

Preliminary Results

Year to 29 January 2006

23 March 2006

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Sir Ken Morrison CBE

Chairman

Reading

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Agenda

- Overview – Sir Ken Morrison
- Financial Review – Richard Pennycook
- Operational Review – Bob Stott
- Optimisation Plan – Richard Pennycook
- Close and questions – Sir Ken Morrison



Likely OFT referral to the Competition Commission

Morrisons welcomes fair competition

- planning consents
- advertising prices
- advertising savings
- competitor comparisons

Morrisons shares some of the OFT's concerns

Board

- Strengthened and renewed Board
- New CEO appointment underway
- Agreed constitution and terms of reference for the Board and its Committees
- Agreed optimisation plan for 2006/07 and beyond

Dividend

- In line with last year
 - Recommended final dividend of 3.075p
 - Total dividend of 3.7p





Hawick

Richard Pennycook

Group Finance Director

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Financial summary

£m	05/06	04/05
Turnover	12,114.8	12,103.7
Operating profit	111.5	395.4
Exceptional items and goodwill impaired	(374.4)	(139.2)
Net debt	1,147.6	1,160.9
Net assets	3,648.6	4,005.9
Operating cash inflow	311.0	448.0

Profit and loss account

£m	05/06	04/05
Turnover	12,114.8	12,103.7
Operating profit pre exceptionals	111.5	395.4
Net interest expense	(52.2)	(65.4)
Share of joint venture income after tax	2.2	2.2
Profit before tax, exceptionals and goodwill impaired	61.5	332.2
<i>Effective tax rate</i>	20.0%	45.6%

Operating profit pre exceptionals

	05/06		04/05	
	£m	%	£m	%
Gross profit/margin	2,977.8	24.6	3,011.7	24.9
Staff costs	(1,630.8)	(13.5)	(1,536.9)	(12.7)
Depreciation	(256.9)	(2.1)	(259.2)	(2.1)
Other costs	(978.6)	(8.1)	(820.2)	(6.8)
Operating profit pre exceptionals	111.5	0.9	395.4	3.3

Exceptional costs

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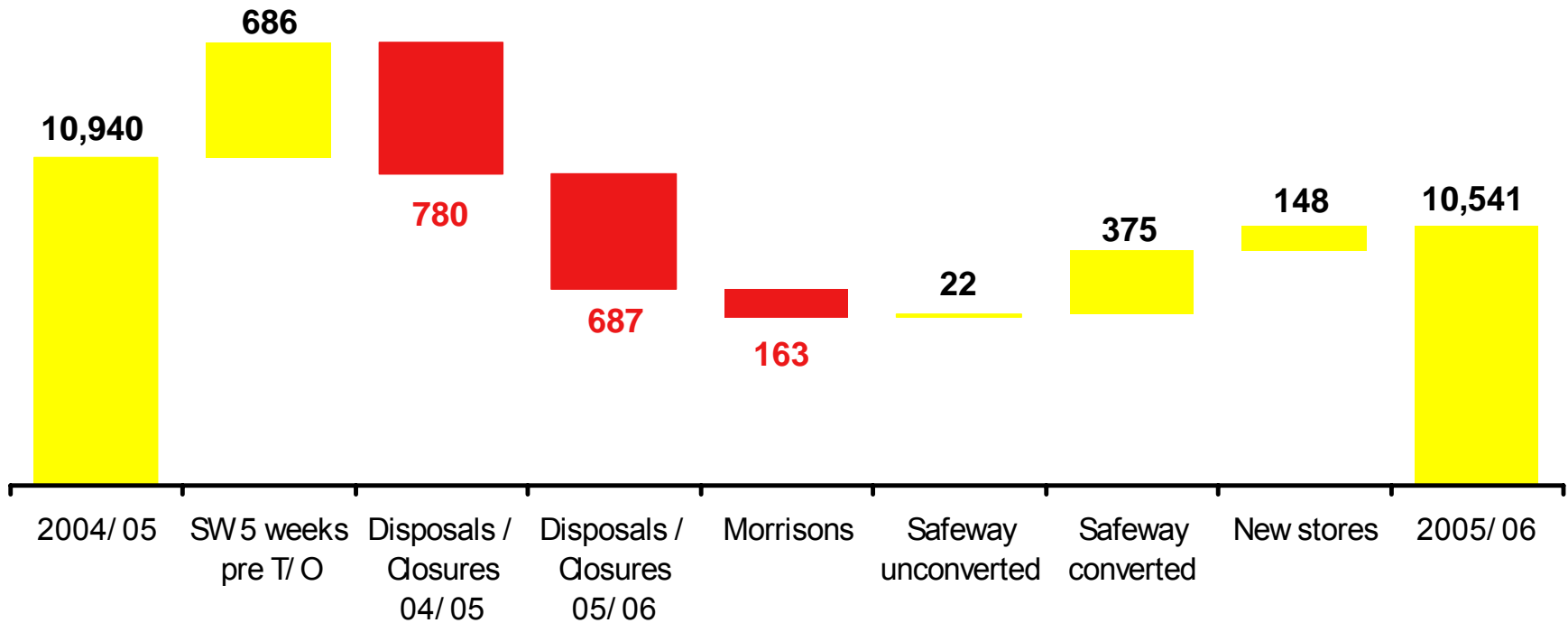
£m	05/06	04/05
Redundancy	75.5	23.8
Store conversions (inc payroll)	147.0	57.5
Divestments	11.0	3.0
Loss on disposal of fixed assets	16.7	14.9
Impairment of depots to be closed	21.0	-
Safeway integration and conversion	271.2	99.2
Goodwill impairment and brand write off	103.2	40.0
Total	374.4	139.2

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Sales bridge – year on year

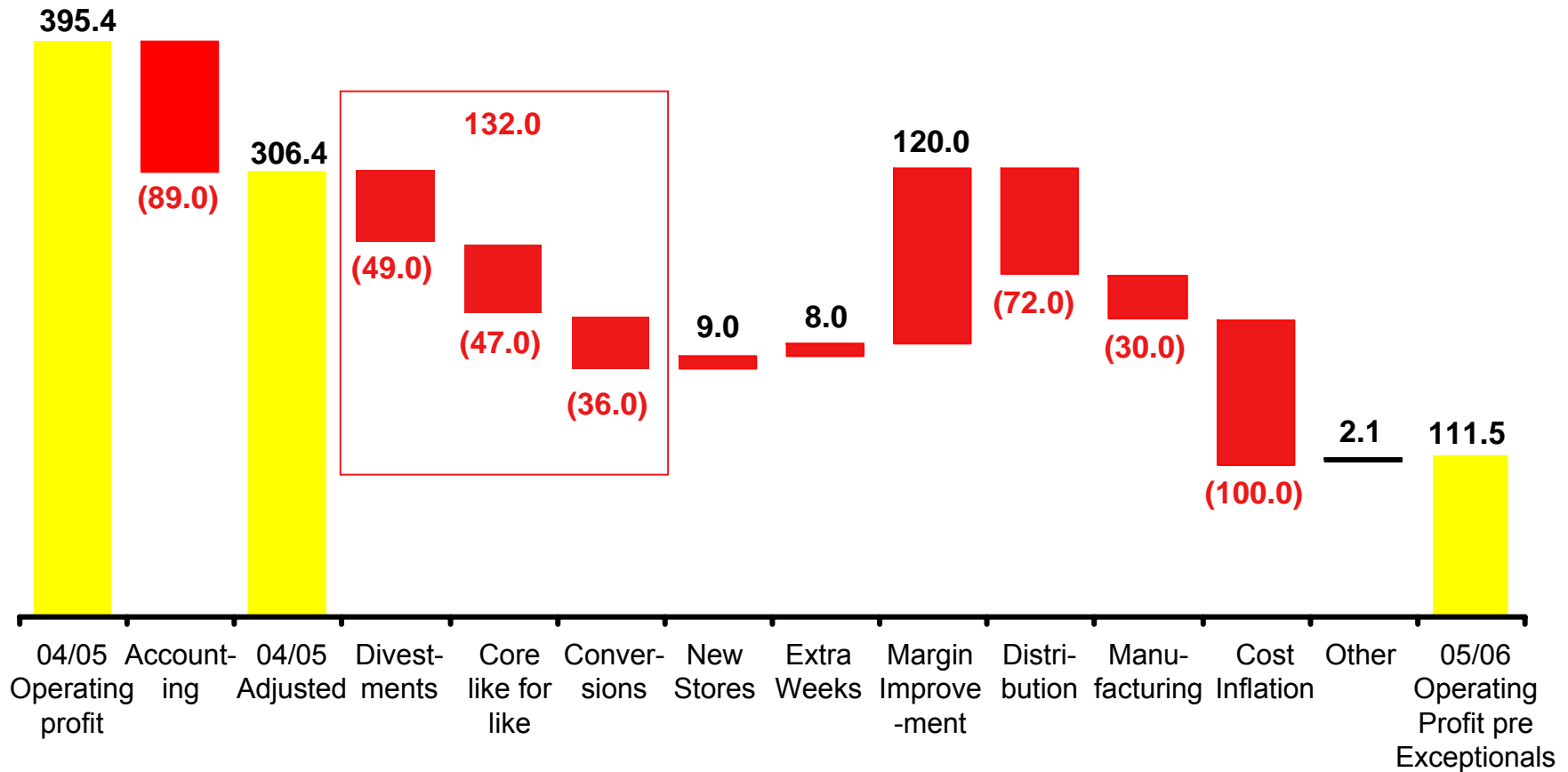
£m



Store till takings (excluding fuel)

Profit bridge – year on year

£m



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Cash flow

£m	05/06	04/05
Cash flow from operations	311.0	448.0
Acquisition costs	(15.6)	(831.4)
Proceeds from disposals	460.2	903.0
Capital expenditure	(635.4)	(428.3)
Sale and issue of shares	18.3	15.8
Tax, interest, servicing of finance	(18.4)	(247.3)
Dividends	(97.8)	(87.7)
Cash flow	22.3	(227.9)



Chippenham

Bob Stott

Chief Executive

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Operational review

Calendar

2004 – 2005

2006 – 2007



Conversion of Safeway

Optimise the new business



The stores estate



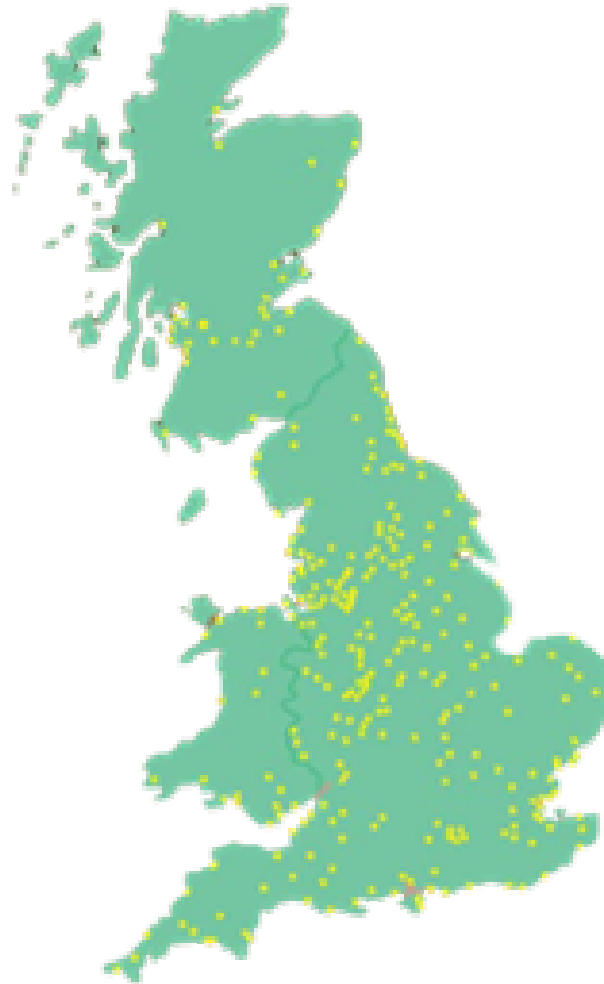
**Newcastle under
Lyme**



Bristol



Totnes



Hawick



Chippenham



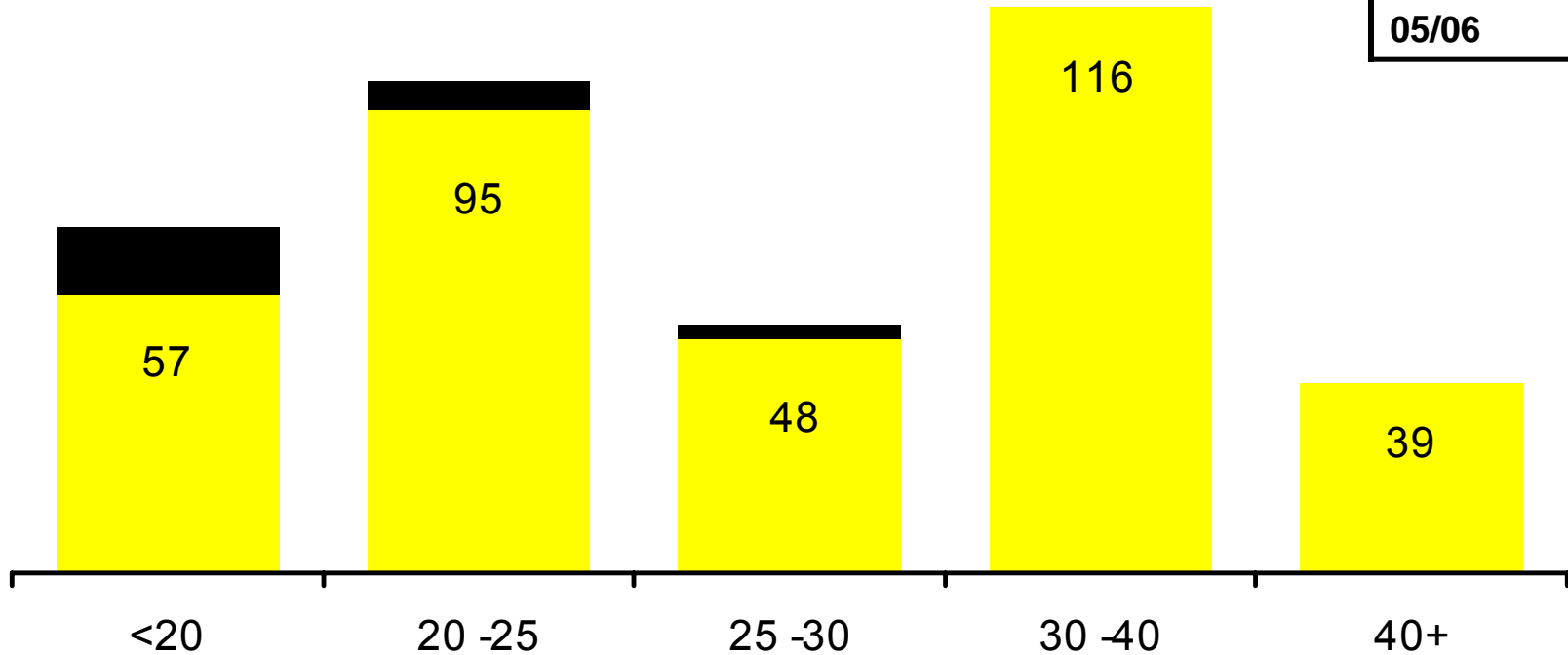
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The stores estate - size

■ Trading stores ■ Systems converted stores



Average store size	
03/04	36.5
05/06	28.1

Sq. feet '000

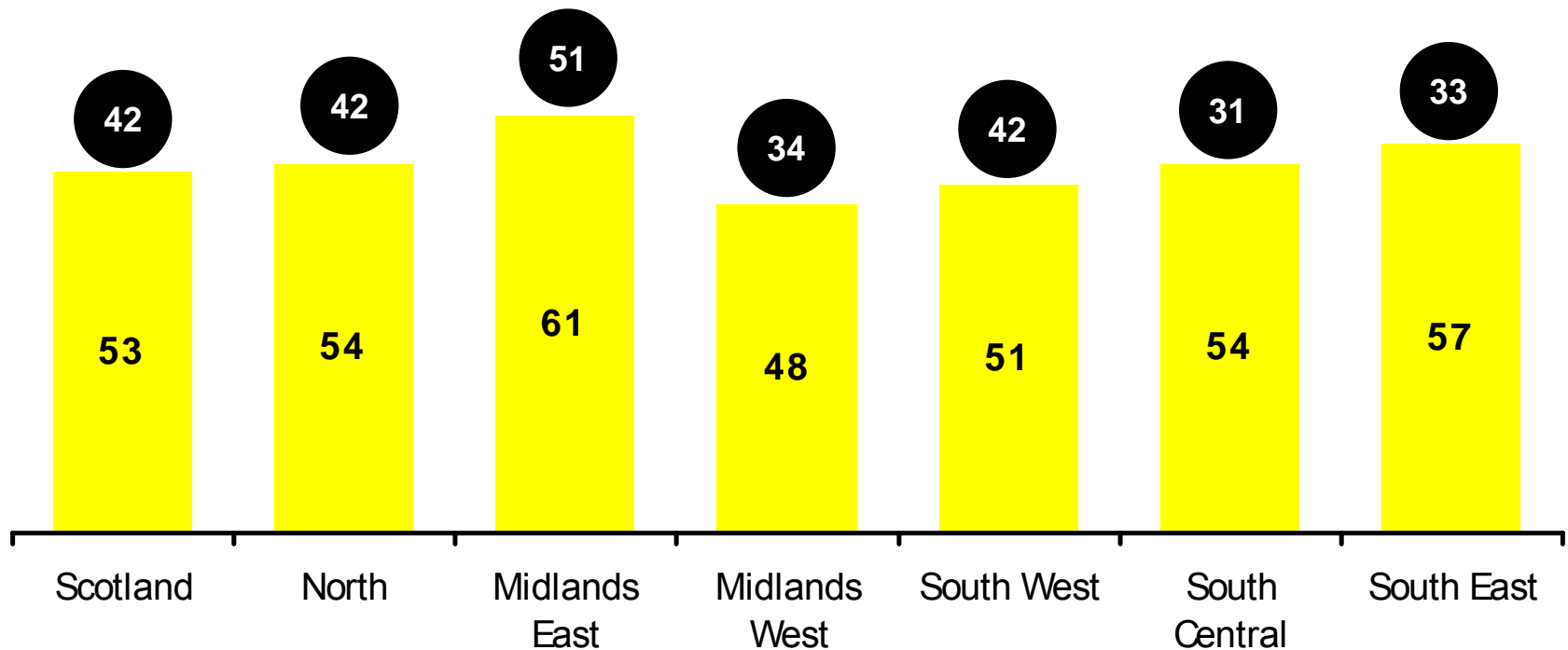
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The stores estate – geography

378 stores: 275 filling stations

● Filling stations

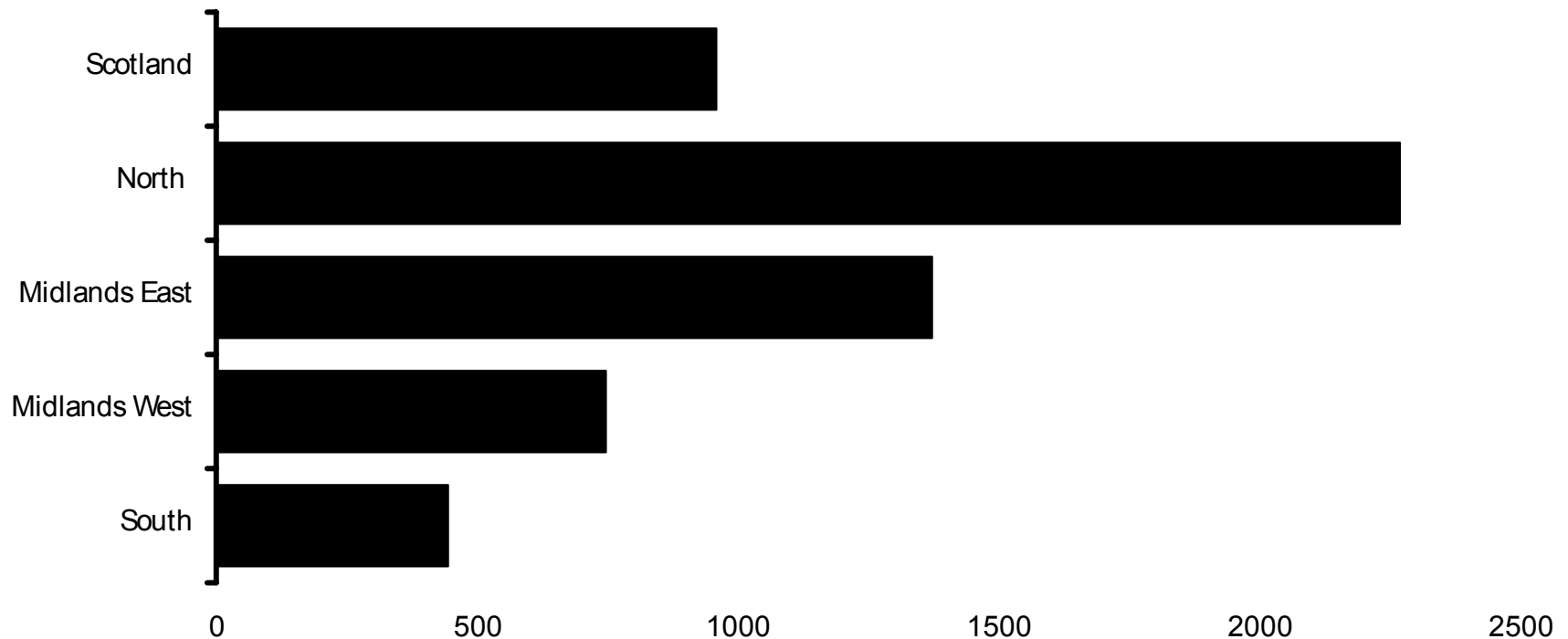


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Support infrastructure – distribution

Distribution Profile (sq.ft.'000)

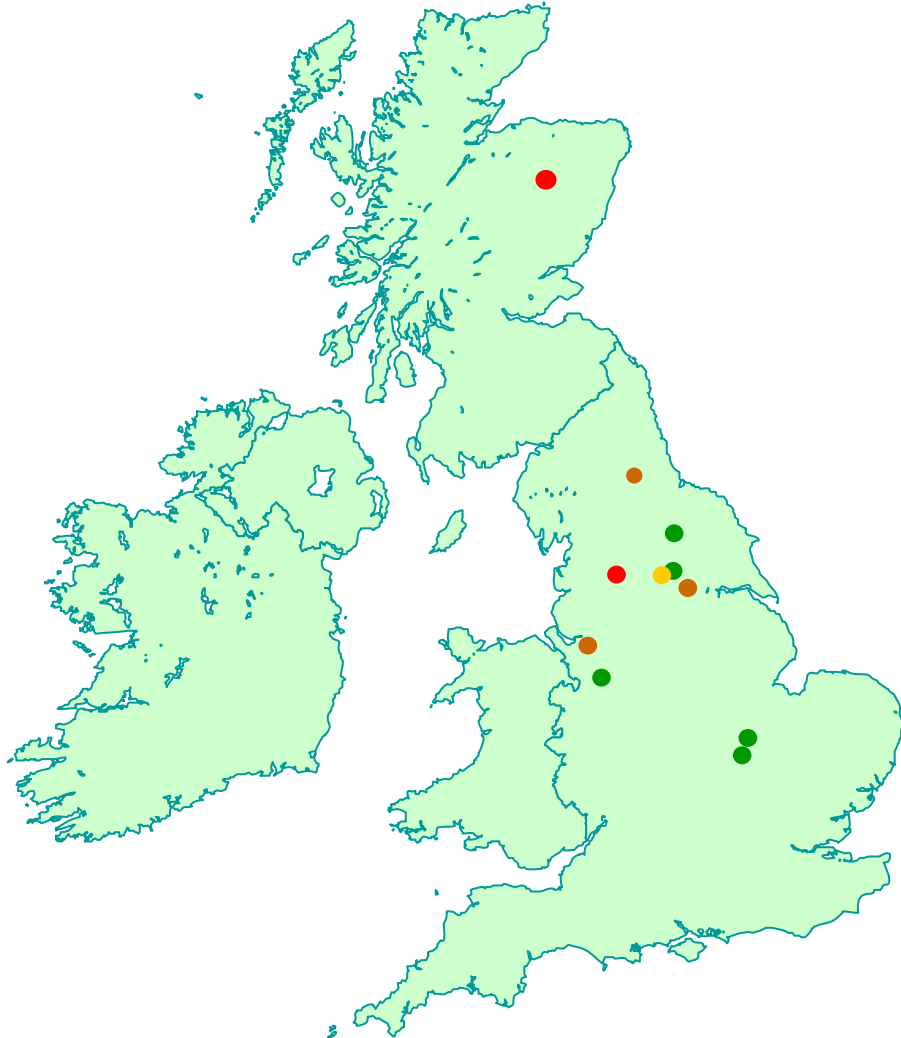


Depots at Aylesford, Bristol & Warrington closed – annual saving £30m

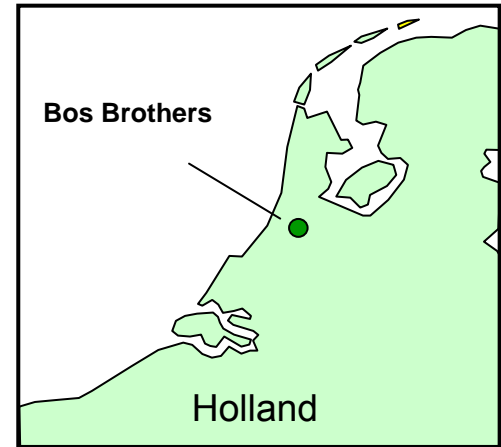
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Support infrastructure – manufacturing



- Fresh food factory
- Fresh meat processing
- Bakery
- Produce packhouse



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Performance update

– Year to 29 January 2006

Like for like					
	Continuing Group	Converted Stores*			Core Morrisons
		> 52 weeks	< 52 weeks	Total	
Sales	5.1%	6.0%	14.9%	13.4%	0.3%
Ex fuel	2.4%	3.8%	13.8%	12.1%	(3.4)%
Customers	5.3%	1.3%	18.6%	15.8%	(1.8)%
Other metrics					
Sales per customer (£)	22.21	22.60	20.36	20.68	24.96
Sales (£ per sq.ft.)	18.40	19.62	18.19	18.40	20.03
Stores	365	57	163	220	122

*Post conversion period

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Performance update

– 7 weeks to 19 March 2006

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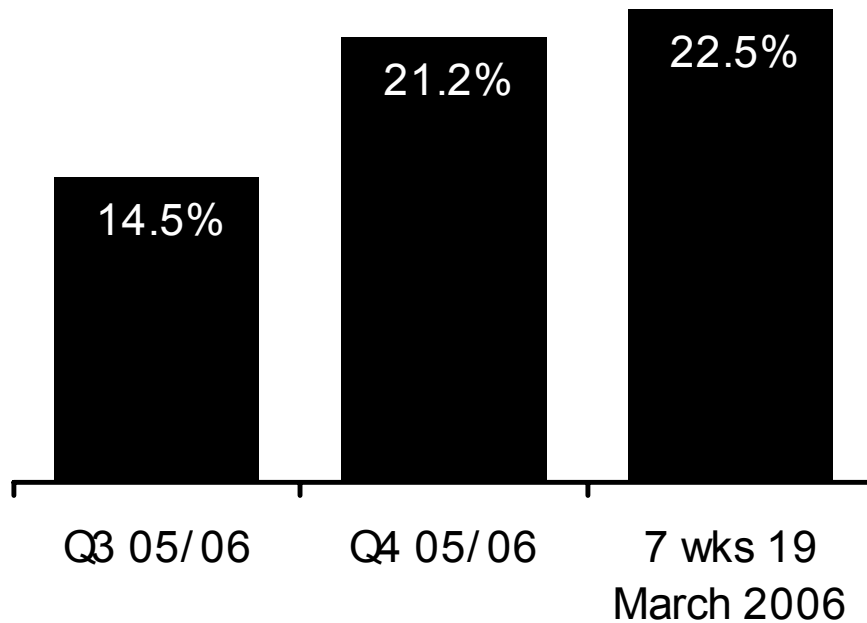
Group like for like		
	Year to 29 January	7 weeks to 19 March
Sales	5.1%	5.7%
Ex fuel	2.4%	3.2%
Customers	5.3%	4.6%
Other metrics		
Sales per customer (£)	22.21	21.81
Sales (£ per sq.ft.)	18.40	18.78

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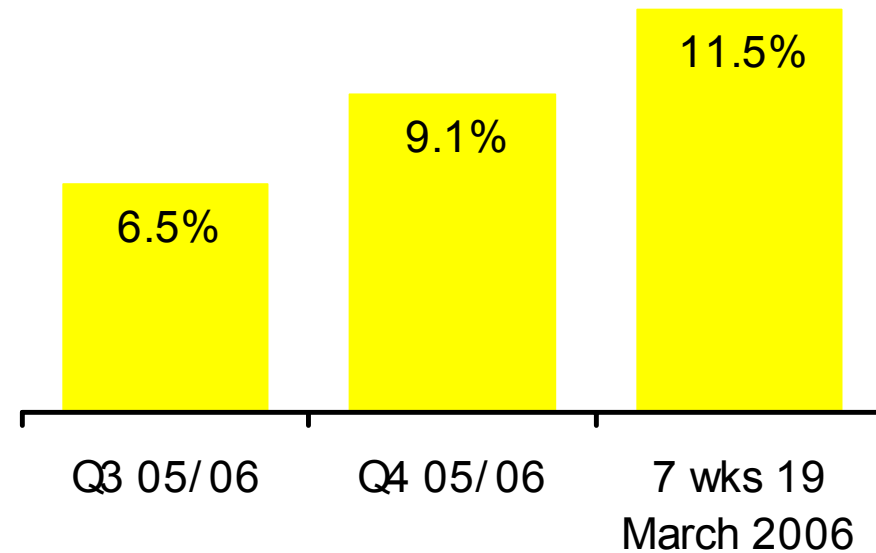


Scotland – the story so far

Sales Growth*



Like for like sales*



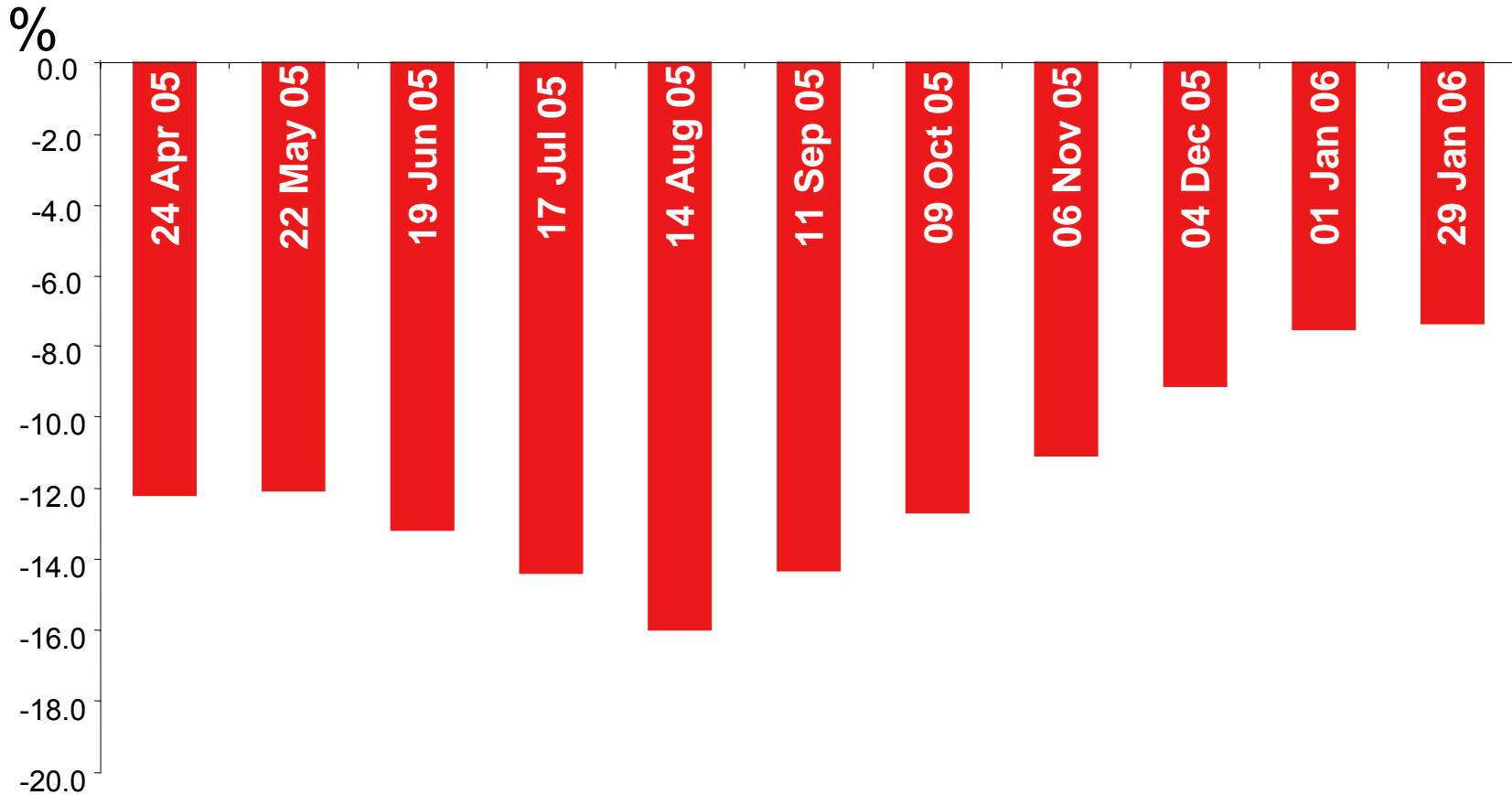
*Excluding fuel

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An improving story

Year-on-year trends – Grocer share



Trading indices

Product range

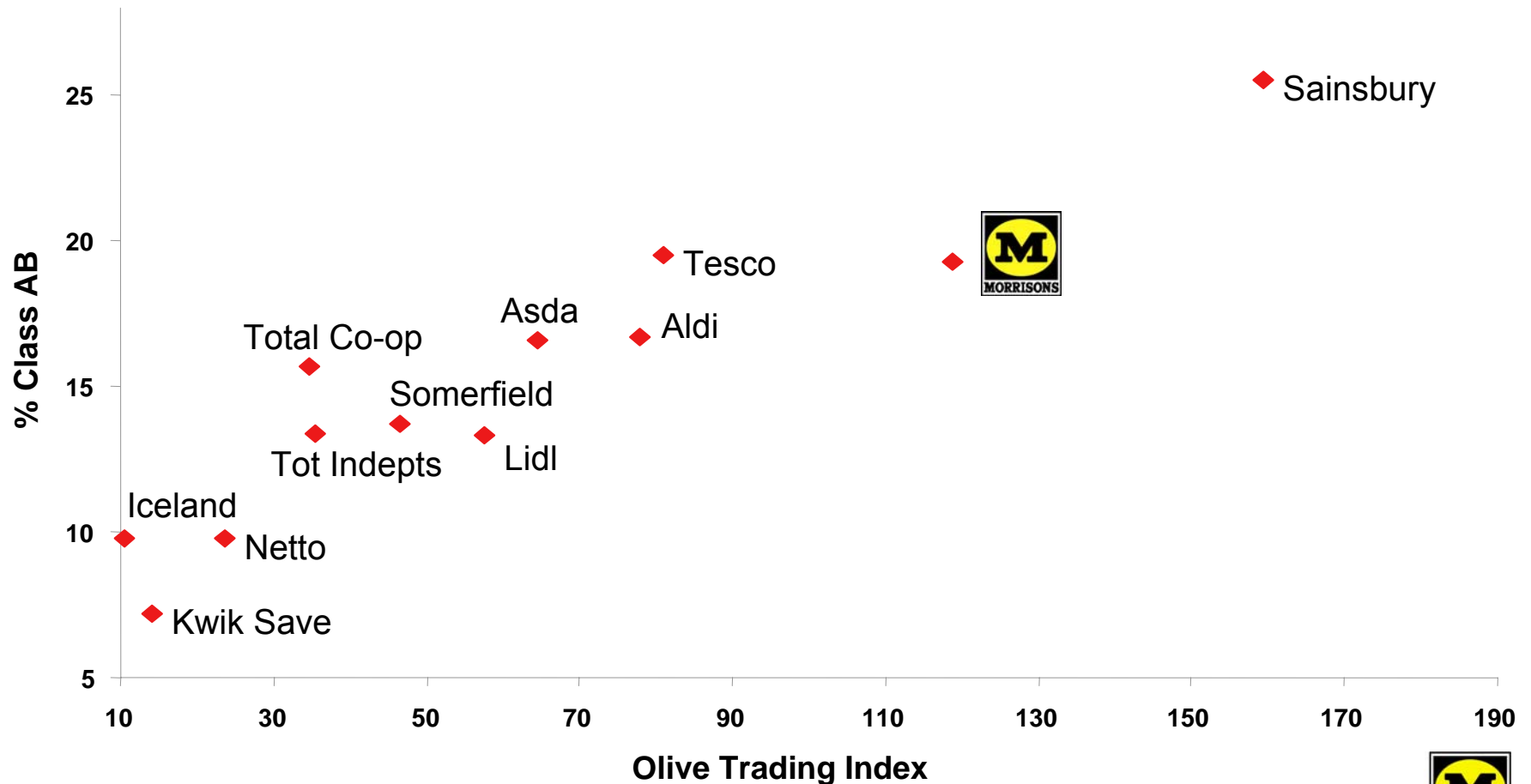
Chilled olives	227
Cooked poultry	165
Chilled bakery products	116
Fresh meat	113
Fresh fish	113
Fresh poultry & game	113

Product category

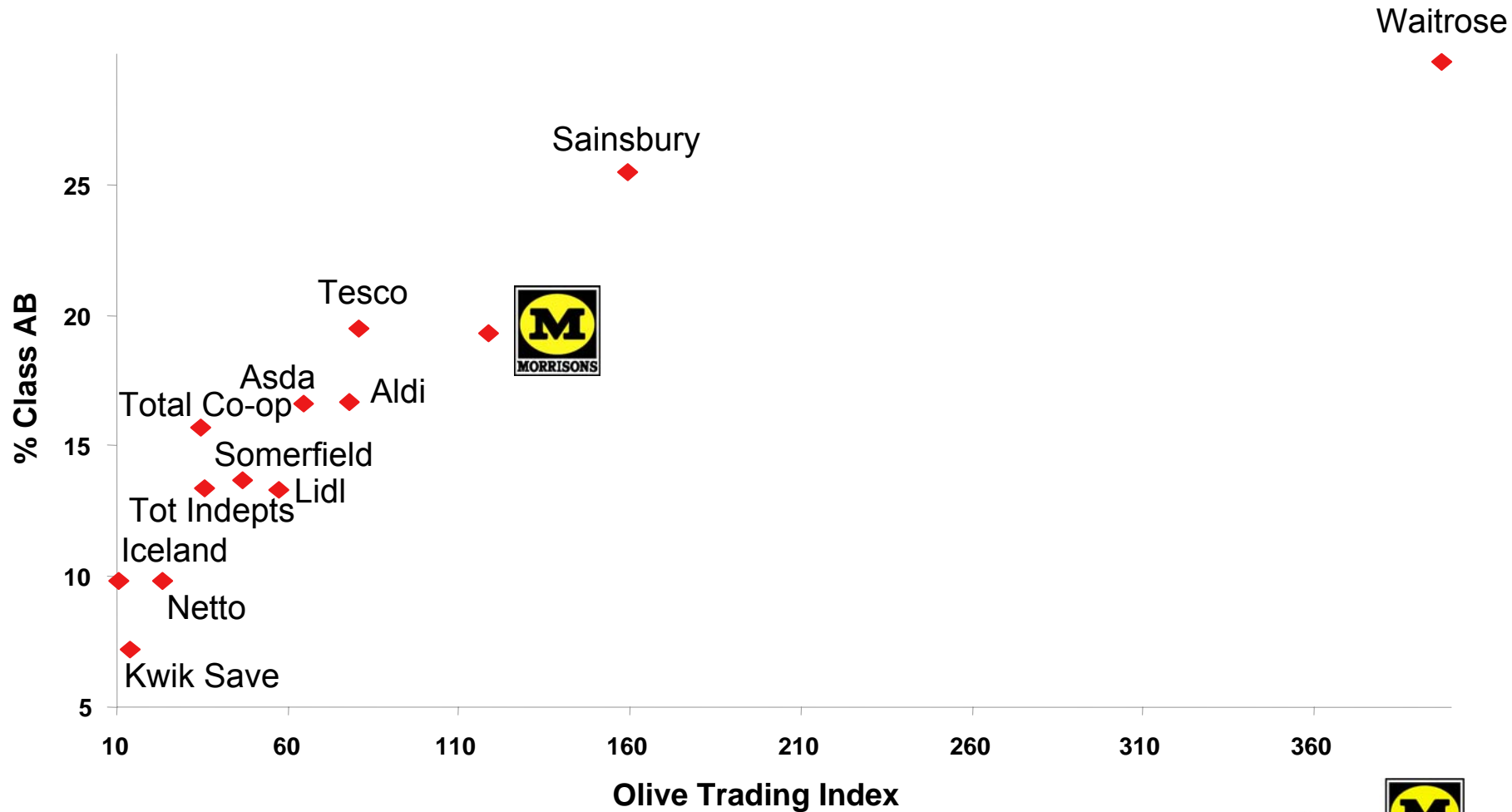
Total household	109
Total ambient groceries	103
Total toiletries	75
Total healthcare	66



The Olive Index

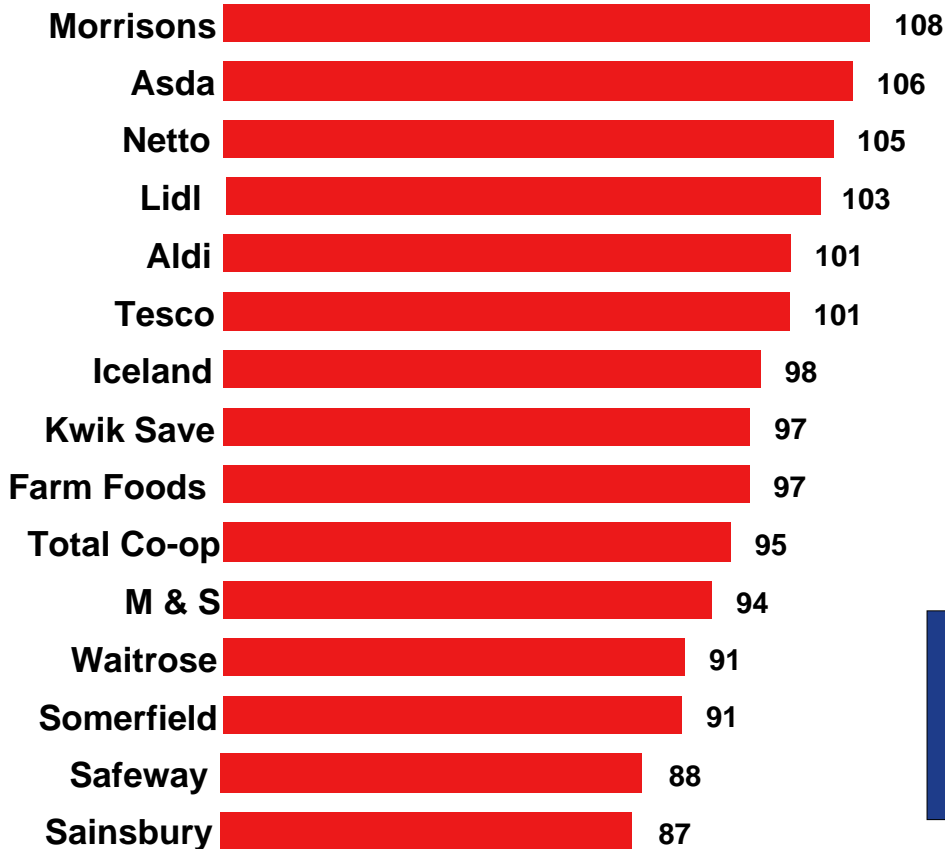


The Olive Index



Morrisons - value

I get good value for money



Organic *The Best*



Source TNS – Outlet share index 52 w/e Nov 6 2005

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Morrisons – brand qualities

- Value for our customers – above all
- Outstanding quality
- Great customer service
- Integrity in everything we do

“The Best Grocer in Town”



Newcastle under Lyme

Optimisation Plan

Richard Pennycook

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Optimisation plan - themes

- Context
- Directional guidance on sales
- Firm guidance on margins and costs
- Exceptionals coming to an end
- Cash under control and no increase in net debt

Optimisation plan – what it is (and is not)

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Objective

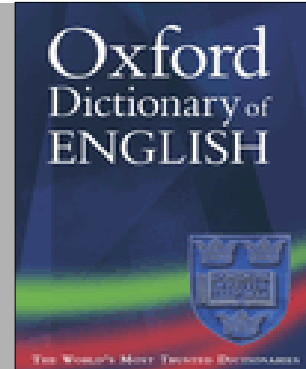
Apply, and adapt where necessary, the
125 store Morrisons model to the new
374 store world... In order to
optimise business performance over
a
3 year programme

Ò´ptím ísátión

... ‘get the most out of’

‘*modifying to achieve maximum efficiency*’

‘acting as an optimist’



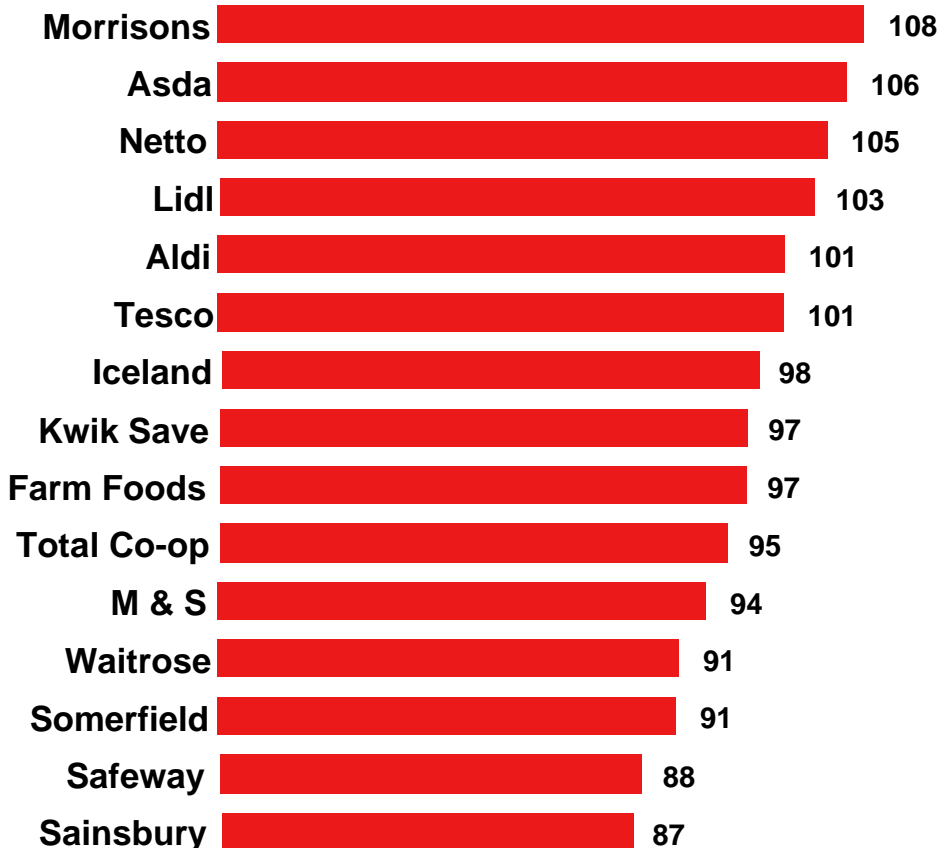
Tactical profit recovery, not strategic repositioning


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Applying the Morrisons model

I get good value for money



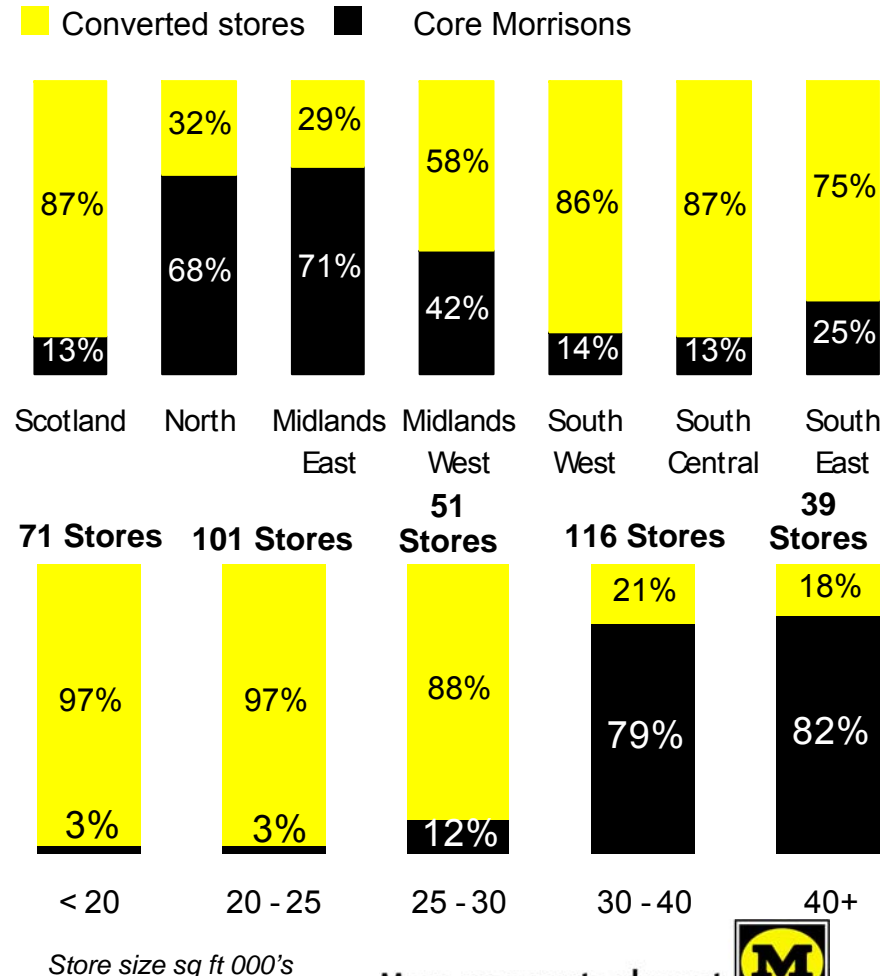
03/04 Performance Reminder	
Sales per square foot £	19.94
Margin %	25.5
Staff cost %	11.5
Depreciation %	2.4
Overheads %	5.4
Return on Sales %	6.2
Industry leading performance	
	Grocer award for service
	Grocer award for availability



Adapting where necessary

- New to Morrisons ...
 - 5.5m customers per week
 - 90,000 colleagues (2 in every 3)
 - 5.6m square feet of space,
 - 3.4m in stores below 25,000 sq ft
 - 4.3m in Scotland and the South

05/06 Performance		
	05/06	03/04
Sales per square foot £	17.69	19.94
Margin %	24.6	25.5
Staff Cost %	13.5	11.5
Depreciation %	2.1	2.4
Overheads %	8.1	5.4
Return on Sales %	0.9	6.2
Wholly unacceptable performance		



Scotland North Midlands East Midlands West South West South Central South East

71 Stores 101 Stores 51 Stores 116 Stores 39 Stores

< 20 20 - 25 25 - 30 30 - 40 40+

Store size sq ft 000's

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Delivering the plan – our goals

- Back to the day job – building on our strengths
- Swift execution of obvious things
- Careful thought where solutions aren't obvious
- Bigger questions wait until later

A critical change challenge

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Preserving the strengths

Tightly focused top team, huge experience, centralist culture

Simple processes, clear accountability, one way of doing things

Quick decision making based on instinct

Enjoying being the best

Very low cost

Adapting to the new world

New experience and thinking coming into the team, more empowerment to manage change required

A more complex business, with 90,000 new colleagues needing to learn

More analysis and support required where instinct is not enough

Determination to once again be the best

Cost of change, some structural

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A critical change challenge

Preserving the strengths

Sales led
Value driven
Trading mentality
Customer focused
Great shopkeeping

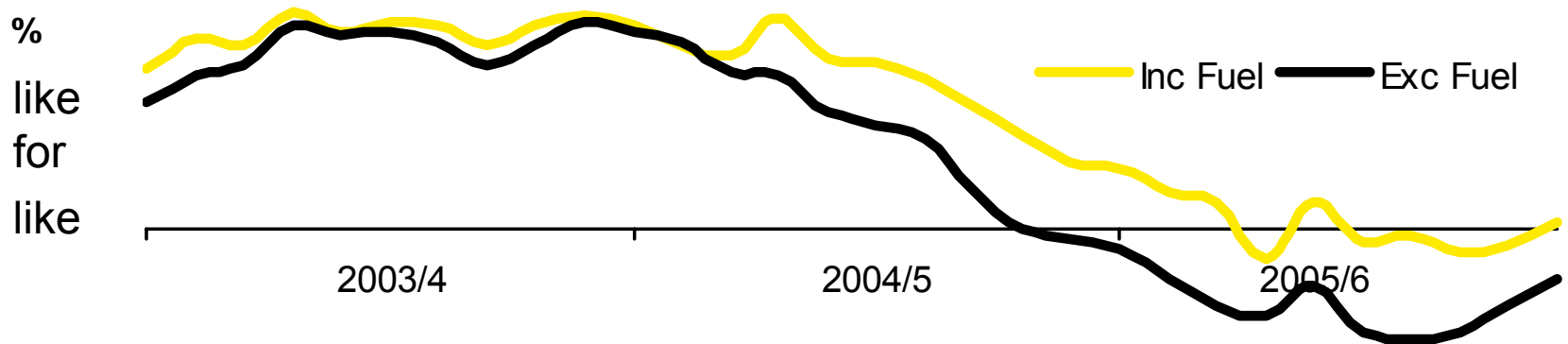
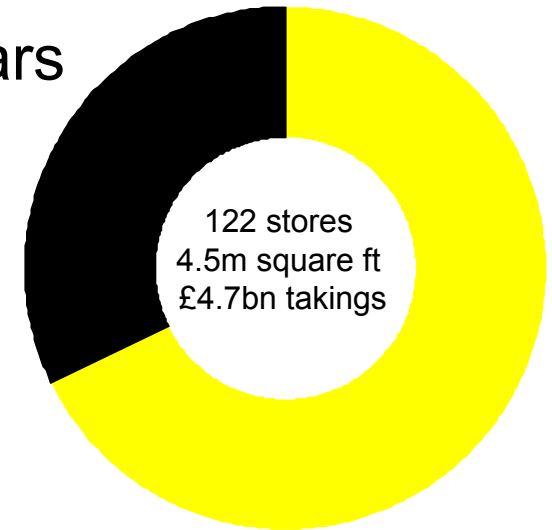
Adapting to the new world

No change

Original Morrisons stores – back to best

38

- Sales per square foot up 0.5% over 2 years
- Performance impact of cannibalisation, tightening in customer spending, management distraction
- Cost base impact of minimum wage, business rates, fuel prices

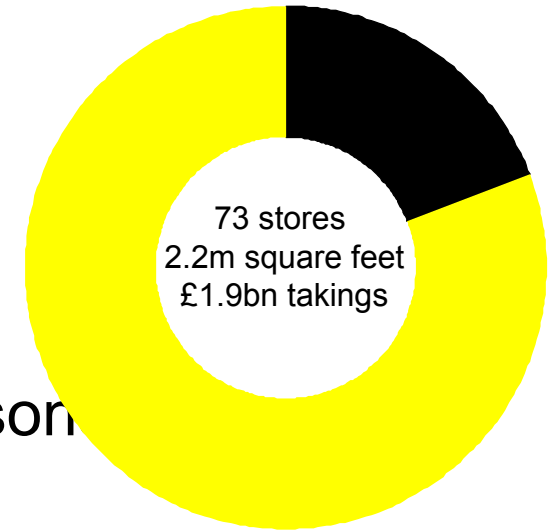


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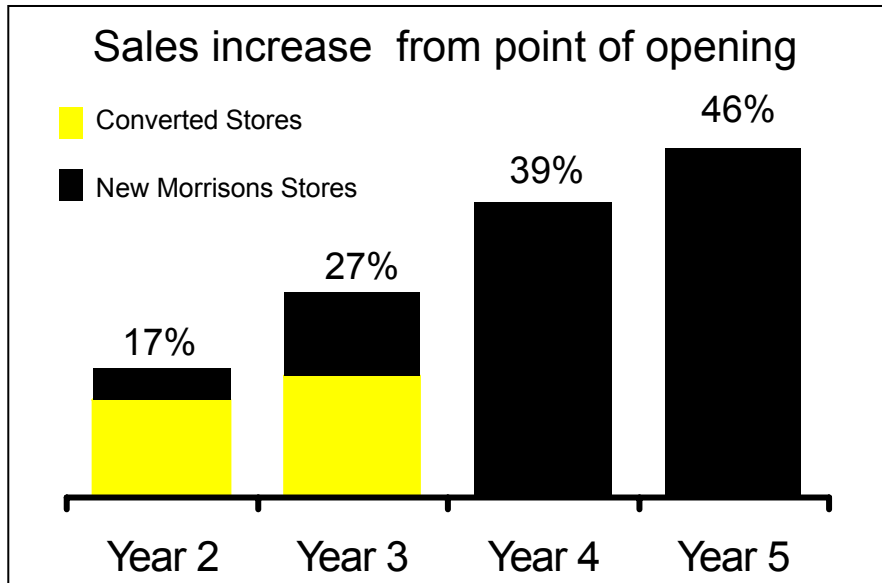


Large converted stores – up to best

- Sales per square foot 05/06 23% below original Morrisons
- Gross profit performance 70 bps below original Morrisons
- Staff costs 250 bps above original Morrisons



(Stores >25,000 sq. feet)



2.1m hours to be saved in current year, from natural staff turnover

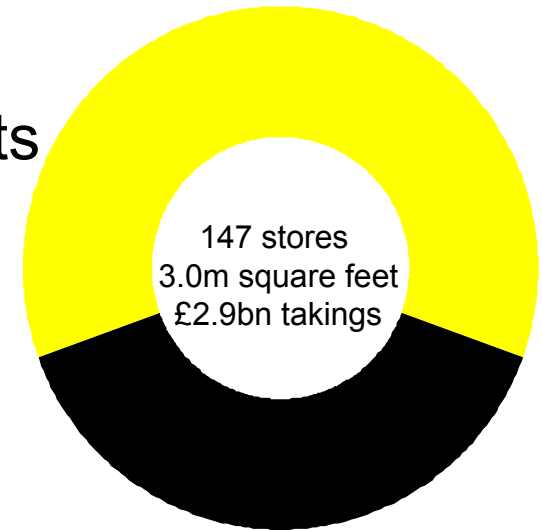
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Smaller converted stores – forward to best

40

- Sales per square foot up 0.5%, higher densities needed to cover semi-fixed costs
- Gross profit performance 30 bps below original Morrisons
- Staff costs 310 bps above original Morrisons



(Stores <25,000 sq. feet)

Smaller stores project underway

- 5 workstreams – offer, range, operations, supply chain, equipment
- 16 initiatives going on trial

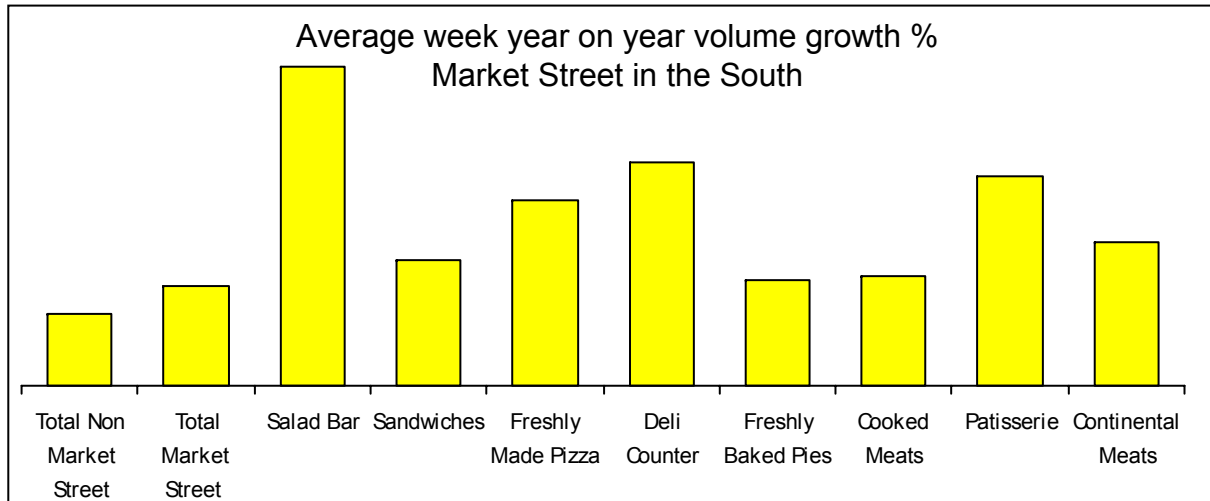
3.9m hours to be saved current year, from natural staff turnover

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Trading and marketing

- Reinforce our position as “best for value” – real value is strong on price, great on quality
- Exploit Market Street as a point of difference
- Buyers and merchandisers back to product innovation and range development – e.g. health & beauty



90 bp margin improvement over 3 years above price investment

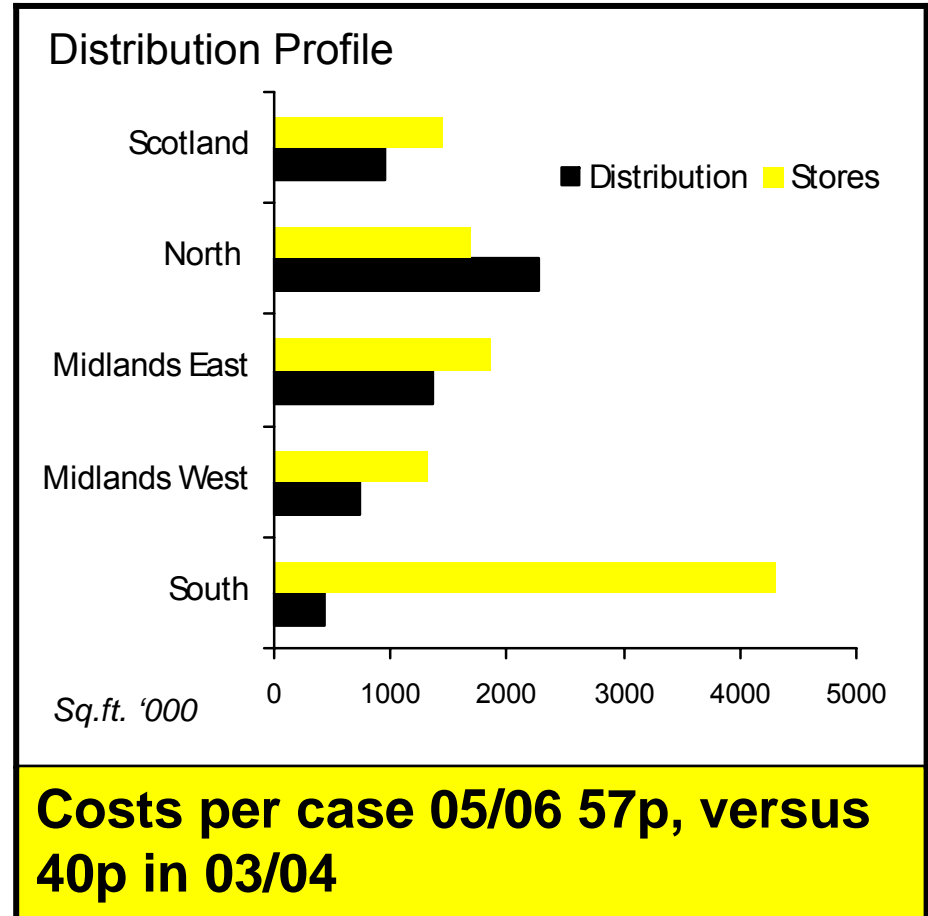
Source: company data, January 06

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Distribution

- Southern distribution - a medium term solution
- Systems programmes for transport and warehousing will provide 07/08 benefits
- Management strengthening required to implement the programme
- Depot closures already announced will deliver £30m benefit 06/07



In support

- One head office and better ways of working together
- New accounting system installed
- £30m of cost savings
- Capex to match depreciation in 06/07



1,600 colleagues under one roof from June 06

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Restoring pride in Morrisons

- We have a clear plan, to fix the basics:
 - 6m store staff hours saving target, approximately £50m this year, £90m full year effect
 - 90 bps margin target over three years
 - £30m distribution saving this year
 - £30m central cost saving this year
 - Capital expenditure to match depreciation, this year
- We do not underestimate the competition, but much of the recovery is in our hands
- Our plan will evolve, and strategy awaits the new CEO

Summary

- 2005/06 – a difficult year but
 - conversion an outstanding achievement
- Business has stabilised
 - 7 week trading results encouraging
 - Confident that the worst is over
- Much more to do - optimisation plan provides a blueprint to drive the recovery



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