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## **Morrisons completes merger with Safeway**

Shares in the enlarged Wm Morrison Supermarkets PLC began trading today, marking the formal completion of the merger between Safeway and Morrisons and the creation of a major new force in UK food retailing. The shares began trading at 247p giving the group a market capitalisation of £6.5 billion.

Sir Kenneth Morrison CBE, Executive Chairman of Morrisons, said:

*"Today marks the end of a process that started well over a year ago but it also marks an exciting beginning for our new company. In January last year we promised that this merger would create a major fourth force in UK food retailing. We must now focus all our energy and the very considerable talents of all of our employees on delivering that promise. We have clear and detailed integration plans and I remain very confident that we can put these plans in place quickly and effectively."*

*"I would also like to welcome the employees of Safeway, together with the new Morrisons Shareholders, and look forward to working with them to make this integration a success."*

### **The Enlarged Group**

The enlarged group will be the UK's 4<sup>th</sup> largest food retailer with:

- 554 stores (post-divestment)
- 10 million weekly customers
- Annual turnover of £14 billion
- Estimated synergies of £215 million in year ending January 2008
- Market share of 15.6% (pre-divestment)
- 145,000 employees

Morrisons stores will now have a strong geographic spread across the United Kingdom providing the opportunity to give shoppers everywhere the benefits of high quality products at low prices and a strong offer across all fresh foods, including 'Market Street'.

Bob Stott, Joint Managing Director commented: *"The main immediate focus of the enlarged group will be on driving volume sales for strong sales growth at the checkouts. We will be growing sales at sensible margins while keeping a tight control over costs. Morrisons like for like sales growth is very strong. We need to make Safeway's similar, which will be down to hard graft and retail skills."*

*“The present average customer transaction in Safeway’s larger stores is around £16 per basket compared to £25 for Morrisons and we aim to reduce this difference. We aim to quickly deliver the benefits of improved trading and simplicity of operation.”*

### **The Integration Programme**

The task of integrating the Safeway business into Morrisons is now underway and Morrisons has a clear and detailed integration plan. Eight integration tasks in the key areas of the business were outlined in December. These form the base of the integration plan:

- Trading and marketing
- Store conversion and refurbishment
- Warehousing and distribution
- Manufacturing
- Harmonisation of head office support functions
- Property development & management services
- Employee and stakeholder communications
- Cultural integration

Marie Melnyk, Joint Managing Director said: *“A key benefit of integration is that we can achieve powerful synergies comprising significant cost savings from increased scale and trading benefits. We aim to increase sales volumes by giving Safeway stores a strong and competitive offer providing customers with immediate positive benefits.*

*“Clear pricing and a strong promotional programme supported by consistent availability and tight control of waste will mean a better deal for customers. We are confident shoppers will enjoy the change, not least in their pockets and we will be getting on with it fast.”*

The store conversion programme will begin in August 2004 and will be completed by early 2007. The plan is to convert 3 stores per week or 120 stores per annum. The refit of 50 large stores being complete by November 2004 and 150 large stores by the end of 2005.

Larger stores will be targeted as a priority, with the Safeway Megastore in Gamston (Nottinghamshire) to be converted first.

The undertakings to the Office of Fair Trading (OFT) require Morrisons to divest 52 stores by the end of 2004. Forty-eight of these will be Safeway stores. Four will be existing Morrisons stores (Ripon, Chester, Southport and Bramley) swapped with the nearest local Safeway store, which will be refitted and re-branded in the Morrison format as soon as possible.

In addition, there will be eight new stores openings in 2004. Morrisons will also continue to bid competitively for new sites and maintain its existing programme of store refurbishment and upgrading.

### **The Investment Programme**

There is a clear investment programme with total capital expenditure averaging £525million over each of the next three years.

- £260 million to extend, upgrade and convert larger Safeway stores to Morrisons’ format
- £300 million per annum for new stores and major refurbishments
- £140 per annum million on infrastructure

**Price Cuts**

Morrisons kicked off day one of the newly enlarged group with over 300 price cuts in Safeway mainland stores over 15,000 sq ft. Most frequently brought products including milk, butter, tea, coffee, sugar, bread, bananas, breakfast cereal, washing powder, jams, and petfood have all been reduced in price