Company Registration No. 00200801

SAFEWAY (OVERSEAS) LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE 53 WEEKS ENDED 4 FEBRUARY 2018

SAFEWAY (OVERSEAS) LIMITED

COMPANY INFORMATION

Directors	Mr T Strain Mr J Burke
Secretary	Mr J Burke
Company number	00200801
Registered office	Hilmore House 71 Gain Lane Bradford West Yorkshire England BD3 7DL
Independent Auditors	PricewaterhouseCoopers LLP Central Square 29 Wellington Street Leeds West Yorkshire England LS1 4DL

SAFEWAY (OVERSEAS) LIMITED

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SAFEWAY (OVERSEAS) LIMITED

STRATEGIC REPORT

FOR THE 53 WEEKS ENDED 4 FEBRUARY 2018

The Directors present the Strategic report and the Company's audited financial statements for the period ended 4 February 2018. These financial statements are prepared under United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101).

The term 'Company' refers to Safeway (Overseas) Limited and the term 'Group' refers to Wm Morrison Supermarkets PLC and its subsidiary undertakings.

Principal activities and future developments
The principal activity of the Company is the operation of retail supermarkets in international locations under the Morrisons brand. As a subsidiary of Wm Morrison Supermarkets PLC the Company will benefit from the Group's commitment to investment, ensuring the Company's successful performance in future.

Results and dividends
The profit for the financial period amounted to £6,554,000 (2017: £3,179,000). The Directors have not authorised a dividend to be paid during the period (2017: £nil).

As at 4 February 2018 the Company had net assets of £92,548,000 (2017: £85,742,000).

Principal risks and uncertainties
From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks and uncertainties of the Group and are not managed separately. Accordingly, the principal risks and uncertainties of the Group, which include those of the Company, are disclosed on pages 24 and 25 of the Wm Morrison Supermarkets PLC Annual Report and Financial Statements 2017/18, which does not form part of this report.

Key performance indicators (KPIs)
The KPIs of the Company are integrated with those of the Group and are not managed separately. The KPIs of the Group, which include those of the Company, are disclosed on pages 1,17,18 and 19 of the Wm Morrison Supermarkets PLC Annual Report and Financial Statements 2017/18, which does not form part of this report.

The Strategic report was approved by the Board and signed on its behalf by:

....

Mr J Burke
Director

29. October 2018

DIRECTORS' REPORT

FOR THE 53 WEEKS ENDED 4 FEBRUARY 2018

The Directors present their Annual Report and the Company's audited Financial Statements for the period ended 4 February 2018. These financial statements are prepared under United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101).

Matters discussed in the Strategic report
The Directors have chosen to present certain requirements of the Directors' report within the Strategic report on page 1 of the financial statements, including the Company's principal activity, business review and details of proposed dividends.

Directors
The Directors who held office during the period and up to the date of signing of the financial statements were as follows:

Mr T Strain	
Mr M Amsden	(Resigned 22 February 2017)
Mr J Burke	(Appointed 22 February 2017)

The Company is ultimately wholly owned by Wm Morrison Supermarkets PLC and none of the Directors who held office at the period end held any interest in the shares of the Company or any of its subsidiaries. The interest in the shares of the ultimate parent undertaking held by Directors of that company is disclosed in the Wm Morrison Supermarkets PLC Annual Report and Financial Statements 2017/18, which does not form part of this report.

At no time during the period or subsequently did any Director have a material interest in any contract or arrangement with the Company or any of its subsidiaries which was significant in relation to the Group's business.

Directors' and Officers' liability insurance
The Group maintains insurance cover for the protection of Directors and senior management from personal liabilities and costs which may arise in the course of fulfilling their duties. This insurance was in force during the 53 weeks ended 4 February 2018 and to the date of approval of the Company financial statements.

Internal control
The Board is responsible for the system of internal control within the Company and for reviewing its effectiveness. The control system is intended to manage rather than eliminate the risk of not meeting the Company's strategic objectives. Any such system can only provide reasonable, not absolute, assurance against material misstatement or loss.

Corporate and social responsibility
The Group recognises the importance of its corporate and social responsibilities, monitors its impact on the environment and designs and implements policies to reduce any damage that might be caused by the Group's activities. The Company operates in accordance with Group policies, which are described in the Group's Annual Report and Financial Statements which do not form part of this report. Initiatives designed to minimise the Company's impact on the environment include recycling and reducing energy consumption.

Employment policy
The Company's comprehensive employment policies cover recruitment, selection, retention, remuneration, education, development and equality.

Employee involvement
Employees are kept as fully informed as possible about the activities of the business. This is achieved through internal publications, communications programmes, notice boards, briefings, local, regional and national consultative committees.

The Company encourages employee involvement in the financial performance of the business through participation in either the Group profit share scheme, or management bonus plan or the Group savings related share option schemes.

Equal opportunity
Equal opportunities are offered to all regardless of race, colour, nationality, religion, sex, marital status, disability or age. All applicants and employees are treated equally in respect of recruitment, promotion, training, pay and other employment policies and practices. All decisions are based on merit. Reasonable adjustments will be made to accommodate those with special needs. Under no circumstances will discrimination against any individual or group be tolerated. All employees have access to confidential counselling provided by trained counsellors as part of our special complaints procedure and occupational health team.

The Company is conscious of its responsibility to society and to the local community in particular and we aim to provide employment opportunities which are compatible with work and family responsibilities. Management is required to apply all of the Company's policies fully and diligently to ensure that the highest standards are maintained.

Disability
The Company gives full and fair consideration to applications for employment made by people with disabilities. Where an employee becomes disabled whilst in employment, every effort will be made to look at appropriate and reasonable adjustments and to offer suitable employment together with assistance in retraining. The Company's policy is to offer equal opportunity to all disabled applicants and employees who have a disability or who become disabled during the course of their employment in respect of recruitment, career development, promotion, training, pay and other employment conditions.

Financial risk management
The financial risk management and policies of the Company are consistent with those of the Group. For further details, see page 95 of the Wm Morrison Supermarkets PLC Annual Report and Financial Statements 2017/18, which does not form part of this report.

Political donations
There were no political donations for the period (2017: none) and the Company did not incur any political expenditure (2017: nil).

Statement of Directors' responsibilities
The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial period. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 'Reduced Disclosure Framework', and applicable law). Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The Directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In the case of each Director in office at the date the Directors' Report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This report was approved by the Board and signed on its behalf by:

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Mr J Burke
Director

29 October 2018

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF SAFEWAY (OVERSEAS) LIMITED

Report on the audit of the financial statements

Opinion

In our opinion, Safeway (Overseas) Limited's financial statements:

- give a true and fair view of the state of the Company's affairs as at 4 February 2018 and of its profit for the 53 week period (the 'period') then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 'Reduced Disclosure Framework', and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the Balance sheet as at 4 February 2018; the Income statement, the Statement of comprehensive income, the Statement of changes in equity for the period then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

Reporting on other information
The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic report and Directors' report
In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the period ended 4 February 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

Responsibilities for the financial statements and the audit
Responsibilities of the Directors for the financial statements
As explained more fully in the Statement of Directors' Responsibilities set out on page 4, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report
This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

SAFEWAY (OVERSEAS) LIMITED

INDEPENDENT AUDITORS' REPORT (CONTINUED)

TO THE MEMBERS OF SAFEWAY (OVERSEAS) LIMITED

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Arif Ahmad

Arif Ahmad (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
29 October 2018

SAFEWAY (OVERSEAS) LIMITED

INCOME STATEMENT

FOR THE 53 WEEKS ENDED 4 FEBRUARY 2018

	Notes	53 Weeks ended 4 February 2018 £000	52 Weeks ended 29 January 2017 £000
Revenue	2	63,963	59,701
Cost of sales		(55,009)	(54,984)
Gross profit		8,954	4,717
Administrative expenses		(1,123)	(1,167)
Other operating income		472	520
Operating profit	4	8,303	4,070
Interest receivable and similar income	5	12	30
Profit on ordinary activities before taxation		8,315	4,100
Tax on profit on ordinary activities	6	(1,761)	(921)
Profit for the financial period		6,554	3,179

The income statement has been prepared on the basis that all operations are continuing operations.

The notes on pages 12 to 27 form part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE 53 WEEKS ENDED 4 FEBRUARY 2018

	Notes	53 Weeks ended 4 February 2018 £000	52 Weeks ended 29 January 2017 £000
Profit for the financial period		6,554	3,179
Other comprehensive income/(expense):			
Items that will not be reclassified to profit or loss:			
Remeasurements on defined benefit pension schemes	13	252	(339)
Total comprehensive income for the financial period		6,806	2,840

The notes on pages 12 to 27 form part of these financial statements.

SAFEWAY (OVERSEAS) LIMITED

BALANCE SHEET

AS AT 4 FEBRUARY 2018

	Notes	2018 £000	2017 £000
Fixed assets			
Intangible assets	7	4	7
Property, plant and equipment	8	14,201	14,020
Investments	9	15,494	15,494
		29,699	29,521
Current assets			
Stock	11	620	934
Debtors	12	62,780	57,279
Net pension asset due after more than one year	13	508	354
Cash and cash equivalents		5,270	2,622
		69,178	61,189
Creditors: amounts falling due within one year	14	(6,109)	(4,742)
Net current assets		63,069	56,447
Total assets less current liabilities		92,768	85,968
Deferred tax liabilities	15	(220)	(226)
Net assets		92,548	85,742
Shareholders' equity			
Called-up share capital	16	15	15
Share premium account		425	425
Retained earnings		92,108	85,302
Total shareholders' funds		92,548	85,742

The notes on pages 12 to 27 form part of these financial statements.

The financial statements on pages 8 to 27 were approved by the Board of Directors and authorised for issue on 29 October 2018 and are signed on its behalf by:

....
Mr T Strain
Director

Company Registration No. 00200801

SAFEWAY (OVERSEAS) LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE 53 WEEKS ENDED 4 FEBRUARY 2018

	Notes	Called-up share capital £000	Share premium account £000	Retained earnings £000	Total shareholders' funds £000
Balance at 1 February 2016		15	425	82,462	82,902
Profit for the financial period		-	-	3,179	3,179
Other comprehensive expense:					
Remeasurement on defined benefit pension schemes	**13**	-	-	(339)	(339)
Total comprehensive income for the period		-	-	2,840	2,840
Balance at 29 January 2017		15	425	85,302	85,742
Profit for the financial period		-	-	6,554	6,554
Other comprehensive income:					
Remeasurement on defined benefit pension schemes	**13**	-	-	252	252
Total comprehensive income for the period		-	-	6,806	6,806
Balance at 4 February 2018		15	425	92,108	92,548

The notes on pages 12 to 27 form part of these financial statements

1 Accounting policies

Company information

Safeway (Overseas) Limited is a private company, limited by shares, incorporated in the United Kingdom under the Companies Act 2006 (Registration number 00200801). The Company is domiciled in Gibraltar and its registered address is Hilmore House, 71 Gain Lane, Bradford, England, BD3 7DL.

Basis of preparation

These financial statements of the Company have been prepared in accordance with the Companies Act 2006 (the Act) as applicable to companies using Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). FRS 101 sets out a reduced disclosure framework for a 'qualifying entity' as defined in the standard which addresses the financial reporting requirements and disclosure exemptions in the individual financial statements of qualifying entities that otherwise apply the recognition, measurement and disclosure requirements of EU-adopted IFRS.

The Company is a qualifying entity for the purposes of FRS 101 as it is a member of a group which prepares publicly available consolidated financial statements and it is included in the consolidation for that group.

These financial statements, which have been prepared on the going concern basis, under the historic cost convention and in accordance with applicable accounting standards in the United Kingdom, are presented as required by the Companies Act.

The disclosure exemptions adopted by the Company in preparation of these financial statements in accordance with FRS 101 are as follows:

a) IFRS 2, 'Share-based payment' (paragraphs 45(b) and 46 to 52) – details of the number and weighted-average exercise prices of share options, and how the fair value of goods or services received was determined;

b) IFRS 7, 'Financial Instruments: Disclosures';

c) IFRS 13, 'Fair value measurement' (paragraphs 91 to 99) – disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities;

d) IAS 1, 'Presentation of financial statements' (paragraph 38) – comparative information requirements in respect of:
(i) paragraph 79(a)(iv) of IAS 1;
(ii) paragraph 73(e) of IAS 16, 'Property, plant and equipment'; and
(iii) paragraph 118(e) of IAS 38, 'Intangible assets' – reconciliations between the carrying amount at the beginning and end of the period.

e) The following paragraphs of IAS 1, 'Presentation of financial statements':
(i) 10(d), (statement of cash flows);
(ii) 111 (cash flow statement information); and
(iii) 134-136 (capital management disclosures);

f) IAS 7, 'Statement of cash flows';

g) IAS 8 'Accounting policies, changes in accounting estimates and errors' (paragraph 30 and 31) – requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective;

h) The following requirements of IAS 24, 'Related party disclosures':
(i) paragraph 17 – key management compensation; and
(ii) the requirements to disclose related party transactions entered into with two or more wholly owned members of a group.

1 Accounting policies **(Continued)**

The Directors have chosen not to prepare consolidated financial statements for the Company in accordance with the provisions of section 400 of the Act. The results of the Company are included in the consolidated financial statements of Wm Morrison Supermarkets PLC.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are the same for the Company as they are for the Group. For further details, see page 69 of the Wm Morrison Supermarkets PLC Annual Report and Financial Statements 2017/18, which does not form part of this report.

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

Accounting reference date
The accounting period of the Company ends on the Sunday falling between 29 January and 4 Feburary each year.

Revenue
Revenue from the sale of goods in-store comprises cash from customers and excludes VAT. It is net of returns, colleague discounts, coupons, vouchers and the free element of multi-save transactions. Sale of fuel is recognised net of VAT. Revenue is recognised when transactions are completed in-store.

Cost of sales
Cost of sales consists of all costs of the goods being sold to the point of sale and includes warehouse and transportation costs. Store depreciation, store overheads and store-based employee costs are also allocated to cost of sales.

Promotional funding
Promotional funding refers to investment in the customer offers by suppliers by the way of promotion. The calculation of funding is mechanical and system generated based on a funding level agreed in advance with the supplier. Funding is recognised as units sold and invoiced in accordance with the specific supplier agreement. Funding is recorded effectively as a direct adjustment to the cost price of the product in the period. Funding is invoiced and collected throughout the year, shortly after promotions have ended.

Commercial income
Commercial income is recognised as a deduction from cost of sales, based on the expected entitlement that has been earned up to the balance sheet date for each relevant supplier contract. The Company only recognises commercial income where there is documented evidence of an agreement with an individual supplier.

Other operating income
Other operating income consists of income not directly related to the operating of supermarkets, mainly staff canteen income.

Current tax
The current income tax charge is calculated on the basis of the tax laws in effect during the period and any adjustments to tax payable in respect of previous periods. Taxable profit differs from the profit as reported in the profit for the period as it is adjusted both for items that will never be taxable or deductible, and temporary differences. Current tax is charged to profit for the period, except when it relates to items charged or credited directly in other comprehensive income or equity in which case the current tax is reflected in other comprehensive income or equity as appropriate.

1 Accounting policies (Continued)

Deferred tax

Deferred tax is recognised using the balance sheet method. Provision is made for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. No deferred tax is recognised for temporary differences that arise on the initial recognition of goodwill or the initial recognition of assets and liabilities that are not a business combination and that affects neither accounting nor taxable profits.

Deferred tax is calculated based on tax law that is enacted or substantively enacted at the reporting date and provided at rates expected to apply when the temporary differences reverse. Deferred tax is charged or credited to profit for the period except when it relates to items charged or credited directly to other comprehensive income, in which case the deferred tax is reflected in other comprehensive income or equity as appropriate.

Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the asset can be utilised. Deferred tax assets recognised are reviewed at each reporting date as judgement is required to estimate the availability of future taxable income. Deferred tax assets and liabilities are offset where amounts will be settled on a net basis as there is a legally enforceable right to offset.

Accruals for tax contingencies require management to make judgements and estimates of the probable outcome of tax compliance issues. All accruals are included in current liabilities.

Software development costs

Costs that are directly attributable to the creation of identifiable software, which meet the development asset recognition criteria as laid out in IAS 38 'Intangible assets' are recognised as intangible assets.

Direct costs include consultancy costs, the employment costs of internal software developers, and borrowing costs. All other software development and maintenance costs are recognised as an expense as incurred. Software development assets are held at historic cost less accumulated amortisation and impairment, and are amortised over their estimated useful lives (3 to 10 years) on a straight-line basis (through 'cost of sales').

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Costs include directly attributable costs. Annual reviews are made of estimated useful lives and material residual values.

Depreciation rates used to write off cost less residual value on a straight line basis are:

Leasehold land	Over the lease period
Leasehold buildings	Over the shorter of lease period and 2.5%
Plant, equipment, fixtures and vehicles	10 to 33%

Depreciation expense is primarily charged in cost of sales with an immaterial amount in administration expenses.

Investments

Investments comprise investments in equity instruments held for long term investment. They are measured at fair value through other comprehensive income, where the fair value can be measured reliably. Where the fair value of the instruments cannot be measured reliably, for example, when there is variability in the range of estimates, the investments are recognised at cost less accumulated impairment losses.

1 Accounting policies **(Continued)**

Impairment of non-financial assets
The Company tests non-financial assets if events or changes in circumstances indicate that the carrying amount may not be recoverable. Testing is performed at the level of a cash generating unit (CGU) in order to compare the CGU's recoverable amount against its carrying value. An impaired CGU is written down to its recoverable amount, which is the higher of value in use or its fair value less costs to dispose. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

The Company considers that each of its stores is a CGU, which together form a grocery group of CGUs supported by corporate assets such as head office and vertically integrated suppliers.

Impairment losses are reversed if there is evidence of an increase in the recoverable amount of a previously impaired asset, but only to the extent that the recoverable amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised.

Stock
Stocks represent goods for resale and is measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale. Cost is calculated on a weighted average basis and comprises purchase price, import duties, and other non-recoverable taxes reduced by commercial income and a provision for estimated losses relating to shrinkage and markdowns. Losses relating to shrinkage in stores are based on historical losses verified by physical stock counts conducted by an independent third party. Provision is made for obsolete and slow moving items.

Lessee accounting - finance leases
Assets funded through finance leases are capitalised as property, plant and equipment and depreciated over their useful economic life or lease term, whichever is shorter. The amount capitalised is the lower of the fair value and the present value, calculated using the interest rate implicit in the lease, of the future minimum lease payments. The obligations to pay future rentals are included within liabilities. Rental payments are apportioned between the finance charge and the outstanding obligation so as to produce a constant rate of finance charge on the remaining balance.

Retirement benefits
The Company operates a defined benefit scheme (the 'CARE scheme') which is funded by contributions from the Company and members. The defined benefit scheme is not open to new members. Pension benefits under CARE schemes are defined on retirement based on age at date of retirement, years of service and a formula using either the employees' compensation package or career average revalued earnings.

Pension scheme assets are valued at market rates. Pension scheme obligations are an estimate of the amount required to pay the benefits that employees have earned in exchange for current and past service cost, assessed and discounted to present value using the assumptions shown in note 13.

Current service cost is treated as an operating cost in the Statement of comprehensive income. Net interest expense/income is calculated by applying the discount rate on liabilities to the net pension liability or asset (adjusted for cash flows over the accounting period) and is recognised in finance costs or income.

Expenses incurred in respect of the management of scheme assets are included in Other comprehensive income as a reduction in the return on scheme assets. Other scheme expenses are recognised in the Statement of comprehensive income as an operating expense.

Remeasurements comprise actuarial gains and losses on the obligations and the return on scheme assets (excluding interest). They are recognised immediately in Other comprehensive income.

1 Accounting policies **(Continued)**

Retirement benefits (continued)
Amounts shown within note 15 are before any adjustments for deferred taxation.

The Company has a right to recognise an asset in respect of the Company's net obligation to the pension schemes. Therefore either an asset or a liability is recognised in the balance sheet.

These FRS 101 financial statements adopt company law format and as pension assets do not meet the company law definition of a fixed asset (assets of a company which are intended for use on a continuing basis in the company's activities) net pension assets are disclosed under current assets.

Share-based payments
Wm Morrison Supermarkets PLC, the ultimate parent company, issues equity-settled share-based payments to certain employees in exchange for services rendered by them. The fair value of the share-based award is calculated at the date of grant and is expensed on a straight line basis over the vesting period. This is based on an estimate of share options that will eventually vest. This takes into account movement of non-market conditions, being service conditions and financial performance, if relevant.

Fair value is measured by use of a binomial stochastic model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The cost of the share-based award relating to each subsidiary of the ultimate parent company is calculated based on an appropriate apportionment and recharged through the intercompany account.

Trade and other debtors
Trade and other debtors are initially recognised at fair value, which is generally equal to face value, and subsequently held at amortised cost. Provision is made when there is objective evidence that the Company will not be able to recover balances in full, with the charge being included in administrative expenses.

Cash and cash equivalents
Cash and cash equivalents include cash-in-hand, cash-at-bank and bank overdrafts. In the balance sheet bank overdrafts that do not have a right of offset are presented within current liabilities.

Trade and other creditors
Trade and other creditors are initially recognised at fair value, which is generally equal to face value of the invoices received, and subsequently held at amortised cost. Trade creditors are presented net of commercial income due when the Company's trading terms state that income from suppliers will be netted against amounts owing to that supplier.

Share capital
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2 Revenue

	2018	2017
	£000	£000
Sale of goods in-store	58,487	55,320
Fuel	5,476	4,381
	63,963	59,701

3 Employees and Directors

The average monthly number of persons (including Directors) employed by the company during the period was:

	2018	2017
Stores	291	304

Their aggregate remuneration comprised:

	2018 £000	2017 £000
Wages and salaries	4,844	5,177
Social security costs	589	554
Other pension costs	322	252
Share based payments	34	24
	5,789	6,007

The share-based payments cost was recharged from Wm Morrison Supermarkets PLC in respect of shares it has granted to employees of the Company. The fair value assumptions, method of accounting and financial models used in determining the share-based payment charge are consistent with those adopted in the Wm Morrison Supermarkets PLC Annual Report and Financial Statements. The charge in the period in respect of the Company was £34,000 (2017: £24,000).

The emoluments of the Directors are paid by Wm Morrison Supermarkets PLC which makes no recharge to the Company. It is not possible to make an accurate apportionment of the emoluments of the Directors between Wm Morrison Supermarkets PLC and fellow subsidiaries. Accordingly, the above details include no emoluments in respect of Directors.

Where the Directors are also Directors of the ultimate parent company, Wm Morrison Supermarkets PLC, details of the emoluments and accrued benefits under the defined benefit pension schemes that the Directors received for the period ended 4 February 2018 are disclosed in the Annual Report and Financial Statements of that company.

4 Operating profit

	2018 £000	2017 £000
Operating profit for the period is stated after charging:		
Employee costs (note 3)	5,789	6,007
Amortisation of intangible assets (note 7)	5	29
Depreciation of property, plant and equipment (note 8)	708	672
Value of stock expensed	47,286	45,407

4 Operating profit (Continued)

Fees to the auditors of £15,000 (2017: £15,000) in relation to audit services were paid by Wm Morrison Supermarkets PLC on the Company's behalf. No fees were paid in relation to non-audit services.

5 Interest receivable and similar income

	2018 £000	2017 £000
Bank interest receivable	2	4
Net pension interest income (note 13)	10	26
	12	30

6 Tax on profit on ordinary activities

	2018 £000	2017 £000
Current tax		
Overseas tax	1,763	912
Adjustments in respect of prior periods	4	5
	1,767	917
Deferred tax		
Current period	3	5
Adjustment in respect of prior periods	(9)	(1)
	(6)	4
Total tax charge for the period	1,761	921

The tax for both periods is different to the standard rate of corporation tax in the UK of 19.16% (2017: 20.00%). The differences are explained below:

	2018 £000	2017 £000
Profit on ordinary activities before taxation	8,315	4,100
Expected tax charge based on a corporation tax rate of 20.00% (2017: 20.00%)	1,663	820
Expenses not deductible for tax purposes	(1)	(1)
Non-qualifying depreciation	104	98
Adjustments in respect of prior period - current tax	4	5
Adjustments in respect of prior period - deferred tax	(9)	(1)
Total tax charge for the period	1,761	921

6 Tax on profit on ordinary activities **(Continued)**

Factors affecting current and future tax charges
The Company is UK registered with a Gibraltar branch. The Company does not pay tax in the UK and is therefore not affected by changes in the UK corporation tax rate. There are no planned changes to the rate of tax payable in Gibraltar.

7 Intangible assets

	Software development costs £000
Cost	
At 30 January 2017	23
Additions	2
Fully written down assets	(11)
At 4 February 2018	14
Accumulated impairment	
At 30 January 2017	16
Charge for the period	5
Fully written down assets	(11)
At 4 February 2018	10
Net book amount	
At 4 February 2018	4

The Company has performed its annual assessment of its amortisation policies and asset lives and deemed them to be appropriate. No changes have been made to asset lives during the period.

Fully amortised assets have been retained in the Company's fixed asset register. In order to provide greater understanding of the Company's annual amortisation charge, these assets have been removed from both cost and accumulated amortisation.

8 Property, plant and equipment

	Leasehold land and buildings	Plant, equipment, fixtures and vehicles	Total
	£000	£000	£000
Cost			
At 30 January 2017	21,998	1,513	23,511
Additions	-	889	889
Fully written down assets	-	(126)	(126)
At 4 February 2018	21,998	2,276	24,274
Accumulated depreciation			
At 30 January 2017	8,782	709	9,491
Charge for the period	451	257	708
Fully written down assets	-	(126)	(126)
At 4 February 2018	9,233	840	10,073
Net book amount			
At 4 February 2018	12,765	1,436	14,201

The Company has performed its annual assessment of its depreciation policies and asset lives and deemed them to be appropriate. No changes have been made to asset lives during the period.

Fully depreciated assets have been retained in the Company's fixed asset register. In order to provide greater understanding of the Company's annual depreciated charge, these assets have been removed from both cost and accumulated depreciation.

The totals above include a cost of £7,116,000 (2017: £7,116,000) and depreciation of £4,267,000 (2017: £4,244,000) in relation to leasehold land and buildings held under finance lease.

8 Property, plant and equipment **(Continued)**

Impairment
The Company considers that a store is a separate cash generating unit (CGU) and therefore considers the store for an indication of impairment annually. The Company calculates a store's recoverable amount and compares this amount to its book value. The recoverable amount is determined as the higher of 'value in use' and 'fair value less costs of disposal'. If the recoverable amount is less than the book value, an impairment charge is recognised based on the following methodology:

'Value in use' is calculated by projecting the store pre-tax cash flows over the remaining useful life of the store, based on forecasting assumptions. The methodology used for calculating future cash flows is to:

- use the actual cash flows for a store in the current period;
- allocate a proportion of the Company's central costs to a store on an appropriate basis;
- project each store's cash flows over the next five years by applying forecast sales and cost growth assumptions;
- project cash flows beyond year five for the remaining useful life of each store by applying a long term growth rate; and
- discount the cash flows using a pre-tax rate of 9.0% (2017: 9.0%). The discount rate takes into account the Company's weighted average cost of capital.

'Fair value less costs of disposal' is estimated by the Directors based on their knowledge of the store and the markets it serves and likely demand from grocers or other retailers. The Directors also obtain valuations by store prepared by independent valuers and consider these in carrying out their estimate of fair value less cost of disposal for the purposes of testing for impairment. In determining their valuation, the independent valuers assume an expected rent and yield for the store based on the quality of the asset, local catchment and the store being occupied by a supermarket tenant with a similar covenant to the Morrisons Group.

In order to reflect recent changes in market conditions, in particular the very significant decrease in demand from major grocery retailers for supermarket space, the Directors consider it appropriate for the purpose of testing for impairment to revise downwards the rent and yield assumptions in the independent valuation to reflect the following factors on a store by store basis:

- Whether a major grocery operator might buy the store, taking into consideration whether they are already located near the store, and whether the store size is appropriate for their business model, and then if not;
- Assessing whether a smaller store operator might buy the store, in which case the value has been updated to reflect the Directors' assessment of the yield which would be achievable if such an operator acquired the store, and then if not;
- Assessing whether a non-food operator might buy the store, in which case the value has been updated to reflect the Directors' assessment of the yield which would be achievable if such an operator acquired the store.

Having applied the above methodology and assumptions, the Company has recognised an impairment charge of £nil (2017: £nil) during the period and the Company considers the carrying value appropriate.

9 Investments

	2018 £000	2017 £000
Investments in subsidiaries	15,494	15,494

10 Related undertakings

In accordance with section 409 of the Companies Act 2006, a full list of related undertakings including the country of incorporation, the principal activity and the effective percentage of equity owned as at 4 February 2018 is disclosed below. The registered address of all undertakings is Hilmore House, Gain Lane, Bradford, BD3 7DL unless otherwise stated.

Details of the Company's subsidiaries at 4 February 2018 are as follows:

Related undertaking	Country of incorporation	Interest (%)	Principal activity
Safeway Stores (Gibraltar) Pension Trustees Limited	Gibraltar	50	Pension trustee
Maypole Limited	Guernsey	100	Investment company
The Medical Hall Limited	Gibraltar	100	Pharmaceutical licence

Addresses:

- Safeway Stores (Gibraltar) Pension Trustees Limited: Suites 41/42 Victoria House, 26 Main Street, Gibraltar
- Maypole Limited: 1st & 2nd floors, Elizabeth House, Les Ruettes Brayes, St Peter Port, Guernsey, GY1 1EW
- The Medical Hall Limited: 5 Secretary's Lane, Gibraltar

The Directors believe that the carrying value of the investments is supported by their underlying net assets.

11 Stock

	2018 £000	2017 £000
Finished goods and goods for resale	620	934

There is no significant difference between the balance sheet value and replacement cost of stock.

12 Debtors

	2018 £000	2017 £000
Overseas tax	1,975	381
Amounts owed by Group undertakings	60,805	56,848
Prepayments and accrued income	-	50
	62,780	57,279

Amounts owed by Group undertakings are non-interest bearing, unsecured and are repayable on demand.

13 Pensions

a) Defined benefit pension scheme

The Company operates a defined benefit retirement scheme ('the Scheme') based in Gibraltar providing benefits based on a benefit formula that depends on factors including the employee's age and number of years of service. The Scheme provides pension benefits based on either the employee's compensation package or career average revalued earnings (CARE).

	2018 £000	2017 £000
Current service cost	322	252
Administrative costs paid by Scheme	20	20
Net interest on pension asset - finance income	(10)	(26)
Total expense charged to statement of comprehensive income	332	246
Statement of other comprehensive income:		
Remeasurements in other comprehensive income: credit/(debit)	252	(339)

The Scheme is a registered scheme under the provisions of Schedule 36 of the Finance Act 2004 and the assets are held in legally separate, trustee-administered funds. The Board of the Scheme is required by law to act in the best interest of the Scheme participants and is responsible for setting the investment, funding and governance policies of the fund. A representative of the Group attends Trustee Investment Committee meetings in order to provide the Group's view on investment strategy, but the ultimate power lies with the Trustees. The Deed and Rules of the Scheme gives the Group the power to set contributions, subject to regulatory override.

The latest full actuarial valuations was carried out as at 1 April 2016 for the Scheme. The results of this valuation have been used and updated for IAS 19 'Employee benefits' purposes for the period to 4 February 2018 by a qualified independent actuary. The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescales covered, may not necessarily be borne out in practice.

b) Scheme assets

Assets of the Scheme are held in order to generate cash to be used to satisfy the Scheme's obligations, and are not necessarily intended to be realised in the short-term. The allocation of assets between categories and is the responsibility of the Trustees of the Scheme. The Trustees of the Scheme invest in different categories of asset and in different allocations amongst those assets, according to the investment principles of the Scheme.

Currently, the investment strategy of the CARE Scheme is to maintain a balance of growth assets (equities), income assets (corporate bonds) and cash. There are no direct investments in the Group's own shares or property occupied by any member of the Group.

13 Pensions **(Continued)**

b) Scheme assets (continued)

Fair value of Scheme assets:

	2018 £000	2017 £000
Equities (quoted)	2,563	2,315
Corporate bonds (quoted)	790	908
Cash (quoted)	849	796
Fair value of scheme assets	4,202	4,019
Present value of obligations	(3,694)	(3,665)
Net pension asset	508	354

The movement in the fair value of the scheme assets during the period is as follows:

	2018 £000	2017 £000
Fair value of scheme assets at start of period	4,019	3,807
Interest income	115	141
Return on scheme assets excluding interest	185	95
Employer contributions	234	231
Benefits paid	(331)	(235)
Administration expenses	(20)	(20)
Fair value of scheme assets at end of period	4,202	4,019

c) Present value of obligations

The movement in the present value of the defined benefit obligation during the period is as follows:

	2018 £000	2017 £000
Defined benefit obligation at start of period	(3,665)	(3,099)
Current service cost	(322)	(252)
Interest expense	(105)	(115)
Actuarial gain/(loss)	67	(434)
Benefits paid	331	235
Defined benefit obligation at the end of period	(3,694)	(3,665)

The duration of the defined benefit obligation at 4 February 2018 is 21 years (2017: 22 years).

13 Pensions **(Continued)**

d) Assumptions

The major assumptions used in this valuation to determine the present value of the scheme's defined benefit obligation are shown below.

	2018	2017
	%	%
Principal assumptions:		
Discount rate applied to scheme obligations (% pa)	2.8	2.9
Inflation assumption (RPI Gibraltar) (% pa)	2.8	3.0
Principal assumptions:		
Rate of increase in salaries	2.8	3.0
Increase to members accounts	1.8	1.9

ii) Longevity

The average life expectancy in years of a member who reaches normal retirement age of 65 and is currently aged 45 is as follows:

	2018	2017
- Male	25.9	26.2
- Female	28.0	28.3

The average life expectancy in years of a member retiring at the age of 65 at balance sheet date is as follows:

	2018	2017
- Male	23.7	23.9
- Female	25.7	26.0

e) Sensitivities

The following table summarises the impact on the defined benefit obligation at the end of the reporting period if each of the significant actuarial assumptions listed above were changed, in isolation, assuming no other changes in market conditions at the accounting date. In practice any movement in assumptions could be accompanied by a partially offsetting change in asset values, and the corresponding overall impact on the net asset/(liability) is therefore likely to be lower than the amounts below in a number of scenarios. Extrapolation of the sensitivities shown may not be appropriate.

			2018	2017
			£000	£000
Discount rate applied to Scheme obligations	- increase	+/- 0.1%	+/-68	-/+56
Salary	- increase	+/- 0.1%	+/-41	+/-31
Increase to member accounts	- increase	+/- 0.1%	+/-8	+/-11
Longevity	- increase	+/- 1 year	-/+42	-/+34

13 Pensions (Continued)

f) Funding

The Scheme is entirely funded by the Company.

At the period end, schemes in surplus have been disclosed within the assets on the balance sheet. The Company has taken legal advice with regard to the recognition of a pension surplus and also recognition of a minimum funding requirement under IFRIC 14 'IAS 19 – The limit on a defined benefit asset, minimum funding requirement and their interaction'. This advice concluded that recognition of a surplus is appropriate on the basis that the Company has an unconditional right to a refund of a surplus as paragraph 11(b) of IFRIC 14 applies.

Amendments to the current version of IFRIC 14 are currently being considered. The legal advice received by the Company concluded that the above accounting treatment should not be affected by the current exposure draft, including the planned revised wording, to IFRIC 14.

The current best estimate of Company contributions to the Scheme to be paid for the accounting period commencing 5 February 2018 is £212,000 (2017: £322,000).

14 Creditors: amounts falling due within one year

	2018 £000	2017 £000
Amounts owed to Group undertakings	5,940	4,661
Accruals and deferred income	153	29
Other creditors	16	52
	6,109	4,742

Amounts owed to Group undertakings are non-interest bearing, unsecured and are repayable on demand.

15 Deferred tax liabilities

The movements in deferred tax liabilities during the period are shown below:

	Property, plant and equipment £000
Deferred tax liability at 1 February 2016	222
Charged to income statement for the period (note 6)	4
Deferred tax liability at 29 January 2017	226
Credited to income statement for the period (note 6)	(6)
Deferred tax liability at 4 February 2018	220

15 Deferred tax liabilities **(Continued)**

	2018 £000	2017 £000
Deferred tax liabilities	220	226

16 Called-up share capital

	2018 £000	2017 £000
15,000 Ordinary shares (2017: 15,000) of £1 each	15	15

All issued shares are fully paid.

17 Ultimate holding company

The immediate parent undertaking is Safeway Stores Limited. The smallest group in which the results of the Company are consolidated is that headed by Safeway Limited which is incorporated in Great Britain and registered in England and Wales. Copies of the financial statements of Safeway Limited are available from the address below.

The ultimate parent company and head of the largest group in which the results of the Company are consolidated is Wm Morrison Supermarkets PLC which is incorporated in Great Britain and registered in England and Wales. The Directors consider this to be the Company's ultimate controlling party.

Copies of the financial statements of Wm Morrison Supermarkets PLC are available from:
The Company Secretary
Wm Morrison Supermarkets PLC
Hilmore House
Gain Lane
Bradford
West Yorkshire
BD3 7DL