow forecasts which incorporate an estimated impact of the ongoing COVID-19 pandemic on the Group. This includes the modelling of a number of more extreme downside scenarios than those experienced during the 26 weeks ended 2 August 2020, recognising the uncertainty that currently exists.

The Group continues to maintain a robust financial position providing it with sufficient access to liquidity, through a combination of cash and committed facilities, to meet its needs in the short and medium term. The Group has a centralised treasury function which manages funding, liquidity and other financial risk in accordance with the Board-approved Treasury Policy, as detailed on page 114 of the 2019/20 Annual Report and Financial Statements.

In September 2019 the Group issued a 12-year £350m sterling bond, ahead of the repayment of the existing 2020 Eurobond in June 2020. In addition, the Group took up the option of extending its main £1,350m revolving credit facility (RCF) by a year to June 2025, extended an existing £100m RCF to July 2021 and secured three new £100m RCFs, taking the total committed RCFs from £1,450m to £1,750m. As at 2 August 2020, the Group therefore has total committed facilities of £2,850m, comprising £1,100m of bond debt and £1,750m of committed RCFs. As at 2 August 2020, the Group has net debt (excluding leases) of £1,412m. The Group's covenant limits in relation to its committed RCFs are set at a ratio of a maximum 3.5x 'net debt (excluding leases)/EBITDA'[1] and a minimum 2.0x 'EBITDA/net interest expense'[1].

[1] As defined in the lending agreements.

1. General information and basis of preparation (continued)

Going concern (continued)
As at 2 August 2020, the Group covenant basis net debt (excluding leases)/EBITDA ratio was 1.5x and the EBITDA/net interest ratio was 5.5x. The scenarios modelled demonstrate sufficient liquidity and financial covenant headroom being available. Whilst not a key factor in the Directors' going concern conclusion, the Group does also have other significant potential mitigations at its disposal to improve its short-term liquidity position should the need arise, including scaling back its capital investment programme, and deferring future dividends.

Basis of preparation
The condensed consolidated interim financial statements of the Group for the 26 weeks ended 2 August 2020 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 2019/20 Annual Report and Financial Statements which have been prepared in accordance with International Financial Reporting Standards (IFRS) 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
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 2019/20 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.

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 2019/20 Annual Report and Financial Statements. Recognising the impact of COVID-19 in the 26 weeks ended 2 August 2020, the Group has provided more information in relation to its consideration of the following area of estimation uncertainty.

Impairment of non-financial assets
The Group's policy is to test non-financial assets for impairment annually, or if events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. The Group has considered whether there have been any indicators of impairment during the 26 weeks ended 2 August 2020, which would require an impairment review to be performed. The Group has considered indicators of impairment with regard to a number of factors, including those outlined in IAS 36 'Impairment of assets'. Based upon this review, the Group has concluded that there are no such indicators of impairment as at 2 August 2020.

The considerable economic and social impacts of the COVID-19 pandemic during the period could represent a potential indicator of impairment. However, the Group has continued to trade strongly throughout the pandemic, and whilst there have been some additional associated direct costs incurred during the 26 weeks ended 2 August 2020, these are expected to be temporary.

In addition, the Group has assessed the impacts on specific groups of Cash Generating Units (CGUs) during the first half of the year, including those with trade most positively or adversely impacted by the temporary effects of the pandemic. It was concluded that whilst some CGUs had been temporarily impacted by the change in customer behaviour during the pandemic, there is insufficient evidence of a significant change in the long term outlook for these CGUs to indicate that a full impairment review is required.

1. General information and basis of preparation (continued)

Principal risks and uncertainties
The Board assesses and monitors the principal risks of the business on a regular basis. The principal risks for the Group and the key mitigating activities were set out in Wm Morrison Supermarkets PLC's Annual Report and Financial Statements for the 52 weeks ended 2 February 2020.

Since the date of approval of the Annual Report and Financial Statements on 17 March 2020, the extensive and enduring impact of the COVID-19 pandemic has created uncertainty and had a significant impact on the business. We continue to focus our efforts on protecting colleagues and customers, and working with suppliers to ensure food is available to all across Britain, especially the vulnerable and most in need.

The Board has assessed the Group risks following the impact of COVID-19 and chosen to include COVID-19 as a separate principal risk as detailed below, alongside the existing principal risks, some of which already referenced COVID-19.

RISKS	DESCRIPTION	MITIGATION
COVID-19	COVID-19 continues to have a significant and widespread impact on our business. Failure to appropriately respond to and manage the impacts of COVID-19 on our colleagues, customers and suppliers or to adapt our ways of working could adversely affect our business performance and our ability to play our part in feeding the nation. .	• A dedicated team is in place to coordinate our response with representation from all key business areas; • The safety and wellbeing of our colleagues and customers remains our top priority and we continue to adhere to the UK government guidelines in all areas; • We have introduced social distancing measures in all stores and sites, installed protective screens, made hand sanitiser, gloves, and masks or visors available for all colleagues, and increased the focus on cleaning and hygiene; • We continue to closely monitor colleague absence to enable us to respond accordingly in a timely manner. In addition, we have recruited many new colleagues in stores, manufacturing, supply chain, online and home delivery; • No colleagues have been furloughed, and we have enhanced pay guarantees for sick, self-isolating and affected colleagues. We have provided greater flexibility around shifts and annual leave and in the year awarded a 6% 'thank you' guaranteed annual bonus for all frontline colleagues; • We have increased our online capacity, introduced click and collect, launched food boxes and expanded our partnerships with Amazon and Deliveroo; • We have introduced a telephone order grocery doorstep delivery service to support the most vulnerable and play our part in feeding the nation; • We continue to work hard with all our suppliers including British Farmers to continue to be able to serve our customers; and • In response to the initial uncertainty, we have temporarily moved small suppliers onto immediate payment terms.

1. General information and basis of preparation (continued)

Principal risks and uncertainties (continued)

The Board believes that since the publication of the 2019/20 Annual Report and Financial Statements there have been no other material changes to the Group's risk exposure and appropriate mitigating actions are in place to manage them and the impact of COVID-19.

Our updated risks and uncertainties are summarised in the 11 Group Risks as follows:

- Business Interruption
- Competitiveness
- COVID-19
- Customer
- Data
- Financial and Treasury
- Food Safety and Product Integrity
- Health and Safety
- People
- Regulation
- UK-EU Trade

Our Risk Management process incorporates the identification and management of emerging risks, alongside our known principal risks.

More information on the principal risks and the Group's approach to mitigate those risks can be found on pages 27 to 30 of the 2019/20 Annual Report and Financial Statements, which can be viewed online on our corporate website, https://www.morrisons-corporate.com/investor-centre/annual-report/

The Board

The Board of Directors that served during the 26 weeks to 2 August 2020 and up to the date of signing, and their respective responsibilities, were:

Andrew Higginson – Chairman*
David Potts – Chief Executive
Trevor Strain – Chief Operating Officer
Michael Gleeson – Chief Financial Officer (appointed on 3 February 2020)
Rooney Anand*
Kevin Havelock*
Belinda Richards * (resignation applicable from 10 September 2020)
Paula Vennells*
Susanne Given* (appointed on 12 August 2020)
Lyssa McGowan* (appointed on 12 August 2020)
Jeremy Townsend* (appointed on 6 July 2020)
Neil Davidson* (resigned on 26 April 2020)
Tony Van Kralingen* (resigned on 29 April 2020)

* 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 focussed 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 sales 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 2 August 2020 (unaudited) £m	26 weeks ended 4 August 2019 (unaudited) £m	52 weeks ended 2 February 2020 £m
Sale of goods in-store and online	**7,087**	6,536	13,065
Other sales	**460**	398	800
Total sales excluding fuel	**7,547**	6,934	13,865
Fuel	**1,187**	1,897	3,671
Total revenue	**8,734**	8,831	17,536

All revenue is derived from contracts with customers.

4. Profit before exceptionals

'Profit before exceptionals' is defined as profit before exceptional items and net retirement benefit interest. Further detail on the definition of 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 on ongoing trends and performance, and are consistent with how business performance is measured internally. The adjustments made to reported profit are to: exclude exceptional items, which are significant in size and/or nature; exclude net retirement benefit interest; and to apply a normalised tax rate of 23.5% (4 August 2019: 23.5%, 2 February 2020: 23.1%).

'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 consideration of the nature, circumstances, scale and impact of a transaction. Reversals of previous exceptional items are assessed based on the same criteria.

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

4. Profit before exceptionals (continued)

Despite being a recurring item, the Group has chosen to also exclude net retirement benefit 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 2 August 2020 (unaudited) £m	26 weeks ended 4 August 2019 (unaudited) £m	52 weeks ended 2 February 2020 £m
Profit after tax	**70**	156	348
Add back: tax charge for the period[1]	**75**	46	87
Profit before tax	**145**	202	435
Adjustments for:			
Impairment and provision for onerous contracts[1]	**(4)**	-	(2)
Profit/loss arising on disposal and exit of properties[1]	**-**	-	(66)
Restructuring and store closure costs[1]	**15**	-	51
Other exceptional items[1]	**-**	6	9
Net retirement benefit interest[1]	**(8)**	(10)	(19)
Profit before tax and exceptionals	**148**	198	408
Normalised tax charge at 23.5% (4 August 2019: 23.5%, 2 February 2020: 23.1%)[1,2]	**(35)**	(46)	(94)
Profit before exceptionals after tax	**113**	152	314
Earnings per share before exceptionals (pence)			
Basic (note 8)	**4.71**	6.38	13.18
Diluted (note 8)	**4.69**	6.29	13.03

[1] Adjustments marked 1 increase post-tax adjusted earnings by £43m (4 August 2019: £4m decrease, 2 February 2020: £34m decrease) as shown in the reconciliation of earnings disclosed in note 8.
[2] Normalised tax is defined in the Glossary.

Impairment and provision for onerous contracts
A net £4m credit (4 August 2019: £nil, 2 February 2020: £2m net credit) has been recognised for impairment and provision for onerous contracts. This includes an impairment charge of £8m in respect of property, plant and equipment offset by a £12m release from provisions for onerous contracts and amounts provided for onerous commitments in the 26 weeks ended 2 August 2020. The impairment recognised relates to specific items of property, plant and equipment identified as being impaired during the 26 weeks ended 2 August 2020 due to specific events. It is the Group's policy to perform a full impairment review of all Cash Generating Units (CGUs) annually or where there is a change in circumstance. The Group has considered potential indicators of impairment and concluded there have been no impairment indicators that warrant a full review being performed at 2 August 2020.

The £2m net credit in the 52 weeks ended 2 February 2020 consisted of a net impairment reversal of £15m (£123m impairment reversal offset by £108m impairment charge). The £108m impairment charge included £59m in relation to property, plant and equipment, £23m in relation to right-of-use assets, £11m in relation to investment property and £15m in relation to intangible assets. The £123m impairment reversal included £93m in relation to property, plant and equipment, £24m in relation to right-of-use assets and £6m in relation to investment property. A net £2m charge was recognised in relation to provisions for onerous contracts. A net £10m credit was recognised following changes to estimates in respect of lease terms and a £21m charge was recognised in respect of amounts provided for onerous commitments and receivables in respect of contract payments.

Profit/loss arising on disposal and exit of properties
In the 26 weeks ended 2 August 2020, there has been £nil profit/loss arising on disposal and exit of properties, net of fees incurred (4 August 2019: £nil, 2 February 2020: £66m profit).

4. Profit before exceptionals (continued)

Restructuring and store closure costs

Restructuring and store closure costs recognised in the 26 weeks ended 2 August 2020 totalled £15m (4 August 2019: £nil, 2 February 2020: £51m). There was an additional £6m charge in respect of restructuring of store management teams and site closure costs, relating to the amounts initially recognised in the 52 weeks ended 2 February 2020, following a slight delay to completion of the activity. Also included within restructuring costs is a £9m charge relating to the costs of reorganising and modernising ways of working across our head office.

In the 52 weeks ended 2 February 2020, store restructuring and site closure costs of £51m included £46m in respect of restructuring of store management teams and £5m of costs relating to the closure of four stores during the period.

Other exceptional items

Other exceptional items recognised in the 26 weeks ended 2 August 2020 of £nil included £4m fees relating to legal cases in respect of historical events, offset by £4m credit in respect of legal costs recovery following the successful outcome of certain legal cases.

In the 52 weeks ended 2 February 2020, total other exceptional items of £9m (4 August 2019: £6m) included a £6m charge (4 August 2019: £4m), relating to one-off 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, and a net £3m charge (4 August 2019: £2m) in respect of other net exceptional costs.

Taxation

A normalised tax charge of 23.5% (4 August 2019: 23.5%, 2 February 2020: 23.1%) has been applied in arriving at profit before exceptionals after tax. The total tax charge for the 26 week period ended 2 August 2020 of £75m includes an exceptional tax charge of £40m being a £41m charge due to the change in the standard rate of corporation tax in respect of deferred tax (see note 6) and a net £1m credit in relation to other exceptional items.

5. Finance costs and income

	26 weeks ended 2 August 2020 (unaudited) £m	26 weeks ended 4 August 2019 (unaudited) £m	52 weeks ended 2 February 2020 £m
Interest payable on short-term loans and bank overdrafts	**(2)**	(2)	(4)
Interest payable on bonds	**(24)**	(20)	(43)
Interest on lease liabilities	**(30)**	(32)	(63)
Interest capitalised (note 9)	**1**	1	2
Total interest payable	**(55)**	(53)	(108)
Provisions: unwinding of discount	**(1)**	(1)	(2)
Other finance costs	**(1)**	(1)	(1)
Finance costs before exceptionals[1]	**(57)**	(55)	(111)
Finance costs	**(57)**	(55)	(111)
Bank interest and other finance income	2	1	4
Finance lease income	-	-	1
Other receivables: unwinding of discount	2	-	-
Finance income before exceptionals[1]	**4**	1	5
Net retirement benefit interest (notes 4 and 14)	**8**	10	19
Finance income	**12**	11	24
Net finance costs	**(45)**	(44)	(87)

[1] Net finance costs before exceptionals marked [1] amount to £53m (4 August 2019: £54m, 2 February 2020: £106m). Net finance costs before exceptionals are defined in the Glossary.

6. Taxation

Tax charged within the 26 weeks ended 2 August 2020 has been calculated by applying the effective rate of tax which is expected to apply to the Group for the period ending 31 January 2021 using rates substantively enacted by 2 August 2020 as required by IAS 34 ‘Interim Financial Reporting’.

The normalised rate of tax of 23.5% (4 August 2019: 23.5%, 2 February 2020: 23.1%) has been calculated using the full year projections and has been applied to profit before exceptionals for the 26 weeks ended 2 August 2020. The standard rate of corporation tax of 19% (4 August 2019: 19%, 2 February 2020: 19%) for the full year has been applied to the exceptional profits and losses in the 26 weeks ended 2 August 2020, on an item by item basis.

Legislation to reduce the standard rate of corporation tax to 17% from 1 April 2020 was enacted in the Finance Act 2016, so at 2 February 2020 and 4 August 2019, deferred tax balances were calculated at 19% or 17% depending upon when the balance was expected to unwind. The Budget on 11 March 2020 announced that the standard rate of corporation tax would remain at 19% from 1 April 2020 and the legislation was substantively enacted during the period. As a result, at 2 August 2020, all deferred tax balances have been calculated at 19%. The deferred tax liability recognised in the consolidated statement of financial position increased by £55m as a result of the rate change, comprising a £41m deferred tax charge recognised within exceptional items in the consolidated income statement for the period and a £14m deferred tax charge (principally in relation to defined benefit retirement schemes) recognised in other comprehensive income.

Factors affecting current and future tax charges

The normalised tax rate was 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.

7. Dividends

Amounts recognised as distributed to equity holders in the period:	**26 weeks ended 2 August 2020 (unaudited) £m**	26 weeks ended 4 August 2019 (unaudited) £m	52 weeks ended 2 February 2020 £m
Final dividend for the period ended 3 February 2019 of 4.75p	**-**	113	113
Special final dividend for the period ended 3 February 2019 of 4.00p	**-**	95	95
Interim dividend for the period ended 2 February 2020 of 1.93p	**-**	-	46
Special interim dividend for the period ended 2 February 2020 of 2.00p	**-**	-	48
Final dividend for the period ended 2 February 2020 of 4.84p	**116**	-	-
	116	208	302

The Directors propose an interim ordinary dividend of 2.04p per share, which will absorb an estimated £49m of shareholders’ funds. This dividend will be paid on 30 October 2020 to shareholders who are on the register of members on 25 September 2020. The dividends paid and proposed during the period are from cumulative realised distributable reserves of Wm Morrison Supermarkets PLC.

8. Earnings per share (EPS)

Basic 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 (4 August 2019: two, 2 February 2020: 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 2 August 2020 (unaudited)		26 weeks ended 4 August 2019 (unaudited)		52 weeks ended 2 February 2020	
	Basic Pence	**Diluted Pence**	Basic Pence	Diluted Pence	Basic Pence	Diluted Pence
EPS	**2.92**	**2.91**	6.56	6.47	14.60	14.44
EPS before exceptionals[1]	**4.71**	**4.69**	6.38	6.29	13.18	13.03
	Basic £m	**Diluted £m**	Basic £m	Diluted £m	Basic £m	Diluted £m
Basic earnings						
Earnings attributable to ordinary shareholders	**69.9**	**69.9**	155.8	155.8	347.9	347.9
Earnings before exceptionals						
Earnings attributable to ordinary shareholders	**69.9**	**69.9**	155.8	155.8	347.9	347.9
Adjustments to determine profit before exceptionals (note 4)	**42.9**	**42.9**	(4.2)	(4.2)	(34.0)	(34.0)
Earnings before exceptionals attributable to ordinary shareholders	**112.8**	**112.8**	151.6	151.6	313.9	313.9
	Basic Millions	**Diluted Millions**	Basic Millions	Diluted Millions	Basic Millions	Diluted Millions
Weighted average number of shares						
Ordinary shares in issue/diluted ordinary shares	**2,395.4**	**2,403.8**	2,374.7	2,408.3	2,382.5	2,408.8

[1] 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	**2 August 2020 (unaudited) £m**	4 August 2019 (unaudited) £m	2 February 2020 £m
At start of the period	**381**	404	404
Additions	**43**	35	82
Interest capitalised	**1**	1	2
Disposals	**-**	-	(1)
Amortisation charge	**(39)**	(48)	(91)
Impairment charge	**-**	-	(15)
At end of the period	**386**	392	381

The net book value of goodwill and intangible assets principally consists of software development costs and licences of £376m (4 August 2019: £382m, 2 February 2020: £371m). Within this asset class, there are assets under construction of £46m (4 August 2019: £30m, 2 February 2020: £73m).

10. Property, plant and equipment

Net book value	**2 August 2020 (unaudited) £m**	4 August 2019 (unaudited) £m	2 February 2020 £m
At start of the period	**7,147**	7,094	7,094
Additions	**189**	168	398
Disposals	**(3)**	(2)	(5)
Transfers to assets classified as held-for-sale	**(6)**	-	(3)
Depreciation charge	**(199)**	(184)	(371)
Net impairment (charge)/reversal	**(8)**	-	34
At end of the period	**7,120**	7,076	7,147

The Group has recognised a net impairment charge of £8m (4 August 2019: £nil, 2 February 2020: £34m reversal). The charge in the 26 weeks ended 2 August 2020 relates to specific assets identified as being impaired (rather than at a CGU level) and an impairment in relation to one site, which has met the criteria for classification as held for sale during the period and therefore has been valued at fair value less cost to sell.

11. Right-of-use assets

Net book value	**2 August 2020 (unaudited) £m**	4 August 2019 (unaudited) £m	2 February 2020 £m
At start of the period	**942**	929	929
Additions	**51**	23	75
Disposals	**(1)**	-	(3)
Depreciation charge	**(32)**	(29)	(60)
Net impairment reversal	**-**	-	1
At end of the period	**960**	923	942

Included within the table above are land and buildings with a net book value of £916m (4 August 2019: £880m, 2 February 2020: £888m) and plant and equipment with a net book value of £44m (4 August 2019: £43m, 2 February 2020: £54m).

12. Investment property

Net book value	**2 August 2020 (unaudited) £m**	4 August 2019 (unaudited) £m	2 February 2020 £m
At start of the period	**58**	60	60
Additions	**1**	-	7
Disposals	**-**	-	(1)
Depreciation charge	**(1)**	(1)	(3)
Net impairment charge	**-**	-	(5)
At end of the period	**58**	59	58

Included within the table above are right-of-use leasehold land and buildings with a net book value of £35m (4 August 2019: £33m, 2 February 2020: £35m).

13. Assets classified as held-for-sale

Net book value	**2 August 2020 (unaudited) £m**	4 August 2019 (unaudited) £m	2 February 2020 £m
At start of the period	**3**	39	39
Transfer from property, plant and equipment	**6**	-	3
Disposals	**(3)**	(1)	(39)
At end of the period	**6**	38	3

14. Retirement benefits

The Group operates a number of defined benefit retirement schemes (together 'the Schemes') providing benefits based on a formula that depends on factors including the employee's age and number of years of service. The Morrison and Safeway Schemes provide retirement benefits based on either the employee's compensation package and/or career average revalued earnings (CARE) (the 'CARE Schemes'). The CARE Schemes are not open to new members and were 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:

	2 August 2020 (unaudited) £m	4 August 2019 (unaudited) £m	2 February 2020 £m
CARE Schemes	**909**	774	960
RSP	**(29)**	(23)	(16)
Net retirement benefit surplus	**880**	751	944

The movement in the net retirement benefit surplus during the period was as follows:

	26 weeks ended 2 August 2020 (unaudited) £m	26 weeks ended 4 August 2019 (unaudited) £m	52 weeks ended 2 February 2020 £m
Net retirement benefit surplus at start of the period	**944**	688	688
Net interest income	**8**	10	19
Remeasurement in other comprehensive income	**(75)**	50	231
Employer contributions	**1**	4	9
Administrative expenses	**(1)**	(1)	(3)
Curtailment gain	**3**	-	-
Net retirement benefit surplus at end of the period	**880**	751	944

At 2 August 2020, schemes in surplus have been disclosed within assets in the consolidated statement of financial position. The Group obtained legal advice with regard to the recognition of a retirement benefit 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 the continuing recognition of a surplus is appropriate on the basis that the Group has an unconditional right to a refund of a surplus. The International Accounting Standards Board (IASB) have been considering amendments of the current version of IFRIC 14, however the IASB has decided not to finalise these amendments and is considering whether to develop new proposals. The legal advice received by the Group concluded that the above accounting treatment should not have been materially affected by the previous proposed amendments to IFRIC 14.

Scottish Limited Partnership

The Group has previously entered into a pension funding partnership structure with the CARE Schemes whereby the partnership structure holds properties which are leased back to the Group in return for rental income payments. The Group retains control over these properties, including the flexibility to substitute alternative properties. The CARE schemes were entitled to receive fixed distributions of £6.6m per annum until 2033 subject to certain conditions.

During the 26 weeks ended 2 August 2020, the Group and the Schemes' Trustees have agreed to reorganise the limited partnership structure, so that future distributions will be made to the RSP. The pension funding partnership structure was amended to permanently cease fixed distributions to the CARE schemes. On the same day, Wm Morrison Supermarkets PLC and the RSP, entered into a new pension funding partnership. As a partner, the RSP is entitled to receive a fixed distribution of £6.8m p.a. from the profits of the partnership for 13 years from 2020, subject to certain conditions. The fixed distribution is comparable to the distributions that would have been made under the previous partnership structure.

The fixed distributions made to the RSP are reflected in the Group financial statements as employer retirement benefit contributions. There were no distributions made in the 26 weeks ended 2 August 2020. The RSP's interest in the partnership structure reduces the scheme's deficit on a funding basis, although the agreement does not affect the position directly on an IAS 19 accounting basis, because the investment held by the RSP does not qualify as a scheme asset for IAS 19 purposes.

14. Retirement benefits (continued)

Assumptions
The main financial assumptions used by the Group to calculate the net retirement benefit surplus/deficit were as follows:

	2 August 2020 (unaudited)		4 August 2019 (unaudited)		2 February 2020	
	CARE	**RSP**	CARE	RSP	CARE	RSP
Discount rate applied to scheme liability (% p.a.)	**1.4%**	**1.4%**	2.2%	2.2%	1.8%	1.8%
Inflation assumption (RPI) (%p.a.)	**2.9%**	**2.9%**	3.2%	3.2%	2.9%	2.9%

Assumptions regarding future mortality experience are set based on actuarial advice and in accordance with published statistics. The mortality tables used for the 26 weeks ended 2 August 2020 and the 52 weeks ended 2 February 2020 were the S2PMA/S2PFA-Heavy mortality tables (males/females) based on year of birth with a scaling factor of 110% applied to the mortality rates in both the Morrison and Safeway Schemes, with CMI 2018 core projections and a long-term rate of improvement of 1.5% p.a. The mortality tables used for the 26 weeks ended 4 August 2019 were the S2PMA/S2PFA-Heavy mortality tables (males/females) based on year of birth with a scaling factor of 110%/100% applied to the mortality rates in the Morrison/Safeway Scheme respectively, with CMI 2017 core projections and a long-term rate of improvement of 1.5% p.a.

15. Cash generated from operations

	26 weeks ended 2 August 2020 (unaudited) £m	26 weeks ended 4 August 2019 (unaudited) £m	52 weeks ended 2 February 2020 £m
Profit for the period	**70**	156	348
Net finance costs	**45**	44	87
Taxation charge	**75**	46	87
Share of profit of joint venture (net of taxation)	**-**	-	(1)
Operating profit	**190**	246	521
Adjustments for:			
Depreciation and amortisation	**271**	262	525
Impairment	**8**	-	108
Impairment reversal	**-**	-	(123)
Profit/loss arising on disposal and exit of properties	**-**	-	(66)
Gain arising on reduction of lease terms	**-**	-	(10)
Defined benefit scheme contributions paid less operating expenses	**(3)**	(5)	(5)
Share-based payments charge	**10**	20	26
(Increase)/decrease in inventories[1]	**(31)**	130	53
Increase in Trade and other receivables[1]	**(11)**	(10)	(14)
(Decrease)/increase in Trade and other payables[1]	**(282)**	(53)	29
Decrease in provisions[1]	**(22)**	(23)	(27)
Cash generated from operations	**130**	567	1,017

Total working capital outflow (the sum of items marked [1] above) is £346m in the period (4 August 2019: £44m inflow, 2 February 2020: £41m inflow). This includes £nil as a result of current year charges in respect of onerous contracts and accruals of onerous commitments (4 August 2019: £nil, 2 February 2020: £2m) and £6m of non-cash exceptional charges (4 August 2019: £nil, 2 February 2020: £63m), net of £7m of onerous payments (4 August 2019: £37m, 2 February 2020: £41m), £12m of releases in respect of onerous contracts and accruals of onerous commitments (4 August 2019: £nil, 2 February 2020: £nil) and £49m exceptional and other non-operating payments (4 August 2019: £nil, 2 February 2020: £1m). When adjusted to exclude these items, the operating working capital outflow is £284m (4 August 2019: £81m inflow, 2 February 2020: £18m inflow).

16. Analysis of net debt[1]

	2 August 2020 (unaudited) £m	4 August 2019 (unaudited) £m	2 February 2020 £m
Cross-currency interest rate swaps[2]	**-**	20	-
Fuel and energy price contracts	**3**	2	-
Non-current financial assets	**3**	22	-
Foreign exchange forward contracts	**6**	17	-
Fuel and energy price contracts	**-**	9	1
Current financial assets	**6**	26	1
Bonds[2]	**-**	(258)	(237)
Other short-term borrowings[2]	**(47)**	(145)	-
Cross-currency interest rate swaps[2]	**-**	-	(4)
Lease liabilities[2]	**(72)**	(69)	(72)
Foreign exchange forward contracts	**(8)**	-	(17)
Fuel and energy price contracts	**(12)**	(2)	(15)
Current financial liabilities	**(139)**	(474)	(345)
Bonds[2]	**(1,110)**	(765)	(1,110)
Revolving credit facility[2]	**(467)**	(77)	2
Lease liabilities[2]	**(1,318)**	(1,314)	(1,304)
Forward foreign exchange contracts	**(1)**	-	-
Fuel and energy price contracts	**(5)**	(1)	(7)
Non-current financial liabilities	**(2,901)**	(2,157)	(2,419)
Cash and cash equivalents	**229**	225	305
Net debt[1]	**(2,802)**	(2,358)	(2,458)

[1] Net debt is defined in the Glossary.

Total net liabilities from financial activities (the sum of the items marked [2] in the table) is £3,014m in the 26 weeks ended 2 August 2020 (4 August 2019: £2,608m, 2 February 2020: £2,725m).

Available facilities
At 2 August 2020, the Group has total committed facilities of £2,850m, comprising bond debt of £1,100m (maturing between 2023 and 2031) and £1,750m of committed bank facilities. Of these, the Group has £1,280m (4 August 2019: £1,370m, 2 February 2020: £1,450m) of undrawn facilities available.

During the period ended 2 August 2020, the Group secured the following new facilities:

- Two additional £100m 364 day committed revolving credit facilities which mature in March 2021, with the option to extend for a further six months. These were undrawn as at 2 August 2020; and
- £100m 364 day committed revolving credit facility which matures in March 2021. This was undrawn as at 2 August 2020.

In addition:

- An existing £1.35bn syndicated committed revolving credit facility, was extended by a further year resetting its five year term and resulting in a maturity date of June 2025. Commitment fees and interest charges are incurred at a spread above LIBOR. Undrawn committed headroom available on this facility was £880m as at 2 August 2020.
- An existing £100m committed revolving credit facility with an original maturity date of July 2020 was extended to mature in July 2021. This was undrawn as at 2 August 2020.

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. As at 2 August 2020 the Group had £47m of borrowings on uncommitted facilities (4 August 2019: £145m, 2 February 2020: £nil).

Wm Morrisons Supermarkets PLC’s senior unsecured debt obligations continue to be rated Baa2 with Moody’s, on a stable outlook. Moody’s reaffirmed its rating on the 9 June 2020, following the release of the results for the period ended 2 February 2020 and considering the impact of COVID-19.

17. Financial instruments

	2 August 2020 (unaudited)		4 August 2019 (unaudited)		2 February 2020	
	Carrying amount £m	**Fair value £m**	Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m
Derivative financial assets	**3**	**3**	22	22	-	-
Total non-current financial assets	**3**	**3**	22	22	-	-
Derivative financial assets	**6**	**6**	26	26	1	1
Total current financial assets	**6**	**6**	26	26	1	1
Borrowings	**(47)**	**(47)**	(403)	(408)	(237)	(237)
Derivative financial liabilities	**(20)**	**(20)**	(2)	(2)	(36)	(36)
Total current financial liabilities	**(67)**	**(67)**	(405)	(410)	(273)	(273)
Borrowings	**(1,577)**	**(1,726)**	(842)	(873)	(1,108)	(1,238)
Derivative financial liabilities	**(6)**	**(6)**	(1)	(1)	(7)	(7)
Total non-current financial liabilities	**(1,583)**	**(1,732)**	(843)	(874)	(1,115)	(1,245)

The fair value of the sterling and euro denominated bonds are measured using closing market prices (level 1) (4 August 2019 and 2 February 2020: level 1). The fair value of all derivative financial instruments are calculated by using benchmark observable market interest rates and discounted future cash flows (level 2) (4 August 2019 and 2 February 2020: level 2).

18. Share capital and share premium

	Number of shares millions	Share capital £m	Share premium £m	**Total £m**
At 3 February 2020	2,405.0	240	192	**432**
Share options exercised[1]	3.2	1	6	**7**
At 2 August 2020	2,408.2	241	198	**439**

[1] The £1m movement in share capital has been rounded up to ensure that the total share capital position is correctly stated.

Trust shares

Included in retained earnings is a deduction of £19m (4 August 2019: £24m, 2 February 2020: £30m) in respect of own shares held at the reporting date. This represents the cost of 8,720,882 (4 August 2019: 10,825,933, 2 February 2020: 14,215,041) of the Group's ordinary shares (nominal value of £0.9m (4 August 2019: £1.1m, 2 February 2020: £1.4m)). These shares are held in a trust and were acquired by the business to meet obligations under the Group's employee share plans using funds provided by the Group. The market value of the shares at 2 August 2020 was £16m (4 August 2019: £21m, 2 February 2020: £26m). The trust has waived its right to dividends. These shares are not treasury shares as defined by the London Stock Exchange.

During the period, the Group acquired none (4 August 2019: 1,492,176, 2 February 2020: 4,881,284) of its own shares to hold in trust for consideration of £nil (4 August 2019: £3m, 2 February 2020: £10m), and utilised 5,494,159 (4 August 2019: 551,491, 2 February 2020: 551,491) trust shares to satisfy awards under the Group's employee share plans.

Proceeds from exercise of share awards

During the period the Group issued 3,218,515 (4 August 2019: 6,925,156, 2 February 2020: 8,532,407) new shares to satisfy options exercised by employees during the period in respect of the Group's Sharesave schemes. Proceeds received on exercise of these shares amounted to £6m (4 August 2019: £12m, 2 February 2020: £14m) and these have been recognised as an addition to share capital and share premium in the period. During the period the Group issued no (4 August 2019: 24,864,804, 2 February 2020: 28,166,736) shares under the Group's Long Term Incentive Plan ('LTIP') scheme for nominal value.

18. Share capital and share premium (continued)

Settlement of share awards
In the 26 weeks ended 2 August 2020, the Group has settled 5,494,159 (4 August 2019: 551,491, 2 February 2020: 551,491) of share options out of trust shares which have vested during the period net of tax. During the period, there was a £9m (4 August 2019: £2m, 2 February 2020: £2m) charge to retained earnings in relation to the settlement of share awards, comprising £10m (4 August 2019: £2m, 2 February 2020: £2m) of cash paid 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, offset by a £1m non-cash settlement credit (4 August 2019: £nil, 2 February 2020: £nil).

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 dependent on the terms of the specific supplier agreement in line with when performance obligations in the agreement are met. 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.

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

	26 weeks ended 2 August 2020 (unaudited) £m	26 weeks ended 4 August 2019 (unaudited) £m	52 weeks ended 2 February 2020 £m
Marketing and advertising funding	**31**	30	78
Volume-based rebates	**71**	58	113
Total commercial income	**102**	88	191

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

	2 August 2020 (unaudited) £m	4 August 2019 (unaudited) £m	2 February 2020 £m
Commercial income trade debtors	**5**	6	7
Accrued commercial income	**49**	37	28
Commercial income due, offset against amounts owed	**10**	14	21
	64	57	56

At 6 September 2020, £4m of the £5m commercial income trade debtor balance had been settled and £16m of the £49m accrued commercial income balance had been invoiced and settled. In addition, £7m of the £10m commercial income due had been offset against payments made. As at 6 September 2020, £56m of the £56m of commercial income held on the balance sheet at 2 February 2020 had been settled.

20. Guarantees, contingent liabilities and contingent assets

Guarantees
Following the disposal of the land and building of its customer fulfilment centre at Dordon to a third party in June 2017, the Group continues to guarantee the lease in respect of this site through until 2038. If the lessee were to default during the period of guarantee, their lease obligations could revert back to the Group under the terms and become a liability of the Group. Should the lessee default, the additional future commitment is estimated at up to £29m (4 August 2019: £32m, 2 February 2020: £30m).

Data Theft Claim
The Group has previously had a 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 vicariously liable for the actions of the former employee who conducted the data theft. The Group launched an appeal of this judgement to the High Court and subsequently to the Supreme Court.

The Supreme Court hearing took place in November 2019. On 1 April 2020, the Supreme Court ruled in favour of the Group and the claim was entirely dismissed. This brings an end to the matter, other than for recovery of legal costs from the claimants. An interim payment has been received by the Group in respect of these costs and an estimate made of the amount to be received. These amounts have been included within 'other exceptional items'. The Group has previously disclosed an unquantified contingent liability in respect of the potential settlement. Following the Supreme Court ruling, this contingent liability no longer exists.

Interchange Fee Claim
The Group, along with other claimants, has had an ongoing claim against Mastercard in respect of bank interchange fees. In the 26 weeks ended 2 August 2020, the Supreme Court found in favour of the claim against Mastercard and determined that the fixing of interchange fees by Mastercard over many years was an unlawful infringement of competition law. The Supreme Court's definitive decision means that the case will now be remitted back to the Competition Appeal Tribunal to determine the level of damages payable to the Group. At this stage the Group is not able to quantify the amount of the settlement which it will receive, and accordingly no asset has been recognised in the financial statements in the 26 weeks ended 2 August 2020. In addition, legal costs associated with this claim will be recovered, and the Group has made an estimate of the amount of fees to be recovered. The income receivable has been included within 'other exceptional items'.

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 2019/20 Annual Report and Financial Statements.

In the 26 weeks ended 2 August 2020, the Group received a dividend of £nil (4 August 2019: £nil, 2 February 2020: £9m) from MHE JVCo Limited. The Group has a 51.1% interest in MHE JVCo Limited.

22. Post balance sheet events

On 9 September 2020, the Group acquired 100% of the share capital of Lansen Nursery Limited, a leading supplier of outdoor plants, for consideration of £4m. The Directors consider this event to be a non-adjusting post balance sheet event.

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. The measures are consistent with the definitions used in the 2019/20 Annual Report and Financial Statements.

<table>
<tr><th>Measures</th><th>Closest equivalent IFRS measure</th><th>Definition and purpose</th><th>Reconciliation for the interim 2020/21 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 2 August 2020 %</th></tr><tr><td>Group LFL (exc. fuel)</td><td>8.7%</td></tr><tr><td>Group LFL (inc. fuel)</td><td>(1.1)%</td></tr><tr><td>Net new space (inc. fuel)</td><td>0.0%</td></tr><tr><td>Total revenue year-on-year</td><td>(1.1)%</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 retirement benefit interest. This excludes exceptional items which are significant in size and/or nature and net retirement benefit 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>
<tr><td>Profit before exceptionals after tax</td><td>Profit after tax</td><td>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.</td><td>£113m being profit before tax and exceptionals (£148m) less a normalised tax charge (£35m) (see 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 2020/21 Group measures[1]
Profit measures (continued)			
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.	£201m being reported operating profit (£190m) less impairment and provisions for onerous contracts (£4m) plus restructuring and store closure costs (£15m).
Net finance costs before exceptionals	Finance costs	Reported net finance costs excluding the impact of net retirement benefit 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.
Earnings before interest, tax, depreciation and amortisation (EBITDA) before exceptionals	Operating profit[2]	Operating profit before exceptional items including share of profit from joint venture, before depreciation and amortisation. This measure is used by the Directors as it provides key information on ongoing trends and the performance of the Group before capital investment and financing costs.	£472m being operating profit before exceptionals (£201m), plus share of profit from joint venture (£nil), plus depreciation (£232m) and amortisation (£39m).
EBITDA margin before exceptionals	No direct equivalent	EBITDA before exceptional items, as a percentage of revenue. This measure is used by the Directors as it provides key information on ongoing trends and the performance of the Group before capital investment and financing costs.	5.40% being EBITDA before exceptionals (£472m) divided by revenue (£8,734m).
Interest cover	No direct equivalent	Operating profit before exceptionals divided by net finance costs before exceptionals. Operating profit before exceptionals and net finance costs are both on an annualised basis. This measure is used by the Directors as a measure of the Group's ability to meet its financing costs.	4.4x being annualised operating profit before exceptionals (£462m) divided by annualised net finance costs before exceptionals (£105m).
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 as described above. 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 applying the dividend policy.	A reconciliation of this measure is included in note 8.

[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 2020/21 Group measures[1]
Profit measures (continued)			
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 as described above.	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 retirement benefit 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 31 January 2021. Details of the normalised tax rate used in the 26 weeks ended 2 August 2020 is provided in note 6 of the condensed consolidated interim financial statements.
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.	£(228)m outflow being the movement in net debt (£(344)m) before payment of dividends (£116m).
Net debt	No direct equivalent	Net debt is current and non-current: borrowings, lease liabilities and derivative financial assets & liabilities; net of cash and cash equivalents.	A reconciliation of this measure is provided in note 16.
Gearing	No direct equivalent	Net debt as a percentage of net assets. This measure is used by the Directors as a measure of the capital structure of the Group and its ability to maintain its credit ratings and covenants.	63% being net debt (£2,802m) as a percentage of net assets (£4,447m).
Working capital movement	No direct equivalent	Movement in inventories, trade and other receivables, trade and other payables and provisions.	A reconciliation of this measure is provided in note 15.
Operating working capital movement	No direct equivalent	Working capital movement adjusted for onerous contract charges, 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.	A reconciliation of this measure is provided in note 15.

[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 2020/21 Group measures[1]
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 retirement benefit surplus and deficit, 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 (6.2%) equals return divided by average capital employed: Return (£380m) = Profit before exceptionals after tax annualised (£275m) adjusted for annualised net finance costs before exceptionals (£105m). Average capital employed (£6,160m) = Average net assets excluding the net retirement benefit asset (£3,580m), and average net debt (£2,580m)
Onerous payments	No direct equivalent	Payments made to settle onerous contractual commitments, include amounts paid to exit 'pipeline' sites or sums paid to exit onerous contracts early (e.g. leases).	Onerous capital payments (£7m) plus payment to exit leases (£nil), included within repayment of lease obligations in the consolidated statement of cash flows.

[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 in 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 2 February 2020. Further updates since 2 February 2020 are included within note 1 of these condensed consolidated interim financial statements. 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
9 September 2020

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 2 August 2020. Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

What we have reviewed

The interim financial statements comprise:

- the consolidated statement of financial position as at 2 August 2020;
- the consolidated income statement and consolidated statement of comprehensive income for the period then ended;
- the consolidated statement of cash flows for the period then ended;
- the consolidated statement of changes in equity for the period then ended; and
- the explanatory notes to the interim financial statements.

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

As disclosed in note 1 to the interim financial statements, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the Group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the Directors

The interim financial report, including the interim financial statements, is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the interim financial report in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express a conclusion on the interim financial statements in the interim financial report based on our review. This report, including the conclusion, has been prepared for and only for the Company for the purpose of complying with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Independent review report to Wm Morrison Supermarkets PLC (continued)

What a review of interim financial statements involves

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

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

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

PricewaterhouseCoopers LLP
Chartered Accountants
Leeds
9 September 2020

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.