

Chairman's statement



Whatever the highs and lows of the ever-changing British retail environment, one constant has been the determined progress at Morrisons

Andrew Higginson
Chairman



**Total dividend growth year-on-year
(including special dividends)**

Sustainable growth for all stakeholders

The last year had many highs, notably during the glorious summer, and also some more challenging periods both for the economy and the consumer. Whatever the highs and lows of the ever-changing British retail environment, one constant has been the determined progress at Morrisons. David and the team have now completed four years of important work, building Morrisons as a broader, stronger business.

I am delighted that sales and profit grew strongly again, and that we were able to share that growth with our shareholders. Profit before exceptionals is up 34% in the last three years, debt down from near-£3bn at peak to less than £1bn, cash flow and the balance sheet are very strong, and total dividend of 12.60p per share (being the ordinary plus two special dividends) is up 24.9% on last year, and 152% higher than three years ago.

Progress is not just about the numbers though. As large sections of this Annual Report describe, progress is being made for all stakeholders simultaneously. We are seeking to grow Morrisons sustainably for the long term, while also rewarding our colleagues for their outstanding work, building stronger, mutually beneficial relationships with suppliers, and being the best corporate citizens we can. The way to achieve these complementary goals is by constantly improving the shopping trip for customers. If we can keep improving for customers, we will keep improving for all our other stakeholders.

There is plenty of good work still ahead. Much has been done in the Fix phase of our strategy already, but there is more to do, for example, in areas such as distribution and technology. We are also well on with Rebuild and Grow and, as David says in his statement, growth is coming from many sources.

There is still much opportunity within the core supermarkets, for example in areas such as range, productivity, and the ongoing Fresh Look programme. After three years without opening a supermarket, we are acutely aware that we need to earn the permission for even a modest amount of new space, and we are pleased to have got off to a good start with the new stores at St Ives in Cambridgeshire, Abergavenny, and Acocks Green in Birmingham, which are all performing well. In addition, Morrisons Daily convenience stores, our broader online coverage, Safeway and now other brands such as 'Naturally Wonky' and 'Nutmeg', and our many wholesale partners, are all exciting areas of growth. I am confident the team has plans for many years of growth ahead.

As I wrote last year, when devising the components of management remuneration policy, the Board has been mindful that those growth plans are sustainable and align with the best long-term interests of all stakeholders.

The Board

I am pleased with the development of the Board over the year. Tony van Kralingen and Kevin Havelock have completed their first full year, and are bringing a wealth of experience and knowledge from their multi-national, fast moving consumer goods industry backgrounds.

We were delighted to add the important role of Commercial Director to Trevor Strain's existing responsibilities, and have increased his remuneration to reflect his considerably broader remit. One important function of the Board is to prepare for long-term management development and plan for future progression, and we will assist Trevor all we can with his exciting and challenging new role.

Opportunity as a British business

At the time of writing, the outcome of Brexit is somewhat unknown. The prolonged process has at times caused uncertainty and confusion for customers.

That said, we believe we are well prepared to work with any Brexit outcome. As a British business, we source most of the fresh food we sell from British growers, farmers, fishermen and other suppliers. In our 18 manufacturing sites across Britain, we make most of the own-brand fresh food that we sell. This ensures our food is always fresh, and sold with unrivalled provenance and traceability, which is increasingly important for customers. So, while the Brexit process has thrown up some challenges, it is also an opportunity for our unique team of food makers and shopkeepers to both grow Morrisons and contribute to our economy.

The future

It is a very interesting time for the UK grocery sector. The list of relative winners and losers is being constantly re-cast in what is always a fast moving and dynamic industry. Recent strategies seem to be more divergent than in the past. Some of our competitors have sought a solution in scale, some are coming out of non-food online just as others are going in, and some are reducing emphasis on service counters at the same time we are investing more in our butchers, bakers, fishmongers and other skilled craftspeople. In addition, some 'premium' retailers have reported weaker sales, perhaps impacted by encroachment from more traditionally 'mainstream' retailers.

Where maybe some others are still looking for solutions, we are confident in our Fix, Rebuild and Grow strategy. We are making Morrisons a broader business, more popular and distinct for customers, with value and service at its heart.

Morrisons can thrive in all conditions. Whatever 2019/20 has in store, I am convinced David and the team can continue to grow the business for the benefit of all stakeholders. They will do so while remaining committed to the well-established principles of the capital allocation framework that has served Morrisons very well so far.

Andrew Higginson
Chairman

2018/19 quarterly Group LFL sales (exc. fuel)



Definition
See the Glossary on page 132 for a definition.
*2017/18

Total shareholder return



Definition
The value of a £100 shareholding in the Group (£).

GOVERNANCE HIGHLIGHTS

Board composition and membership

- The Board comprises of seven independent Non-Executive Directors and two Executive Directors
- There is an appropriate mixture of skills and experience on the Board
- There is a clear division of responsibilities between the roles of Chairman and the Chief Executive
- All Directors stand for re-election annually at the AGM
- Our Senior Independent Director is Rooney Anand
- Tony van Kralingen is the Non-Executive Director designated to engage with colleagues on behalf of the Board

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Board effectiveness

- An internal review of the Board's effectiveness found that the Board has a well balanced set of capabilities, and that governance and compliance is strong
- The Directors have all attended an appropriate number of Board and Committee meetings, and commit sufficient time to the Group

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External Auditor

- The Audit Committee is satisfied that the Group's statutory auditor, PwC, who were appointed in 2014/15, are independent and performing effectively
- The Board has a policy on the engagement of the external auditor to supply non-audit services

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Accountability

- The Board is satisfied with the effectiveness of internal control and that risk is being managed effectively across the Group

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