MORRISONS

# News Release

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## 2007 AGM and Interim Management Statement

In his opening remarks at today's AGM, the Chairman Sir Ken Morrison will provide the following statement;

**The past year**

2006/7 saw a good demonstration of the sound progress we have made towards our former operating standards. The absorption of the Safeway business was completed and we saw solid growth in sales, profit and cash generation.

Profit before tax, property profits and exceptional items was £331m compared with £54m in 2005/6. There were no exceptional items, compared with costs of £374m in the previous year.

It was important during this period to show recovery in profit terms whilst maximising cash generation. Our net debt fell from £1.15bn to £0.8bn in the year due in so small part to tightening control in all aspects of the business.

**Trading update**

In the 15 weeks ended 20th May 2007 like for like sales excluding fuel increased by 4.0% (3.2% including fuel) confirming the steady progress we have made since we last provided a sales update at our Preliminary Results announcement on 15th March. In this period total Group sales excluding fuel increased by 3.7% (3.1% including fuel) reflecting the impact of disposals in 2006/7.

As expected our cash flow has been strong so far this year. In part this has been due to seasonal working capital benefits and also to corporation tax refunds from earlier years. As previously indicated we expect net debt to rise later in the year, reflecting the impact of our increased investment programme and the measures that we are taking to deal with the remaining pensions deficit.

During the period we have signed a new lease for an additional distribution facility in Swindon, which will allow us to reduce our distribution miles travelled considerably. Whilst only a partial solution to our overall requirements for the South, this represents a good first step and will be commissioned in late summer. The associated costs of commissioning and redundancies elsewhere in our network, were incorporated in our plans for the year.

During the period we sold ancillary property, not required by the business, for a profit of £14m. This will be reported separately on the Group's income statement, and with this exception our expectations for full year profitability remain unchanged.

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**Board Changes**

This year has seen a number of board changes. I announced Bob Stott's forthcoming retirement at this meeting last year. He was replaced as CEO by Marc Bolland who joined us from Heineken in September 2006. On 8th March this year Martyn Jones, who has been with Morrisons for 17 years, joined the Board as Trading Director. I would like to wish them great success in their new roles.

The new team is being formed and is one I feel will carry us forward into the future to capitalise on the sound foundations which are now firmly in place. I am confident we can look forward with optimism.

Two long-serving directors who have been major contributors to the company's success in the past important years will be no longer with us. Marie Melnyk left the company on health grounds in December last after 30 years with the company, and David Hutchinson, who has been with us for 21 years, departs next month. Marie has contributed so much in a multitude of areas throughout our business over her long and progressive career, which culminated in her role as Managing Director.

Meanwhile David was responsible for our distribution activities as well as managing and developing all our vertical integration through our abattoirs, meat factory and pack houses.

Their contribution over the hard miles involved in the completion of the conversion of Safeway was enormous and they demonstrated great skill, determination and dedication through this period to hand over a very sound business to our new team.

It has been my privilege to work with two exceptionally talented people who cared so much about their responsibilities and your company. On behalf of all the shareholders I offer them sincere thanks and wish them well.

We are in the process of recruiting a new Deputy Chairman who will replace me when I retire in 2008 and the Nominations Committee is expecting to make an announcement on this appointment in the near future.

**Our business progress**

It is now some eighteen months since we completed the Safeway integration and conversion process and have been able to focus once again on developing the business and delivering growth and profits. Good progress has been made; our market share is now stable and we look forward to a period of steady growth. There is clearly more to strive for.

We have implemented a three year plan which will increase our selling space and improve our supply chain infrastructure and capacity, so that we can more effectively meet the needs of our customers. Market Street is being refreshed, product ranges are being overhauled and new lines are being added so that our selling space meets changing demands and works even harder.

Customers continue to benefit from 1,000 weekly offers, including 150 buy one, get one frees and continuing low prices.

We are committed to providing our customers with the best and freshest products available throughout the year. Our vertically integrated business model, whereby we process 80% of our fresh produce and 90% of our fresh meat through our own facilities, enables us to assure the quality and provenance of our offering.

We consistently seek to work with British farmers first and foremost, and source as much of our produce as possible from our domestic farmers and growers. Local producers are important to us and we continue to give them good support.

## Store development

We see increasing store space as a key element of our future growth strategy, both through new stores and extensions and we expect to open a further 1 million square feet of new selling space over the next three years.

Eight new stores will open during the current financial year. The first of these, at Speke, is scheduled to open on 9th July. This will be followed by Johnstone, Erskine, Dundee, York, Llanelli, Bristol Hartcliffe and Wednesbury.

The Erskine store, which is 24,000 square feet, will be the smallest store we have opened for over 20 years and marks a significant change in our recent property development strategy. We are sure we can successfully operate our business in a store of this size as has been confirmed by the significant improvements we were able to make during 2006/7 in the performance of similar size stores we acquired from Safeway.

We continue to improve and extend our existing estate, and a number of projects have already been completed this year. We are currently carrying out extensions at Aberystwyth, Brecon, Canterbury, Chippenham, Hawick, Meltham, Newquay and Penzance and a major extension and refurbishment is also underway at our Gilbraltar store. Further extensions are due to be completed at Redditch, Northampton, Weston and Bridport by the end of the year.

The Board is very conscious of the value of your company's past investment in and retention of freehold property and intends to continue with this policy. Currently the majority of our estate is freehold which provides us with a considerable degree of operational flexibility and we believe that owning our own properties is essential, if we are to remain competitive and deliver sustainable growth in the business.

## Consumer trends

The Board is very aware of the spotlight that is on food retailers with regard to promoting healthy eating and being environmentally responsible. We believe that exercising social responsibility is entirely compatible with delivering continued profit recovery and we are pleased, this year, to have published a corporate responsibility report for the first time.

We also published the results of Marc Bolland's business review in March. Over the coming years we will build on Morrisons credentials as the "food specialist for everyone", concentrating on our four unique attributes:

- More people preparing more food in-store than any other retailer
- The market rediscovered
- Closer to source than any other food retailer
- Competitive prices and 100s of offers that save our customers money

which amount to quality and value.

These credentials, which have been at the heart of Morrisons for many years, have never been more relevant to the consumer.

## Competition Commission

The Competition Commission inquiry into the grocery industry continues and we believe will now not be concluded until the first quarter of next year. We share some of the Commission's concerns about the competitive landscape and are co-operating fully with their inquiry. We cannot predict the outcome of the investigation but if local competition turns out to be the main issue, as the smallest of the big four food retailers we may have the opportunity to exploit locations where we are not currently represented.

**Charity of the year**

Notwithstanding that there has been an enormous amount of work going on throughout the company during the year, our staff have found time to raise £1.6m for our charity of the year, the Breast Cancer Campaign. This is a terrific achievement and I hope we can keep up the good work with this year's charity, Asthma UK.

**Our staff**

At this point I'd like to pay tribute to all our staff for their skill, dedication and energy which have supported the numerous changes we have made to the business. It has also given me particular personal pleasure in presenting 128 members of staff with awards to recognise their 25 years service with the Group.

The progress made so far in profit recovery resulted in payments of £43m for profit share being distributed amongst our eligible staff.

That concludes my report, and concludes today's proceedings. I hope we will see you in our stores, and that you like what you see.

**– Ends –**