Preliminary Results 10 March 2011

Script

Slide 3 - Sir Ian Gibson

Good morning everyone and welcome to our preliminary results announcement for the year ended 30th January 2011.

In what has been yet another difficult period for the UK economy and for the consumer, I'm delighted to report that Morrisons has had another good year, delivering record sales, a 13% rise in Underlying Profits to £869m and a 17% increase in the dividend. Once again our unique focus on quality fresh food at outstanding value was appreciated by shoppers everywhere and we welcomed record numbers of customers into our stores than ever before as we continued on our journey to take the business from National to Nationwide.

It's been an exciting year too with progress on all the initiatives that we outlined in September including our first steps towards e-commerce and convenience shopping and the announcement of a £1bn equity return as part of our overall balance sheet repositioning. Dalton and Richard will be talking in more detail about those shortly.

During the year we've seen some changes in the ranks of the Board with Martyn Jones taking on a non-board role of Group Corporate Services Director in September and, as announced last year, Paul Manduca stepped down from the Board effective yesterday. Looking ahead we announced that Mark Gunter, the Group Retail Director, and Brian Flanagan will retire from the Board following the AGM in June. I will have the opportunity to talk about Mark and Brian at the AGM but today I want to talk about Paul as he is here with us.

Our colleagues and customers have again been extremely generous of their time and money in supporting charitable causes with over £1.3m being raised for our charity of the year, Help the Hospices, and £0.4m for the Pakistan flood appeal. I thank them for their continuing generosity.

Looking ahead, we expect the economic environment to remain challenging, with disposable incomes under pressure and value remaining a high priority for consumers. Against this background, Morrisons unique offer of high quality, fresh food at great value prices puts us in a strong position to continue to win customers from our competitors and drive further growth in market share. I'd now like to hand over to Richard who will take you through the results and our plans for the future in more detail.

Slide 3 – Richard Pennycook, Group Finance Director

Thanks Ian. Good morning ladies and gentlemen. I am delighted once again to be reporting double digit earnings and dividend growth for the company.

A theme of the presentation this morning will be the strength and resilience of the business. I will start by running through our financial results, and then as we promised last September talk about our review of the balance sheet. I will finish with some commentary on the market to set the scene for Dalton's presentation.

Slide 4 – Financial summary

2010 was a hard fought year for Morrisons. We signalled early on that we expected market growth to be low. Our like for like sales performance of 0.9% was ahead of the market, and to drive 13% profit growth from that top line figure required the business to dig deep and deliver significant productivity gains. As Dalton will describe, this is something we believe the business can continue to do for a number of years. Many self-help opportunities remain.

Looking at the financial summary, all key ratios strengthened further in the year – earnings were up ahead of sales growth, the dividend was up ahead of earnings growth, and debt came down. To remind you, in the prior year we finalised the process of putting our pensions on a strong financial footing, and that resulted in an exceptional credit of £91m – a non-trading item and not repeated this time.

Slide 5 – Turnover bridge

Turning to the detail, and starting with the top line, this is our normal sales breakdown.

The contribution from new stores was equal to 2.6% of total sales, reflecting the big opening programme from 2009. The 43 stores opened in that year are now in our like for like performance since 1 February.

Fuel once again had a significant impact – average pump prices were around 15% higher than the previous year resulting in the price related increase of £399m. This level of consumer pain has, as you know, worsened in the past few weeks – right now, we estimate that it is costing our average customer an extra £9 every time they fill up their tank, compared with a year ago. As always, when consumers are looking for value, they come to Morrisons – and as a result our fuel volumes increased by nearly 5% in the year.

Slide 6 – Sales performance

This chart highlights the breakdown of like for like sales between customers and spend, and we were pleased once again to see a small increase in customer numbers. In total, we served an average of half a million extra customers each week in the year, taking into account our new stores.

Slide 7 - Underlying profit

Underlying profit was up by 13%, with only very small adjustments this time for property disposals and pension scheme returns, and of course without the large pensions adjustment in the prior year.

With a normal tax charge, underlying basic earnings per share were up 12% to 23.0p. Our tax rate guidance is to follow the trajectory of recently announced reductions in headline corporation tax rates, although we will continue to have a rate 1-2% above this level due to lack of capital allowances on freehold buildings. The dividend was up more strongly at 17% with dividend cover of 2.4 times, reflecting the continuation of our policy of growing the dividend in line with underlying earnings growth and with the European grocery sector average, which moved from 2.5 to 2.4 times over the period.

Slide 8 – Operating profit

Operating profits grew by 11% to £905m, equivalent to 5.5% of sales. We were pleased to grow the gross profit margin by 10 basis points, with a further 10 basis points coming from tight control of administration. I mentioned earlier that we really had to bear down on costs, and you see this in the administrative expenses which were up only £8m. Within this, our marketing costs increased, as advertising rates recovered from the lows of 2009 and due to higher activity associated with the World Cup, but were offset by reductions from our indirect procurement programme, which Dalton will talk about further.

Slide 9 – Operating profit notes

For completeness, this next chart highlights two small adjusting items. The first was the dilutive effect of the high fuel prices – at constant fuel prices, our margin growth would have been 30 basis points higher. Offsetting that, though, was the impact last year of one-off costs relating to the Co-OP/Somerfield acquisition, previously flagged as 20 basis points. Hence, overall, adjusting items would have increased our margin growth from the indicated 20 basis points to a pro-forma 30 basis points.

Slide 10 – Cash flow

Turning now to cash flow, 2010 saw further strong operational cash generation, with cash from operations up 13%, consistent with the underlying profit growth.

Capital expenditure of £592m was significantly below the prior year, when we acquired the freehold of our Sittingborne RDC and the 38 Co-Op / Somerfield stores, and as a result we saw net debt reduce to £817m. Our capex will step up again this year, with a bigger store opening programme, the acquisition and fitout of 16 Netto stores and the construction of Bridgwater RDC. Overall, we are guiding to capital expenditure of £1bn in the coming year, including the e-commerce investments announced in the past month, and a total of £3bn in the next 3 years.

Slide 11 – Balance sheet

This concludes the financial review, and now let me turn to our balance sheet strategy.

Slide 12 - Balance sheet strategy

In this section I will remind you briefly of our principles and the objectives of our review, update you on our funding structure and then explain the rationale for this morning's dividend and equity announcements.

Slide 13 – Past performance

As you know, Morrisons has a track record of running a tight balance sheet, and demanding good capital returns. Dalton and I sign off pretty much every investment in the business, and certainly all new stores. Our five year record, shown on the chart, shows strong dividend growth, cash generation and capital discipline. We are determined to maintain these credentials, which translate into long term shareholder value creation.

Slide 14 – Balance sheet principles

Let me remind you of our balance sheet principles, shown in our annual report and repeated here. We run an investment grade balance sheet, keep operational control of our properties and account prudently. These principles continue under our new balance sheet strategy. Alongside these, our objective in the review has been to ensure that we can fully finance our planned investment programme, enhance returns for shareholders and retain headroom to enable the Group to respond to further opportunities that may arise. In conducting the review, we have of course taken soundings from our shareholders.

Slide 15 – Financing

We have a simple financial structure, with a combination of commercial bank debt and a modest amount of bond finance. One tranche of bonds, totalling 150m Euros, was retired in the year, funded through cash flow. We are pleased to confirm today that we have put in place a new revolving credit facility with a five year term. It totals £1.2bn, with participation from 9 banks, and replaces a previous, smaller, facility which was due to expire in 2012. As you can see on the chart, this leaves us with a well balanced profile of debt maturities. We would expect the next tranche of funding, when we need it, to come from longer dated bond maturities.

Slide 16 – Shareholder returns

Consistent with the objectives I outlined just now, we are today pleased to confirm a number of enhancements to shareholder returns over the coming few years, building on this year's 17% dividend growth. The first commitment is to increase the proportion of the total annual dividend which is paid at the interim stage. In future, we will aim to pay approximately 30% of the full year dividend compared to 12% previously, an important commitment to some of our small private shareholders. Our overall dividend policy remains to grow progressively in line with underlying earnings, and additionally we are pleased to make a three year commitment that the annual dividend will grow at a minimum of 10%.

The second plank of our policy will be to retire £1bn of equity over the coming 2 years, with a programme which starts today. We regard this as good capital discipline, in a market environment which has stabilised considerably, whilst it will also allow us to retain flexibility to pursue further opportunities if they arise, and the next chart seeks to illustrate that:

Slide 17 – Capacity and credit rating

I should stress that this sort of analysis is an art, rather than a science, but we estimate that we currently have total capacity for debt financing, at investment grade, of £3.0 - £3.5bn, compared to the current net debt in the business of £800m. The step-up in our capital guidance that I mentioned a few moments ago will result in an increase in net debt over the coming two years – based on historic cash conversion rates, we would expect to fund c80% of the capex organically, leaving a residual c£400m to finance through the balance sheet. Allowing for the equity retirement just announced, we believe we will retain headroom in the order of £1bn. At this level, we believe we have achieved an appropriate balance between the desire to invest for growth, to retain flexibility and to manage our capital in a disciplined way.

Slide 18 – The market

Let me turn now to the market backdrop.

Slide 19 – Consumers under pressure

Its been tough for a number of years, and we don't anticipate any let-up in the year ahead. We all know that disposable incomes are coming under more pressure. We signalled at an early stage that sector growth would be low in 2010, and 2011 will be no better, particularly without a World Cup to support summer trade. Value will remain absolutely key to our core customers.

Slide 20 – Inflation across the value chain

A constant challenge to providing that value is commodity and exchange rate driven inflationary pressure, which has been around us for some time now. This chart shows the past five years on base commodities, and whilst the recession clearly blunted the effect, it has by no means eliminated it. The chart does also show how effective the supermarket sector has been at shielding the consumer from the worst effects of the inflation – with Kantar's five year price growth of x% well below the commodity price rises. A simple example of that is bread – where wheat prices are now up 60% year on year, but loaves are regularly on offer at 50p, a five year low.

Slide 21 – Consumer responses favour the supermarket sector

The last two charts have illustrated some pretty strong headwinds for the supermarket sector, and despite that we have all performed pretty well. That is a reflection of the fact that UK grocery is a world class industry which provides great value to its customers. As this chart shows, those value conscious shoppers are consolidating their trips, moving away from the high street and buying more and more categories in the supermarkets. Likewise, our cash strapped consumers are eating out less, going out less, and finding that they can buy restaurant quality meals from their supermarket.

Slide 22 – New space (1)

Much has been written about new space coming into the sector, and the risk that this creates of dilution of returns. We ackowledge that a short term imbalance exists between a high rate of space expansion and a period of low market growth caused by recession. We could well see Kantar figures this year showing total space growth exceeding total market growth. Over the medium to long term, we are sanguine about this. Food markets will remain resilient, and much of the new space will be accounted for in convenience stores and in non-food categories. Indeed, if we dial-out the new space going to these segments, the picture actually looks quite different:

More and more categories traditionally sold by high street retailers will migrate to the supermarkets, representing the key growth elements for our competitors. Our growth, meanwhile, will be traditional grocery stores located in parts of the country where we have little or no cannibalisation, as we target the 6.8m households without ready access to a Morrisons.

Slide 23 – Underlying trends continue

As we discussed at our interim results, we are conscious of these trends, and the disproportionate growth coming through the convenience and on-line shopping segments. We do not intend to be left out of these growth areas, and Dalton will update you on our plans for them.

Slide 24 – Morrisons well placed

So to sum-up, we believe we are extremely well placed to thrive in these markets. We expect the economic backdrop to remain challenging in 2011, with higher taxes, government spending cuts, inflation and rising unemployment all continuing to weigh on consumer confidence and disposable incomes. With our unique position of high quality food at great value prices, supported by the range of exciting initiatives we are implementing to drive our business, Morrisons is well positioned to face these challenges and deliver further profitable growth. And to outline how we are going to do that, let me hand you over to Dalton…..

Slide 25 - Dalton Philips

Thank you Richard and good morning.

The headwinds Richard spoke about look set to continue but we're ready for them because we have:

a really strong core business with many opportunities to strengthen and grow;

- a clear vision and plan;
- and a really great team.

Today, I will update you on the progress we are making to deliver our vision and plan.

I will set out the detail so you can understand the momentum we're building.

Slide 26 – our vision for the business

Let me start by reminding you of the vision I set out in September.

We are a distinctive business and we thrive on the things that make us different such as:

- our fresh food focus;
- our commitment to craft skills
- and our vertical integration.

The first pillar of our vision is to reinforce and strengthen those differences.

At the same time there are many opportunities – things we can do better or opportunities to grow.

These two elements form our vision of making Morrisons ‘Different and Better than Ever’:-

- Better for our customers
- Better for our colleagues;
- And Better for our shareholders.

Slide 27 – Attracting great talent

To deliver this vision, we needed to strengthen our management team and bring new skills into the business.

We’ve attracted some great talent.

To highlight two of the six you see on this slide:

- Nick Collard – has joined us from Boots to lead our Ambient and Frozen categories; and ….
- Gordon Mowat, from McKinsey to help us evaluate new strategic opportunities.

I’ll talk about the others later.

Slide 28 - A strong management team

We have also made changes to our management structure and decision making forums.

We replaced the Executive Board - which was a small group of just 4 - with a Management Board of 10.

This now includes representatives from Property, Logistics, Manufacturing and HR.

We have also restructured:-

- Trading and Marketing under a new Commercial function led by Richard Hodgson - who is well known to you all.
- And Supply Chain and Logistics under Neal Austin.

These changes give us a strong blend of new talent and deep Morrisons experience.

I am confident this is the right team to lead the business in being different, and better than ever.

Slide 29 – Three areas of focus

In September, I set out our plan to:-

- strengthen our existing business by driving topline sales:
- increasing the efficiency of the business.
- and capturing new sources of growth through food production, convenience and online.

Whilst we will of course continue to evaluate other, longer term growth options; this agenda is sufficiently ambitious and remains our immediate focus.

Slide 30 – Driving topline

We have five initiatives underway to drive our topline.

Slide 31 – Moving further ahead on fresh

- Our focus has been - and will continue to be - on fresh food.
- We want to extend our lead in Fresh - by giving our customers the best possible fresh food experience.
- Our Lab store has been testing some radical ideas.

It's early days - and our thinking is still evolving - but I am delighted with the progress and the response from customers and colleagues alike.

So let me show you a video of what we've been up to.

Slide 32 – Moving further ahead of fresh

You can see the changes we've have made to layout - with new merchandising and many new ranges.

The early sales figures are encouraging…. In February

- Produce sales up 8%;
- On butchery, sales up 9%, and counter participation has quadrupled;
- Deli counter sales up 31%
- And Fresh flowers up 43%

We have also updated the look and feel of the Point of Sale - giving customers more information about the fresh food they are buying.

So some great early indicators - but we still have much to do.

Over the coming months we will:

- refine and evaluate the results from the trial.
- focus on the underlying economics to determine how to scale the initiatives;
- and ensure the look and feel really bring the Morrisons brand to life.

- We will ensure we remain unbeaten on Fresh.

Slide 33 – Optimising our space

Our Liberate project has two clear objectives:

Firstly - to free up 5-15% ambient space through SKU rationalisation without affecting customer choice or sales.

Secondly - to identify the right new categories by conducting an internal 'space race'.

Our Liberate lab store opened last week in Shrewsbury.

It took just 36 hours to completely re-lay the store - we don't believe anyone else in the UK has been able to do this as quickly.

Let me show you…

We freed 11% of ambient space - which equates to 67 bays - and removed 1600 SKUs.

For example - we cut Air fresheners from 168 to 92 SKUs.

We had 58 varieties of plug in air freshener alone - which we cut to 28.

We have given the additional space to ready meals, kids' clothes and home & leisure.

Slide 34 – Optimising our space

Over the coming months, we will measure the customer response and continue to refine.

This graph shows our store portfolio. The Liberate project is focussing on the right hand section - stores over 20k sq ft.

If the lab goes to plan - we could potentially free up 5-15% of space. And in some of our larger stores - even more.

Which could give us 750k sq ft of additional selling space.

And this is within our current sales space, without exploring opportunities to extend into back areas.

So there is plenty more opportunity to go after in the future.

Slide 35 – Completing National to Nationwide

We have highlighted the 7 million households without easy access to a Morrisons store.

This gives us significant headroom for growth; particularly in the South where we are under-represented.

You are all well aware of our commitment to open 1.5m sq ft over three years.

Since September we've made good progress…

We hit our target for 2010 adding 400k sq ft of new space; - through 80k sq ft of extensions and 15 new stores.

That still leaves 6.8m households.

Terry Hartwell and his team are strengthening our pipeline and building our momentum.

Slide 36 – Completing National to Nationwide

In 2011 - through new stores, including extensions and the recently acquired Netto stores - we will open 600k sq ft - exceeding the original target set out last year by 20%.

Given the geography of our stores we believe we have a more significant opportunity to grow without cannibalization than our competitors.

We are therefore accelerating our store opening programme.

We are re-setting our target to 2.5m sq ft over the next 3 years.

A clear commitment to taking the Morrisons offer to more customers and a measure of our confidence in our ability to deliver.

Slide 37 – Strengthening our brand

Having an own brand that is superior to the competition can be a real point of difference for customers.

Yet if you look at this fish finger example, it is hard for customers to distinguish.

There is therefore a great opportunity to create a truly differentiated brand.

We said we would move from an ‘own label’ - which lags the competition in terms of participation by 5% …

…. to a well orchestrated, customer-led ‘Morrisons Brand’ - which gives customers something distinctive either on price, quality or eating experience.

The opportunity is huge. £6bn of our sales are currently own brand - a significant proportion of our business.

We can close the gap on our competitors and improve the bottom line due to its accretive margin potential.

Slide 38 – Strengthening our brand

Our Own Brands are already growing significantly ahead of the market at 5.1%.

During 2010 we launched over 3,000 new and improved products - such as our Italian Deli and Fresh Ideas ranges. And we have won 14 awards.

We have also strengthened our new product development team by the appointment of our chef Neil Nugent who's operated a Michelin Star restaurant.

And in Belinda Youngs – who has joined us from Sobey's in Canada – it took a global search to find the right leader with a first class track record in brand development.

We have begun a thorough brand review – and will begin to roll out the new Own Brand products in the final quarter of this year.

This is the start of a two to three year journey.

By the end of it we will have transformed our Own Brand - and provided customers with thousands of compelling reasons to visit our stores and choose the Morrisons Brand.

Slide 39 – Enhancing our service culture

We are a people business– we have over 130,000 colleagues that help make us different.

We invest more in store labour than our competitors - and yet we are not converting this into markedly better service for our customers.

So in January we launched a new service initiative we refer to as 'HOT' – 'Hello, Offer, Thank'

We want customers to receive a friendly greeting, an offer of help and to be thanked for shopping with us.

To deliver sustainable great customer service, we also need to continue our investment in our people.

We have helped 48,000 colleagues achieve National Vocational Qualifications and continue to be the largest provider of apprenticeships in the UK.

Slide 40 – Enhancing our service culture

By the end of this year we will have rolled out the HOT initiative across all stores.

We will measure success through mystery shopper visits - and are targeting at least 95% compliance.

And through our continued investment in training we will make Morrisons a more rewarding place to work and build a career.

We are therefore also targeting a 2% reduction in Labour Turnover and a 0.5% reduction in absenteeism.

Slide 41 – Three areas of focus

Our second focus is to strengthen our existing business through 'Increasing our Efficiency'.

Slide 42 – Increasing efficiency

We have four initiatives underway.

Slide 43 – Driving store productivity

Alongside developing our fresh proposition and optimising our space we want to improve productivity in store whilst maintaining customer service.

Each hour - per day - per store – that we save - equates to around £1m annual cost saving. So even small changes can deliver big benefits.

To date, we've trialled nearly 30 initiatives in our York Lab, and by 1st May will have rolled out 5 of these across the network.

Slide 44 – Driving store productivity

These are all simple initiatives which are already common practice in the market - so not revolutionary – but all offering real benefits:

For example:

- Automated stock taking;
- Reduced facing on shelf, where we have gaps; and . . .
- Merchandising bananas in hammocks rather than hanging.

Slide 45 – Driving store productivity

In the next year we will trial and roll out further initiatives across all stores.

We'll save £20m this year.

And are confident that we will deliver our target of £100m by 2013.

Slide 46 – Revamping our systems

Last year our Evolve systems programme achieved a lot - with minimal disruption internally and no disruption to our customers.

Our new EPOS and cash office system is now live across 50% of the network - enabling us to process credit card transactions 40% faster.

We have rolled out Intelligent Labour planning for replenishment - giving us significant productivity gains.

And all our distribution centres are now using Voice Pick technology.

We have also implemented a single 'goods not for resale' process

In 2010, we delivered £4m EBIT benefit.

Slide 47 – Revamping our systems

By the end of this year our Evolve programme will have impacted every area of the business.

This year we will:

- Complete the Epos and cash office rollout.
- Fully integrate a new product file.
- Rollout ERP across our Produce sites.

The programme is a fundamental business enabler and will unlock over £100m benefit by 2013.

Slide 48 – Tackling indirect procurement

We also said we wanted to attack spend on goods not for resale.

Our previous programme had 30% of that spend in scope - and was focussed on the P&L elements only.

This time nothing is off limits!

Our task force has been looking at every aspect of spend.

We are challenging specification and reviewing capital expenditure.

In 2010 the team delivered £28m cost saving and…

… they also sized the overall prize…

Slide 49 – Tackling indirect procurement

We now believe we will save £100m by 2013 from tackling indirect procurement.

We also aim to reduce the build and fit out costs per store by £2m - £3m by challenging specifications and trialling new materials.

And to cut the time taken to open new stores by 30%.

This will be the first in a series of end to end process reviews which will change the way we work to cut the 'bad costs' out of our business.

Slide 50 – Increasing network efficiency

The final area is increasing our Network Efficiency.

By completing our distribution network we will build capacity and reduce our costs.

We've now started construction on our Bridgwater RDC.

Slide 51 – Increasing network efficiency

Work is on track with the new RDC coming on stream in Q4 this year and fully operational in Q1 of 2012.

Our new centre will be 800k sq ft and will serve around 70 stores.

We then propose to consolidate 5 of our existing sites into Bridgwater RDC.

This will complete our programme - and as previously advised - will deliver £20m EBIT annually from 2014.

In aggregate we expect these Efficiency initiatives to deliver over £300m of additional benefits by 2013/14 which will allow us to continue investing in great value and service for our customers.

Slide 52 – Three areas of focus

The final area is capturing growth.

Slide 53 – Capturing growth

I will give you an update on the three initiatives we have underway to extend our customer reach and capture new sources of growth.

Slide 54 – Food production

We are the UK's second largest fresh food producer.

Food production is a key differentiator and central to our strategy – so we will continue to invest in this capability.

When we last met we had announced two acquisitions, extending our capabilities into cooked and deli meat, as well as into stir fry and prepared vegetables.

We also announced our plan to bring our total investment to £200m in order to generate £50m extra EBITDA by 2013.

Slide 55 – Food production

We've made great progress on the integration of our first 2 acquisitions.

At Simply Fresh, we are doubling capacity and reducing conversion costs by 12%.

At Farmers Boy Deeside, on completion of our capital investment programme in Q2, we will have doubled capacity and reduced conversion costs by 20%.

We are now well advanced in reviewing further investment opportunities in categories which are adjacent to our existing capabilities and which enhance our fresh proposition, such as - flowers, pastry, dairy and poultry.

We will give you a further update as things develop.

Slide 56 – Exploring convenience

Convenience is a significant opportunity for Morrisons - the channel accounts for over £30bn sales - and is growing at twice the rate of the rest of the UK retail market.

In September, we said we would test our ability to deliver a differentiated fresh food experience – profitably - from a sub-3k sq ft format.

We have appointed Chris Taylor - an experienced operator - to lead the trial.

We have identified three locations which we will open in the coming months in neighbourhood locations along the M62 corridor.

Slide 57 – Exploring convenience

We'll open three 'Morrisons local' stores like the one is this picture.

It's a simple and clear logo in line with the Morrisons 'no nonsense' reputation.

These stores will offer customers:

- affordable, fresh and convenient food;
- with a look and feel that emphasises our fresh credentials
- and a distinctive experience - something which is truly Morrisons.

Slide 58 – Moving online

In September we also talked about on-line and confirmed our intention to embark on a limited trial.

We see great potential in the channel but only if we can do it profitably.

We have made two investments –exciting first steps in our online journey.

- One in Non Food - Kiddicare.com - which we announced in February;
- And one in Food - Freshdirect - which we announced this morning.

Both are strong businesses with highly capable leadership teams - and a wealth of expertise which we can leverage - as we consider how best to develop our proposition.

So why are these the right investments for us.

Slide 59 – Kiddicare.com

Kiddicare.com. is a great business,

A leader in the baby care – a category where we under-index.

It has an award winning online proposition…

…and has delivered strong growth. Over the last year, total sales and the number of online unique visitors have grown by over 40%.

This business is a winner in the online world.

It is an important step in our development of a non food online offer.

Slide 60 – Kiddicare.com – the benefits

In addition Kiddicare brings four key benefits to Morrisons

It's Technology:

- Kiddicare has a sophisticated, cutting edge web platform.
- They have won numerous awards for innovation in e-commerce.

It’s Speed and agility:

- Kiddicare is able to do things quickly that a large corporate could find difficult – for example it took them just 6 weeks to get a creative new iphone App to go live.

- For Morrisons to build a successful online business; we need to be agile – Kiddicare can give us this.

It’s Multi-channel:

- Kiddicare interfaces with the customer across multiple channels – online and with in-store kiosks, which are proprietary to the business.

- Kiosks in our stores should give Morrisons’ customers direct access to Kiddicare - and a broader range - of non-food products.

This is something we will be evaluating.

It’s Best in class logistics

- One of the primary challenges with online is product fulfilment.

- With Kiddicare and their logistics partners, we have best in class operational practice.

And most importantly - all four of these benefits are all scalable- and that is critical to us.

Slide 61 – Food online

Let me also talk about online food.

We don’t believe anyone in the UK has cracked fresh food online – or has managed to create a significant point of difference.

When you look at these websites, none really stand out. There is little focus on fresh food.

Slide 62 – Food online

So when conducting our online review, we looked internationally for a best practice operator; and we found one – Fresh Direct.

By contrast to the UK players, the Fresh Direct web page really shouts about fresh food and draws attention to their fresh products.

Slide 63 - FreshDirect

Fresh Direct operates in New York.

It has been in operation for 11 years - generates over $290m sales - and offers a really distinctive fresh experience.

The business is growing at 22% - and importantly it makes money.

In fact, we have not seen a more profitable example of an online food retailer - operating at scale - anywhere in the world. So it's a great business to learn from.

We are now going to embed a small, high quality Morrisons team - with a mix of skills - into Fresh Direct's business for the remainder of the year.

We want to really understand how they operate - and to learn how to make online food work successfully for Morrisons in the UK.

Slide 64 – FreshDirect – the benefits

The benefits Fresh Direct will bring are:

- It's Fantastic Fresh Credentials;
- 50% of total SKUs and 90% of their top selling 100 SKUs are fresh.
- It buys direct from farms and operates an 'industrial kitchen'.
- And you can get bespoke meals – if you want a 4" topside steak and your partner wants a 3" fillet - then you can order online for delivery next day.

It has real expertise that we can leverage,

- Like Kiddicare - it has a highly capable leadership team of Jason Ackermann and Dean Marano.

It has Great Technology….

- Fresh Direct delivers a fantastic customer friendly, online experience and has a strong IT platform.

And finally its operational processes….

- Fresh Direct has a well established infrastructure and profitable operating model which Morrisons can learn from.

Slide 65 – Moving online

Over the next 12-18 months we will drive growth in our investments, learn from our partners, and leverage their expertise and technology.

We plan to launch a Morrisons online non-food proposition in early 2012

And providing we are confident that we have the right proposition and a profitable model, we will launch online food in 2013.

Slide 66 – Great momentum

So we have a busy agenda, but it's a well co-ordinated strategic plan.

You can see from the summary of initiatives on this slide that there's a lot to go after – but it's all achievable.

I know from working around the world that it's possible to deliver initiatives across all aspects of the business and bring them together at the right pace to deliver new growth.

Morrisons has already great momentum across these initiatives.

Slide 67 – In summary

So to summarise….

Firstly, another good year for Morrisons – we have delivered strong results:

- Underlying profits up 13%.
- Dividend growth 17%.
- A strong balance sheet that supports an equity return.

It will be a tough year, but we are well positioned to face the challenges ahead because…

The core business is fundamentally strong,

And we have a range of initiatives underway to drive our topline and improve efficiency, and deliver significant benefits which will allow us to continue investing in great value and service for our customers.

We also have exciting plans to seize new growth and extend our reach to more customers:

The plan we have updated you on today is challenging.

But the team is engaged - and we are already seeing great momentum.

I - and the team - look forward to building on the Morrisons success story. Leading it through its next exciting chapter of growth by being ‘different and better than ever’.

Thank you very much – we’ll now be happy to take questions.