

Slide 17 – Marc Bolland, CEO

Thank you, Richard.

Good morning, ladies and gentlemen.

As Ken said, it's been really an encouraging year for Morrisons. Let me take you through the progress we've made.

Slide 18 - Morrisons Strategy

I would like to start by reaffirming to you where we are. We've now got three things which are very clear to us in our Company. We have a very distinctive vision, which sets us apart from other retailers. We've got very clear values; fresh, value and service, and we've got an optimisation plan that brings very clear focus to the organisation.

Slide 19 - Market Background

What's happening in the world around us?

Customer confidence is at its lowest since 1994. In the January measurements, for the first time, we are seeing those households where the income level is below £25,000 become significantly more worried about the economy than those with slightly higher incomes, so value will clearly become much more important to people in the coming months.

We have also seen in the January inflation measurements that commodity price inflation is continuing to rise, for example bread & cereals up roughly 8% and milk and cheese roughly 15%, so yes, we see some impact happening at retail prices too.

However, supermarkets stay competitive and therefore we see our inflation rate is around 2%. I would expect 2% to maybe go up to 2.5%, but still be at a very modest level. As you know, we continuously strive to deliver real customer value and my outlook is that we will stay competitive at a level of roughly 2% to 2.5%.

The trends I see going forward are therefore twofold.

We'll see consumers that will look more and more for value and as a value operator we're well catered for that, but at the same time, we still see a growing interest in health, provenance and the quality of food, and that too happens to be at the heart of our strategy.

Slide 20 – Sales Performance

Taking you back to the half year, when I was last here in September, I reported to you modest growth of 2.5% sales and customer growth of 0.6%.

I outlined to you then that our converted stores had grown above the market and our core stores particularly needed the improvements of the planned rebranding, improved ranging, planned Market Street improvements and stronger marketing support.

We promised you then that for the second half of the year we would give more focus to promotions and pricing, but also to invest the additional £22m in marketing that Richard has highlighted earlier in his presentation.

Our performance really took off in the second half, with like for likes sales ex-fuel of 6.3%, a big step forward, and our customer numbers increasing by 4.6%.

To recap, the first half of the year, we worked hard on range, we worked hard on the stores, and the second half of the year we worked hard at communication.

It was in the right order; clearly you must have the key things in place for your customers when they come through the door.

Slide 21 – Customer Footfall

The good thing is that they didn't only just come through the door. There was not only extra footfall, but sales per customer also increased, not only H2 versus H1, but also versus last year.

The sales per customer for the second half of the year increased 3% above last year. That brings us to a total year of a like for like of 4.6%.

This 4.6% means, in terms of TNS market share, that we've grown from 11.9% to 12.1% for the full year, not only through footfall, but also through an increase in basket spend.

I feel it would be useful for me to give you a bit more detail for the footfall performance.

On this chart we split it out.

If you take the full year, you see the 2.6%. When we split out the first half year, you see the 0.6%. But then, we split out quarter number three and quarter number four to give a bit more detail for you. The quarter number four results show the impact of an increased customer count of more than 0.5m customers a week.

So where we were running at roughly 9m customers a week, through the Christmas period and into January we attracted the additional 0.5m customers through the stores.

These new customers are not only shopping for promotions. One of the things we have tracked is whether these additional customers simply come in for a deal, then run out:

No, they shop the full basket. They shop the same full basket as the existing customers do. However, in their profile, there's something interesting. They have a younger profile and they're a bit more likely to have a family at home. So what we found is very interesting - we attracted also a different type of customer, so not only numbers going up, but a different type of customer too!

Slide 22 – Regionality and Store Size

We have also split out the performance for you regionally, because I'm sure you will also want to know where that footfall growth comes from.

The strongest growth was in the South and Scotland, and that strongest growth was more than double-digit for sales in both the South and Scotland TNS areas.

In both areas the footfall growth was particularly strong as well, in fact 7.7% in the South and 9.7% in Scotland, so there's a clear correlation between our sales growth, and strong footfall improvements

In March 2006 we said that the smaller stores had lower sales density, the bigger conversion stores had lower sales densities than the core stores of equivalent size and that the core stores were in negative growth.

Now, moving 2 years on you will see that the small stores have higher sales densities than the others. In fact the highest sales densities are in the smaller stores. We now also see that the bigger stores that we converted are at the same densities as the core stores, and as Richard was saying, in the second half of the year we saw that the core stores are now in positive growth

In performance terms we're now much more a one estate of business than we were two years ago.

And the good news is, looking at the top end of the chart; we're attracting customers in different areas. We're attracting them now not only in our heartland, but also in the South and also in Scotland.

Slide 23 – Range Development

As I've previously advised, range was something, during the conversion, we didn't have time to develop as much as we would have liked, so over the last 12 months we've had to catch-up fast.

In the last 12 months we have relaunched 8,000 lines. This increases our total number of lines from 28,000 to 30,000, also at the same time we took the opportunity to improve the quality of our own-label products.

We have also introduced a number of lines that, whilst are not volume items, they are, what I like to call, the lines of today. For example our Kids Smart ranges, something for where mothers try to get away from the lunch bag with crisps or sweets. We sold over 1m units of kids bananas in first 18 weeks, because it's an item that mothers want to give to their children. A responsible behaviour we want to ensure customers can find with us as well.

Slide 24 – In Store

Last time, I showed you how we were going to freshen up our stores. We wanted to give the stores a more contemporary look and feel. We wanted to make the Market Street counters more visible, our store signage more visible and our in store skilled staff more visible.

It's a challenging program. We complete the work at night, so there's no disruption. We have 140 stores refreshed internally as of today and the rest will be completed by the end of July. All our external signage, however, has already been completed

Slide 25 – In Store

As I've indicated to you previously, in the past we segmented stores based on size only. Over the last year we have worked hard at developing specific store segmentation and this exercise is now complete, its one of the things that helped us grow

So now for example, the Crowborough store in the South and the Cardonald store in Scotland have a difference in range of 16%. These stores are exactly the same size.

We have also made good progress on space allocation. The space allocation program, however, is a program lasting two years which will give more space to fresh, to health and beauty and to home and leisure.

We've also worked hard on improvements to in store labour efficiency and, you will have noted in the graph that Richard showed you, we had a saving across

the stores of £63m. To add further detail to that number, £40m of that was the optimisation plan 1, and £23m is toward the target for optimisation plan 2.

Optimisation plan 2 has £50m of savings associated with it for the coming three years in total, so we have other initiatives in place to come. One of them is the roll out of self-scan checkouts, planned for 200 of our stores. That's just one of the initiatives we have planned to bridge forward from the £23m that we already achieved towards the £50m that we want to deliver by year 3

Slide 26 - Advertising

I think our advertising campaign is known to you all by now. The focus is very much on the two core strengths of Morrisons and the secret is in the focus, keeping that focus on fresh and value.

Our share of voice has gone up from 13% to 17%. Let's not be misled, people think that we have, because the advertising's more visible, been spending 4 times as much on advertising or that our share of voice is now 4 times as much as it was. That's not the case It's just much more effective.

However in January, we did not invest on brand advertising, yet still, our footfall numbers for January were strong, so customers were coming back to store. They liked what they saw in store.

You can only satisfy them if the stores are good, if the availability is good, if the offer is good.

We therefore feel encouraged. The new customers that came in liked what they saw and they came back.

Slide 27 - Freshness

As I mentioned last time, we've never previously been strong in sharing customer insights with you. However we have recently recruited Nigel Dodd, the ex-Customer Insight Director of Tesco. So we have started, with support of agencies, to track everything we do.

We have tracked elements of our customer perception using Hall & Partners brand tracker, to track the effects of our advertising and whether it is working for us. We do not intend to spend our investors' money, just for the sake of it, even though as I've said we're not spending as much as people think, we want to spend it right.

Freshness; so are we really seen as more fresh, yes or no?

So we measured Freshness with our customers, and also with customers of our competitors. So we have customers of Sainsbury's talking about Sainsbury's, customers of Asda talking about Asda, customers from us talking about us.

So, who is known for fresh? This is what we got back, in the customer's perception, Morrisons is increasingly known for fresh.

This shows a positive development, but let me warn this is early days.

But this confirms what we have seen internally in our market street figures – An uplift for fish of 10% in H2, and more than 10% increase in fresh lamb sales in the second half of the year. These Market Street counter services are on a higher level now, it confirms the research.

Slide 28 – Freshness & Service

What about service, our second value? We asked the question 'who prepares more fresh food in store than any other supermarket'?

Here, the customer perception has moved very strongly positive.

The cake shop, is one of our preparation departments, we used it in our advertising and hoped it would work and customers would use it more. - It's up 13%, in the second half of the year.

And the famous Yvonne who I mentioned to you previously, who makes our sandwiches, where is she and is she really doing well?

She's up 16% in the second half of the year!!

So again, you form a strategy, you make sure that you deliver in store, you talk about it in your advertising, and you measure whether you do the right things. We will continuously try to track not only this, but also more measures in the future.

Slide 29 - Value

But then, what about value?

We asked the customers 'who provides good value for money'? Let's face it; everybody talks about good value for money.

All of our colleagues do in the market and we do too. From a value perception, we have moved. Morrisons has always been known for strong in value. So if this was an absolute chart, we would already be very much at the value side.

So our value perception has increased, and it shows that the strong promotions, have worked. We've been strong in our communication about value whilst at the same time focussing on quality.

Its unusual, to achieve positive movement in your core communications at the same time as your value indicators go up. Normally you will increase your quality perception at the expense of value perception. But we have been very forceful on value. We've delivered the right prices; had strong promotions and also advertising strongly around it. We'll continue doing so.

Slide 30 – CSR Commitments

Now, on the consumer side, we know that the CSR agenda is an important thing for today's world in the U.K and as I said, for me it's a license to operate. We previously outlined our environmental program, the targets we have set for three years, and we are making very good progress.

Slide 31 – CSR Commitments

However, I also want to highlight that we have committed ourselves to British farming. We know that's an important issue in this country. So on fresh meat we are going to be 100% British sourced. So where others say we're going to try, we're going to have beef, pork, lamb and poultry all sourced in the UK.

We will have Spalding abattoir on stream in July. That is the manufacturing investment that I talked to you about half a year ago. That will mean that 100% of all of that British meat is going to be processed through our own supply chain and abattoirs.

So we buy all of our own livestock, it will go to our abattoirs; through our supply chain to our own butchers in store. We are the only one of the major supermarkets who can do that. We are committed to strongly support the British farming industry.

Slide 32 – CSR Commitments

Plastic bags, a second important issue in the country. We have reduced our carrier bag usage over the last 12 months by 13%. So we have done our first big step ourselves.

But next , in May we are launching a week in which we will hand to each of our customers, and remember, I told you we have well in excess of 9m customers, we are going to hand out 10m bags in one week, these will be reusable bags, made of recycled material, and we're handing them out to each customer. So in principle, everyone that shops with us can come back a week later with a reusable bag.

That we believe is the best way forward, to make sure that people are diminishing the number of bags they use.

Slide 33 – Store Space

Store space: We opened, as we promised, eight stores, in line with plan and compared to the year before, four more. Eight store openings are planned for this year plus an additional 19 store extensions which account for 100,000 square feet. So we are on track to get the 1m square foot that we promised you over the three years.

Slide 34 - Distribution

Distribution: we shared with you last time that we had opened the Swindon depot in July, which led to an improvement in costs, but also saved 2.9m fuel miles.

Not just a cost benefit but also positive environmental impact.

We wouldn't have had such a successful Christmas in the south if we hadn't made that step, as fast as we did. Remember, Swindon was not planned for. We saw the opportunity and we took it

Total cost per case for distribution last year went down 9.4% over the year.

Slide 35 – Other Initiatives – Progress Update

When we look at the longer term, I want to update you on where we are with the southeast and the southwest. We have secured in the southeast an RDC in Sittingbourne, Kent, which at 900,000 square foot will serve 50 stores, be ready in 2010, as promised. So the good news is that this is not just thinking it will come one day, we're on with it.

On the other side of the country, in the west we have already identified two sites and I hope next time to confirm the final location.

The important news is that we are on track. We'll deliver them by 2010 and as Richard was saying, after 2010 we'll then look to improve our logistics costs further.

We've made good progress on manufacturing and I.T.

The senior management team is now complete and we are attracting and building our organisational capability. The competencies that I said needed improving a year and a half ago are now in place

Slide 36 - Summary

So let me summarise for you:

It's been a strong year for Morrisons, with like-for-like sales up this 4.6%, operating profits up by 51%.

We have a healthy cash flow.

We've got a new balance sheet strategy.

We've got the management team in place.

We've got customer perception improving, and we've got the key initiatives underway that we feel are important, we've got the focus on them and they're on track.

Slide 37

So if I come back to what I told you more than a year ago:-

We're on track to deliver the optimisation plan: strongly improving operating margins whilst shaping for growth.

It's a job to do both at the same time and we're doing it.

Thank you.