INTERIM RESULTS – 25 WEEKS ENDED 29TH JULY 2007-09-21

SLIDE 2
Good morning ladies and gentlemen, and welcome to our interim results announcement for the 25 weeks ended 29th July 2007. This is our agenda for this morning.

SLIDE 3
As usual, Richard will take you through the numbers and then Marc will give you an update on the business.

SLIDE 4
The year so far has been a busy one and has provided further evidence of the progress that we continue to make in getting the business back towards its best. Our sales growth has been steady, profits have come back strongly and we continue to generate good cash flow.

The board is recommending an interim dividend of 0.675p per share. This is an increase of 8% and reflects the Board's continuing confidence in our growth prospects.

SLIDE 5
There have been two changes to our Board during the period. David Hutchinson, our Manufacturing and Distribution Director, retired in June after 21 years with the company and I would like to pay him a personal tribute to the outstanding contribution that he made to the company's success during that time.

Sir Ian Gibson joined as Deputy Chairman at the start of this month and I am delighted to welcome him here today. He will already be known to a number of you and I look forward to working with him over the next few months.

The Competition Commission enquiry into the Grocery Industry continues and we anticipate its provisional findings will be announced in September with possible remedies during October. The final report is expected to be published in February 2008. We continue to co-operate fully with the enquiry and whilst we cannot predict the outcome of the investigation, local competition still appears to be a main issue. As the fourth largest player in the sector this might present some opportunities for store development in important locations where we are not currently represented.

You will have seen the OFT press release this morning relating to their 3 year investigation into Dairy Products.

Morrisons firmly believes that it was not directly involved in the Dairy Products Retail Price Initiatives that are the subject of the OFT's inquiry.

With regard to Safeway, the investigation relates to the period 2002/02 which was prior to Morrisons acquisition of Safeway.

At no point during its inquiry has the OFT requested any documents or information with regard to Morrisons.

And now I'll hand you over to Richard ….

SLIDE 6

Good morning ladies and gentlemen. At this interim stage of the year we are satisfied with our financial progress, and there is relatively little in the numbers that will appear new – so I will keep the update brief.

SLIDE 7

Overall, we continue to grow profits faster than sales, reflecting the benefits of margin and cost initiatives. Turnover growth of 2.8% translated to Operating Profit growth of 57%, although as Marc and I will discuss later there are higher costs to come in the second half. Before tax profits were up even more strongly, as a result of an unusual net finance income position, and some property gains. The finance costs benefited by approximately £13m from interest credits arising from corporation tax rebates and improvements in the funding position of the pensions schemes – we would not expect either of these to recur, and so going forward a normal net finance cost can be anticipated. Property profits, which we isolate separately as we do not see them as normal trading items, were strong as we continued to sweep up the legacy of the Safeway estate. There will continue to be small gains in the coming couple of years from normal portfolio management activities.

SLIDE 8

Gross profit was strongly up in the half, by 160 basis points. I will break this down for you later, but it is important to note that this performance will not continue in the second half. There are three main reasons for this:

Firstly, our levels of price investment increased towards the end of the half, after a benign environment in the early months, and we anticipate these investment levels rising further in the second half.

- Our labour costs benefited from the full year effect of Optimisation Plan One in the first half, and these productivity gains are now baked into the business. In the second half, we have to absorb the inflationary pay review for the majority of our staff.

- Finally, as mentioned, we will see a significant upweighting of our marketing expenditure in the second half with the continuation of the campaign launched at the end of July.

SLIDE 9

As usual, I will bridge both turnover and profits, and you will note that these slides are becoming easier to interpret as the effects of the Safeway acquisition and integration dissipate. Looking at turnover, the disposal effects were only £59m, and fully offset by the sales gain from new stores. Of course, once we are fully clear of disposal effects then new store growth will contribute towards holding our overall market share position. Like for like growth contributed £150m to overall sales.

SLIDE 10

In our pre-close statement we provided the first half like for like figure, so this is familiar to you. This chart breaks out the split between sales per customer and customer numbers. Whilst we saw growth in both, neither is yet strong enough. Basket size up 2.7% confirmed that customers are continuing to trade up, and customer numbers are still growing. But we were behind our major competitors in this period, and we need to see the benefits of the next phase of the Optimisation Plan kicking-in before this situation will improve. Marc will address progress on the Plan in his section.

SLIDE 11

This profit bridge highlights the further good progress being made under the Optimisation Plan. Margin gains continued, through our programmes to improve ranging and segmentation of the stores and more effective targeting of promotional investment. These gains were helped by a benign pricing environment in the early part of the year, although levels of price investment increased significantly in the second quarter, and have continued over the summer.

Store staff costs continue to improve, and the savings are being made without compromising service in the stores. The savings represent the annualisation benefit of stage one of the Optimisation Plan, which led to a £34m improvement in the half. Further productivity gains are targeted in stage two of the Plan, but these are at an early stage and will not deliver material benefits in the second half – for example self scanning checkouts have just gone on trial, and shelf ready packaging is currently only applied to a narrow range of products.

Distribution costs benefited from a new transport scheduling system currently being rolled out, and will benefit by a further £5m in the second half now that we have the new Southern grocery depot open.

Energy costs were £11m better half on half. Whilst most of this was due to the benefits of a new, lower cost supply deal, we also made strides with reducing energy consumption, with savings of 2% year on year.

The higher depreciation charge represents, mainly, the effect of our decision to rebrand and reconfigure Market Street with a consequent acceleration of the depreciation on related assets. We expect an element of this higher level of depreciation will continue in future periods.

The ongoing costs associated with the activity to rebrand the business were £17m in the half. A combination of reformulating product specifications to improve quality and packaging to improve visual appeal will mean that such increased costs will be a part of business as usual at these levels going forward.

I have already discussed the non-recurring finance credits that we enjoyed in the period which have contributed to the year on year improvement of £32m.

SLIDE 12

Cash flow of £199m in the half was again strong and resulted in a fall in net debt to £566m, although this will rise again by the year end. Cash from operations was at similar levels to the prior year – with our Operating Profits growth compensating for a lower working capital gain this year, as anticipated. Disposal proceeds were also reduced, as we are no longer selling trading stores – in the half this represented surplus land and other buildings. Capital expenditure was up year on year, from the very low levels of 2005/6, and will rise further in the second half with the opening of 7 new stores and the acceleration of the capital aspects of the Optimisation Plan. Once again, we benefited from tax rebates, which totalled £42m in the half and are not expected to recur.

We anticipate a rise in net debt by the year end to around £900m, with a total capital investment of approximately £500m.

SLIDE 13

As previously reported, we are in discussions with our pension trustees to agree a mechanism to eliminate the deficit and to contain future costs at affordable levels. The IAS 19 deficit was £401m last half year, reducing to £198m at the year end through a combination of equity market strength and additional funding. This had fallen further to £167m at the most recent half year, and it is our intention to eliminate the deficit by the year end. We also wish to ensure that our future funding of pensions is very robust, and to that end we are currently discussing tougher longevity assumptions for use in the valuation that will determine the cash injection required to eliminate the deficit. All of this will be laid out clearly at the year end.

I am pleased to confirm that we concluded a new, £1.1bn revolving credit facility last week, to replace the existing £500m facility previously in place. The new arrangement is for five years, on improved terms, and ensures that we are fully able to address all our Optimisation Plan investment objectives. We were pleased to be able to agree this facility at the normal commercial rates one would expect for a business our size.

Our discussions around a possible property joint venture covering our sites containing investment properties, have been impacted by the debt market turmoil. Very simply, we have reached a stage where we are ready to invite propositions from third parties for these properties, having surveyed them and drawn up all the necessary legal documents. But we have held back from taking this step in the current environment. As you know, we are under no balance sheet pressure to undertake such a transaction – we would only contemplate it if it were strongly in the best interests of shareholders. We will therefore keep market conditions under review and progress this work further when the time is right.

When we talk to you in March, we will of course update you on the property situation, and we will also lay out our thinking on the appropriate balance sheet structure for the Group in the longer term.

Now let me hand you over to Marc for the operational review.

SLIDE 15
- Morrisons recovery on track.
- Strong profit and cashflow.
- The optimisation plan is on schedule.
- We have controlled our costs and improved our margin.
- All programmes are making good progress.
- I will talk to you about sales performance later in detail.
- As I shared with you 6 months ago, whilst building for the future we push for operational excellence.
- I am very proud that our people have been recognised with these leading industry awards.

SLIDE 16
- I would like to update you on progress since I outlined my business review in March.
- These are the key issues I outlined in my strategic review last March.
- Bakery, Butchery, Oven Fresh, Fresh Prep, Cake Shop, Pie Shop, Deli, Fish.
- 3 year programme – still very early days but pleased with progress made so far in implementation.
- I will take you through one by one.

SLIDE 17
- We have lagged behind in range development over last 2 years.
- It is vital that we update our range to meet consumers changing tastes.
- In the last 6 months we have introduced 3,000 updated products.
- We will accelerate this rate in the second half resulting in 25% of the range being refreshed this year.
- We have extended our Organic, Best and Eat Smart ranges.

SLIDE 18
- Our non food range has not had real focus in the past.
- John Vinuesa ex Asda, ex Tesco joined as our home & leisure director in July.
- In the process of building a new team.
- Complete range review is underway results anticipated by the year end.

- Our primary focus will be Home and Leisure, a specific and unique Morrisons non food range.
- We will start to roll out the new range early next year.

SLIDE 19
- Market Street is our main point of difference.
- What we have done:
- Major program to refresh the look and feel of Market Street
- Improved visibility
  Customers can see our 800 fishmongers
- 1,500 butchers and 1,800 bakers at work.
- Developed clearly identified packaging for 1,700 market street products produced in store.
- Tested in a couple of our existing stores.
- New concept now in the 3 new stores this year at Speke, Johnstone, Erskine in Scotland.
-

Let me show you some examples

SLIDE 20
- We bake over 90 different kinds of loaf from scratch each day in over 350 stores.

- We opened up our bakeries so that our customers can see our bakers at work.

SLIDE 21
- Here we see our new oven baked department which incorporates our old pie shop.

SLIDE 22
- We prepare more product instore than any other supermarket.

- We have opened up our fresh prep department so customers can experience the products being prepared.

- The roll out will be an intensive programme of around 10 stores a week and we plan to finish by the end of H1 next year.

- Although a challenge, we are confident we have the skills to do this effectively.

SLIDE 23
- On the left you can see the Prepared for you by WM Morrison label.

- This label was introduced in July for 1,700 lines prepared freshly in our stores.

SLIDE 24
- Productivity in store has improved by 7%.
- A range of initiatives have been designed to further improve our cost base.
- Improved stock control processes.
- Increased shelf ready packaging.
- Roll in merchandising.
- A Trial of self-scan checkouts.
- We have started to segment our stores on a category level based on consumer profile.

SLIDE 25
- Research told us that the Morrison's brand positioning was not clear.

- In order to sharpen this we launched our new corporate identity in April.
- In July we launched a new TV advertising campaign to promote our fresh credentials.
- You may have seen Denise Van Outen.

- [***SHOW VIDEO]***

- We introduced a new advert this week starring Nick Hancock.

- [***SHOW VIDEO]***

- Morrisons is still clearly also about value. Alan Hanson will support our value campaign.

- ***[SHOW VIDEO]***

SLIDE 26
- So our new advertising campaign is really underway.
- Now on to our new website.

SLIDE 27
- Our new website was also launched in July.
- Brings new market street to life.
- Gives customers access to recipes, hints and tips.
- Provides information on all our offers.
- More content to come.
- All initiatives will increase marketing spend in H2.

SLIDE 28
- We have started a significant programme of own label packaging development.
- By the end of July 2008 we will have completely redesigned and reintroduced all of our 9,000 own label products.
- For example look at The Best redesign.
- We also into to relaunch our range of 250 economy “Bettabuy” products as “Value.”

SLIDE 29
- Our target is 1m sq ft over 3 years.
- 1 store opened in the first half, 7 will open in the second half.
- New stores will deliver around 285,000 sq ft.
- Extensions will deliver 35,000 sq ft.
- So we are on target to achieve an extra 1m sq ft by 2010.

SLIDE 30
- In September, we opened Erskine in Scotland.
- The smallest store Morrisons has opened for 20 years.
- 25k sq ft, incorporating the full Market Street offer.
- Probably the highest fresh food preparation for its size in the UK.
- It opens the opportunity for a greater number of Morrisons stores in locations across the UK.

SLIDE 31
- In March I indicated we needed additional distribution capacity in the South.
- Our distribution is becoming far more cost effective.
- Cost per case now down by 11% Year on Year.

- New Depot opened in Swindon in July - Replacing capacity in the midlands.
- This will deliver further improvements of 5m in the second half.
- However, we still require full RDC's in the South East and south West.
- Have identified suitable sites – in negotiation.
- On target to open in 09/10.

SLIDE 32

- To optimise our manufacturing capacity an additional abattoir planned, open middle of next year.
- Advanced in our negotiations to select suppliers of our new IT system conclude over the next month.
- 3 year implementation program.
- We are building organisational strength in a number of key areas.
- In July Norman Pickavance joined as our Group HR Director from Northern foods.
- Angus MacIver starts next month moving from Prudential previously Pepsico.

SLIDE 33

- The market started H1 with good early sales growth but slowed down towards the end of the first half.
- Price inflation going down.
- More aggressive pricing.
- Expect pricing to stay competitive.
- Further increasing commodity prices.
- Through vertical integration we are well positioned for the future.

SLIDE 34

- As Ken has said, sales growth was steady in H1.
- I do not want to come back on weather, World Cup and flooding.
- Our converted stores have grown above the market and our core stores need to benefit from improved ranging, updated branding, refreshed Market Street and stronger marketing support which will come through towards the end of H2.

SLIDE 35

- This chart updates you on our sales performance on the 7 wks since the half year.
- LFL ex fuel was 3% slightly above H1 performance despite some headwind from the E coli case in Scotland.
- We are pleased customer confidence has returned swiftly.
- We see a stronger footfall in the last 7 weeks.
- First good indications of our new programs.

SLIDE 36

- H1 has been an important time as we prepare ourselves for the future.
- Profits delivered to plan.
- Optimisation initiatives are progressing well.

On track to:

"Strongly improve operating margins
….whilst shaping for growth"