

Chairman's statement

Sir Ian Gibson

In my first annual statement as Chairman, I am pleased that we are reporting another year of good progress for Morrisons. These are challenging times for the UK economy, but whilst we are not complacent, we are confident that Morrisons offer meets and is in tune with the demands of our customers and the economic background.

Results

Profit before tax was £655m compared with £612m last year. This included £2m of property gains, compared with £32m last year. Underlying basic earnings per share (EPS) increased by 16% to 16.7p, whilst statutory basic EPS decreased by 16% due to an abnormally low tax charge last year. The Board is recommending a final dividend of 5.0p per share, to bring the total for the year to 5.8p – an increase of 21%. At this level, the dividend is covered 2.9 times, and we will continue our progressive policy of increasing the dividend by underlying earnings and additionally moving dividend cover towards the average for our sector, which is around 2.5 times, by January 2010.

Cash generation was strong – with cash from operations of £964m, a year-on-year increase of £208m, or 28%. The Group's pace of investment picked up, with capital expenditure in the year increasing to £678m following the opening of nine new stores and the acquisition of the freehold of our new distribution centre at Sittingbourne, in Kent. Additionally, we completed the planned second instalment payment into our defined benefit pension schemes of £100m and bought back 58 million shares in the market for £146m, an average share price of 251p. Following these investments, net debt increased from £543m to £642m. As previously reported, new five year term debt facilities of £1.1bn were agreed in September 2007, and only £250m of this facility was drawn at the year end, leaving gearing at 14%.

Board changes

As previously announced, Roger Owen, the Group Property Director, retired at the conclusion of the financial year after 34 years with the Group and 21 years' service on the Board. Roger played a major role in building the store estate which forms the backbone of the business, and he goes with our thanks and best wishes for a long, happy and well deserved retirement.

We are pleased to welcome Philip Cox to the Board as a Non-Executive Director, with effect from 1 April 2009. Phil is Chief Executive of International Power plc, and a previous CFO of Siebe plc. He will chair the Audit Committee after a suitable period of induction, taking over from Paul Manduca who will continue in his role as Senior Independent Director. The Board would like to record its thanks to Paul for his assured steering of the Audit Committee over the past three and a half years.



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This was another year of good progress for Morrisons as we continued to grow sales, profits and dividends, whilst also investing to generate future growth.”

Chairman's statement continued

Industry recognition

Morrisons success in the past year has been recognised with numerous industry awards, including Retailer of the Year from *Retail Week*, the Grocer of the Year from *The Grocer* and Supermarket of the Year at the Retail Industry Awards. This is welcome recognition of the terrific efforts of all our 124,000 employees, and on behalf of the Board I want to express our thanks for their dedication, hard work and professionalism. I am pleased that our growth in the year will provide a profit share pool for them of £34m, a 13% increase on the previous year.

Charitable donations

Our colleagues across the business are always enthusiastic supporters of our charitable activities. Our stores become involved in many initiatives in support of their local communities, such as Remembrance Day collections, and national events like Children in Need where we passed a cheque for £250,000 to the BBC again this year. Our own nominated charity of the year was Protecting Generations for Generations, a partnership between Help the Aged and Childline, and we were delighted to support them with funding of over £930,000 during the year.

Outlook

Your Board views both the short and the long term outlook for Morrisons positively. The business is well on track to achieve its goal of being the food specialist for everyone, and the Executive team continues to see opportunities to invest in the business for further growth. We expect to open c.350,000 square feet of new retail space in the coming year, on top of c.500,000 square feet that we have agreed to acquire from the Co-operative Group, reflecting our confidence in the attractions of Morrisons core grocery business.

In the current economic environment we expect the competitive landscape to be extremely challenging. However, the Group's balance sheet is strong, and our financing arrangements are prudent. We will remain focused on delivering freshness and value to our customers.

Final dividend

5.0p

Total dividend for the year

5.8p

+21%

The Board has recommended a final dividend of 5.0p per share, bringing the total dividend for the year to 5.8p per share.
