Safeway Stores Limited

Directors' report and financial statements

Registered number 746956

52 weeks ended 29 January 2006

Contents

Directors' report

The Directors have pleasure in presenting their report and the Company's audited financial statements for the 52 weeks ended 29 January 2006.

Principal activities

The Principal activity of the Company is the operation of retail supermarket stores and associated activities within the United Kingdom.

Result and dividend

The loss for the period after taxation amounted to £440.1m (2005: 26.6m). The Directors do not propose a dividend (2005: £Nil).

Review of the year

The Company's ultimate parent company is Wm Morrison Supermarkets PLC ("Morrisons"). Morrisons have, since the acquisition, continued with its dual programmes of converting the stores to the Morrisons format and divesting those stores that either do not fit the Morrisons model, or as required by the Office of Fair Trading (OFT).

159 stores were converted from Safeway to Morrisons in the year, bringing the total for the conversion programme to 219. Each conversion was thoroughly done, with the stores remodelled to provide greater focus on fresh foods, the past under-maintenance of the estate rectified, systems and processes converted to Morrisons, the store signage changed and all staff retrained.

115 stores were sold or closed in the period. In addition 30 former BP Joint venture forecourt locations were sold. These assets were transferred to Safeway Stores Limited when the Joint Venture was dissolved.

During the second half of the year, the decision was made to close 3 depots that were poorly located, inefficient and surplus to requirements of the Morrisons Group. The depots, in Bristol, Aylesford and Warrington are all now closed. Exceptional costs of £74m were incurred in closing these facilities.

The Company generated a normal operating loss of £182.0m (2005 - £182.2m) due to the disruption around the conversion process. This loss was compounded by the direct costs of integration (£233.5m) which were partly offset by profit on sale of property, plant & equipment of £110.6m.

Employment policy

The Company's comprehensive employment policies cover recruitment, selection, retention, remuneration, education, development and equality. The harmonisation of these policies throughout the Group is a Company priority.

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 recognises a number of trade unions and has a partnership agreement with USDAW.

The Company encourages employee involvement in the financial performance of the business through profit share and savings related share option schemes.

Equal opportunities

Equal opportunities are offered to all, regardless of race, colour, nationality, ethnic origin, religion, sex, marital status, sexual orientation, 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.

Directors' report (continued)

All employees have access to confidential counselling provided by trained counsellors as part of our special complaints procedure.

The Company is conscious of its responsibility to society and to the local community in particular. Management is required to apply all of the Company's policies fully and diligently to ensure that the highest standards are maintained.

Disability

The Group 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.

Internal control

The board is responsible for the system of internal control within the Company and for reviewing its effectiveness. The system is designed to reduce so far as possible the risk of failure to achieve business objectives and of material misstatement or loss.

Events after the balance sheet date

17 properties were disposed between 29 January 2006 and 8 June 2006, realising disposal proceeds of £49m.

Directors and their interests

The Directors who served during the period were:

M Ackroyd (resigned 25 May 2005)

M Gunter

D Hutchinson

M Melnyk

R Owen

R Stott

R Pennycook was appointed as Director on 1 May 2006. He retires in accordance with the articles of association and, being eligible, offers himself for re-election.

None of the Directors who held office at the period end held any interest in the shares of the Company.

All the directors are Directors of Wm Morrison Supermarkets PLC and their interest in the share capital of and share options in group companies are shown in the accounts of that company.

At no time during the period or subsequently did any Director have a material interest in any contract or arrangement with the Company.

Auditors

In accordance with Sections 385 and 390A of the Companies Act 1985, a resolution to re-appoint KPMG Audit Plc as auditors and to authorise the Directors to set their remuneration is to be proposed at the forthcoming annual general meeting.

By order of the board

J Burke

Company Secretary

Registered office
Hilmore House
Gain Lane
Bradford
BD3 7DL

8th June 2006

Statement of Directors' responsibilities in respect of the Directors' report and the financial statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with UK Accounting Standards.

The financial statements are required by law to 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 these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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 proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Under applicable law the directors are also responsible for preparing a Directors' Report that complies with that law.

KPMG Audit Plc
1 The Embankment
Neville Street
Leeds
LS1 4DW
United Kingdom

Independent auditors report to the members of Safeway Stores Limited

We have audited the financial statements of Safeway Stores Limited for the 52 weeks ended 29 January 2006 which comprise the profit and loss account, the statement of recognised gains and losses, the balance sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

As described in the statement of Directors' responsibilities on page 3, the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 29 January 2006 and of its loss for the period then ended; and
- have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc

8 June 2006

Chartered Accountants

Registered Auditor

Leeds

Accounting policies

The term 'Company' refers to Safeway Stores Limited and the term 'Group' refers to Wm Morrison Supermarkets PLC.

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

Basis of preparation

The accounting period of the group ends on the Sunday falling between 29 January and 4 February each year.

The financial statements are prepared under the historical cost convention and presented in accordance with UK GAAP. The financial statements of the company include all results for the period attributable to members of the company.

The Directors have chosen not to prepare consolidated financial statements for Safeway Stores Limited in accordance with the provisions of section 228 of the Companies Act 1985. The results of the company are included in the consolidated accounts of Safeway Limited and of Wm Morrisons Supermarkets PLC.

Under FRS 8 the company is exempt from the requirement to disclose related party transactions with the Wm Morrison Supermarkets plc group on the grounds that it is a wholly owned subsidiary.

Under FRS1 the company is exempt from the requirement to prepare a cash flow statement on the grounds that Wm Morrisons Supermarkets plc includes the Company in its own published consolidated financial statements and these are publicly available.

Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of goods to customers during the period. All turnover is to customers based in the United Kingdom.

Leases

Leases in which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases; all other leases are classified as finance leases.

a) **Finance leases**: The present value, calculated using the interest rate implicit in the lease, of the future minimum lease payments is included within fixed assets and financial liabilities as an obligation to pay future rentals. Depreciation is provided at the same rates as for owned assets, or over the lease period if shorter.

   Rental payments are apportioned between the finance charge and the outstanding obligation so as to produce a constant rate of charge on the remaining balance.

b) **Operating leases**: Rental payments are taken to the income statement on a straight line basis over the life of the lease. Leases that contain predetermined, fixed rental increases are accounted for such that the predetermined, fixed rental increases are recognised on a straight-line basis over the life of the lease.

   Property leases are analysed into separate components for land and buildings and tested to establish whether the components are operating leases or finance leases. Premiums paid for land are treated as a prepayment of an operating lease rental and recognised on a straight line basis over the life of the lease.

Income from suppliers

Supplier incentives, rebates and discounts are recognised when all performance criteria have been met. All such payments are offset against cost of goods sold.

Investments

Investments in subsidiary undertakings are stated at cost less provision for impairment.

Fixed assets and depreciation

The policy of the Company is to provide depreciation at rates which are calculated to write off the cost less residual value of tangible fixed assets by equal annual instalments.

Freehold and long leasehold buildings	-	2 ½ % of original cost
Short lease buildings	-	over lease period
Plant, equipment and vehicles	-	15% and 33% of original cost

Income generating units are reviewed for indications of impairment when events or changes in circumstances indicate that their carrying amount may not be recoverable. If there are indications then a test is performed on the unit affected to assess its recoverable amount against carrying value. A unit impaired is written down to the higher of value in use or its fair value less costs to sell.

Capitalisation of interest

The cost of financing property developments prior to their opening date is included in the cost of the project.

Stocks

Stocks are valued at the lower of cost and net realisable value. Cost comprises purchase price, import duties, rebates and other non-recoverable taxes. Stocks are primarily goods for resale.

Deferred and current taxation

Full provision is made without discounting for deferred taxation, except as otherwise required by FRS 19 Deferred tax.

Safeway Stores Limited

52 weeks ended 29 January 2006

Profit and loss account

	Note	52 weeks ended 29 January 2006 £m	47 weeks ended 30 January 2005 £m
Turnover	1	**6,286.5**	6,254.1
Other operating income		**1.1**	5.3
Change in stocks of raw materials and goods for resale		**(95.1)**	(67.6)
Raw materials and consumables		**(4,868.1)**	(4,764.1)
Gross operating profit		**1,324.4**	1,427.7
Staff costs	2	**(921.0)**	(876.5)
Depreciation		**(173.6)**	(175.0)
Impairment	3	**(170.4)**	-
Other operating charges		**(659.1)**	(642.4)
Operating loss before exceptional operating costs		**(195.8)**	(182.2)
Exceptional costs	3	**(403.9)**	(84.0)
Operating loss		**(599.7)**	(266.2)
Profit on divestment of assets	3	**38.6**	327.1
Impairment of investment	3	**-**	(102.9)
Profit on sale of Joint Venture assets		**52.5**	-
Net interest receivable/(payable)	4	**6.3**	(2.1)
Other finance costs		**(2.2)**	(3.4)
Loss on ordinary activities before taxation	5	**(504.5)**	(47.5)
Tax on loss on ordinary activities	6	**64.4**	20.9
Loss for the period		**(440.1)**	(26.6)

All recognised gains and losses relating to the period and the preceding period arise from continuing operations and are shown in the profit and loss account or the statement of total recognised gains and losses.

Statement of total recognised gains and losses

	52 weeks ended 29 January 2006 £m	47 weeks ended 30 January 2005 £m
Loss for the financial year	**(440.1)**	(26.6)
Actuarial loss recognised in the pension scheme	**(36.4)**	(74.2)
Deferred tax thereon	**10.9**	22.3
Total recognised gains and losses relating to the financial year	**(465.6)**	(78.5)

Balance sheet

29 January 2006

	Note	**2006 £m**	2005 £m
Fixed assets			
Tangible assets	7	**3,067.9**	3,198.5
Investments	8	**355.1**	424.2
		3,423.0	3,622.7
Current assets			
Stocks	9	**141.6**	236.7
Debtors	10	**998.4**	1,126.1
Cash in hand		**-**	6.1
		1,140.0	1,368.9
Creditors: amounts falling due within one year	11	**(2,667.1)**	(2,652.1)
Net current liabilities		**(1,527.1)**	(1,283.2)
Total assets less current liabilities		**1,895.9**	2,339.5
Creditors: amounts falling due after more than one year	12	**(1,161.8)**	(1,164.4)
Provisions for liabilities and charges	13	**(229.8)**	(209.0)
Net assets excluding pension liabilities		**504.3**	966.1
Pension liabilities	14	**(216.9)**	(213.1)
Net assets including pension liabilities		**287.4**	753.0
Capital and reserves			
Called-up share capital	15	**229.5**	229.5
Profit and loss account	16	**57.9**	523.5
Equity shareholders' funds		**287.4**	753.0

The accounting policies on pages 6 and 7 and notes on pages 10 to 19 form part of these financial statements.

These financial statements were approved by the board of Directors on 8 June 2006 and were signed on its behalf by:

R Stott

Director

Notes to the financial statements

1. Turnover

	52 weeks ended 29 January 2006 £m	47 weeks ended 30 January 2005 £m
Supermarket takings	**6,267.8**	6,209.2
Income from concessions	**16.8**	35.0
Other turnover	**1.9**	9.9
Turnover	**6,286.5**	6,254.1

2. Staff numbers and costs

The average number of persons employed by the company during the year was as follows:

	Number of employees	
	2006	2005
Full time	**30,248**	32,598
Part time	**45,562**	49,544
	75,810	82,142

The aggregate payroll costs of these persons were as follows:

	52 weeks ended 29 January 2006 £m	47 weeks ended 30 January 2005 £m
Wages and salaries	**759.5**	759.3
Social security costs	**51.4**	56.9
Redundancy costs (note 3)	**75.5**	23.8
Other pension costs	**34.6**	36.5
	921.0	876.5

During the period no emoluments of the Directors have been allocated to Safeway Stores Limited. Details of the emoluments and accrued benefits under defined benefit pension schemes that the Directors received for the 52 week period to 29 January 2006 from its ultimate parent company Wm Morrison Supermarkets PLC are disclosed in those accounts.

The total paid to Directors was £4,386,000 (2005: £3,432,000). The highest paid Director received £738,000 (2005: £635,000). The total accrued pension at 29 January 2006 was £976,000 (2005: £767,000) and the transfer value was £12,281,000 (2005: 8,851,000).

3. Exceptional items

	52 weeks ended 29 January 2006	47 weeks ended 30 January 2005
	£m	£m
Operating exceptional items:		
Redundancy costs	**75.5**	23.8
Other payroll costs	**10.6**	7.6
Divestment costs	**11.0**	2.7
Store conversion costs	**136.4**	49.9
Impairment of fixtures and fittings	**127.6**	-
Impairment of stores and depots to be closed	**42.8**	-
	403.9	84.0
Non operating exceptional items:		
Net profit on sale of fixed assets	**(38.6)**	(327.1)
Profit on sale of Joint Venture assets	**(52.5)**	-
Impairment of investment	**-**	102.9
	312.8	(140.2)

Since the acquisition in March 2004, 219 stores have been converted from the Safeway format to Morrisons, 256 stores (including 30 joint venture properties with BP) have been disposed and a number of administration and distribution functions either closed or merged. The resulting costs, and profits and losses on disposal of properties, are included with integration costs. Any impact on trading is included within operating profit.

4. Net interest payable and similar charges

	52 weeks ended 29 January 2006	47 weeks ended 30 January 2005
	£m	£m
Interest payable:		
Short term bank loans and overdrafts repayable within five years	**(4.0)**	(1.7)
Finance charges payable on finance leases	**(0.5)**	(0.5)
	(4.5)	(2.2)
Bank interest receivable	**6.6**	-
Interest capitalised on freehold and long leasehold developments	**4.2**	0.1
	6.3	(2.1)

Interest costs relating to the financing of freehold and long leasehold developments are capitalised at the weighted average cost of the related borrowings up to the date of completion of the project.

5. Loss on ordinary activities before taxation

	52 weeks ended 29 January 2006 £m	47 weeks ended 30 January 2005 £m
Loss on ordinary activities before taxation is stated after charging:		
Depreciation of tangible fixed assets	**173.6**	175.0
Hire charges under operating leases		
- Plant and equipment	**4.4**	34.5
- Property	**47.8**	55.8
Auditors' remuneration	**0.6**	0.3

Fees paid to the auditors in relation to non-audit services were borne by the Morrisons Group.

6. Taxation

Analysis of charge in period

	52 weeks ended 29 January 2006 £m	47 weeks ended 30 January 2005 £m
Current taxation		
Adjustment relating to an earlier period	**3.5**	4.4
Deferred taxation		
Origination / reversal of timing differences	**(61.9)**	(19.8)
Adjustment in respect of prior periods	**(6.0)**	(5.5)
	(64.4)	(20.9)

The deferred tax credit includes a credit of £10.9m relating to the movement on the pension deferred tax asset. The pension deferred tax asset is deducted from the net pension liability on the balance sheet.

The current taxation charge differs from the standard rate of UK corporation tax due to the following factors:

	52 weeks ended 29 January 2006 £m	47 weeks ended 30 January 2005 £m
Loss before tax	**(504.5)**	(47.5)
Tax on loss on ordinary activities at 30 % (2005: 30%)	**(151.4)**	(14.3)
Expenses not deductible for tax purposes	**61.3**	55.9
Divestment profits covered by tax reliefs	**(53.4)**	(102.6)
Capitalised interest	**(1.3)**	-
Group relief not paid for	**85.9**	41.2
Short term timing differences	**58.9**	19.8
Adjustments to tax charge in respect of previous periods	**3.5**	4.4
Resulting tax charge for the period	**3.5**	4.4

7. Tangible fixed assets

	Land and buildings				
	Freehold £m	Long leasehold £m	Short leasehold £m	Plant, equipment and vehicles £m	Total £m
Cost					
At 30 January 2005	2,921.1	298.1	162.6	1,272.6	4,654.4
Additions	334.3	1.6	-	126.8	462.7
Disposals	(128.2)	(38.3)	(53.5)	(331.7)	(551.7)
At 29 January 2006	**3,127.3**	**261.4**	**109.1**	**1,067.6**	**4,565.4**
Accumulated depreciation					
At 30 January 2005	402.6	73.6	72.5	907.2	1,455.9
Charge for year	81.9	6.7	4.7	80.3	173.6
On disposals	(32.5)	(16.7)	(27.1)	(226.1)	(302.4)
Impairment	37.4	-	-	133.0	170.4
At 29 January 2006	**489.4**	**63.6**	**50.1**	**894.4**	**1,497.5**
Net book value					
At 29 January 2006	**2,637.9**	**197.8**	**59.0**	**173.2**	**3,067.9**
At 30 January 2005	2,518.5	224.5	90.1	365.4	3,198.5

Freehold land included in the total cost above amounts to £1,160.7m (2005 - £1,205.1m).

At 29 January 2006, the net book value of tangible fixed assets included £5.6 million of leased plant, equipment and vehicles (2005 - £7.7 million). The depreciation charged in respect of leased plant, equipment and vehicles during the period amounted to £2.1 million (2005 - £2.1 million).

Interest capitalised on freehold and long leasehold developments included in additions during the period amounted to £4.2 million (2005 - £0.1 million). The cumulative amount of interest capitalised in the total cost above amounts to £148.9 million (2005 - £144.7 million).

8. Fixed asset investments

(a) Fixed asset investments comprise:

	2006 £m	2005 £m
Investment in BP joint venture	-	69.1
Subsidiaries	**355.1**	355.1
	355.1	424.2

(b) Investment in joint venture with BP

On 7 June 2005, the Group dissolved its joint venture with BP (BP and Safeway partnership) for a consideration of £81.3m. The 61 petrol filling stations were divided between the Group and BP.

The movement on this account during the period was:

	£m
At 30 January 2005	**69.1**
Disposals during the period	**(69.1)**
At 29 January 2006	**-**

Set out below are the Company's principal subsidiaries:

Company	% holding	Principal area of operation	Country of Registration	Business
Safeway Stores (Card Services) Ltd	100.00	United Kingdom	England	Financial Services
Safeway Stores (Ireland) Limited	100.00	Northern Ireland	England	Grocery retailer
Safeway (Overseas) Limited	100.00	Channel Islands, Gibraltar and Isle of Man	England	Grocery retailer
Lease Securities Limited	100.00	United Kingdom	Guernsey	Property management
Stalwart Investment Limited	100.00	United Kingdom	Guernsey	Property owner

In addition to the above, the Company has a number of other subsidiary companies, particulars of which will be annexed to the next annual return of the Company.

9. Stocks

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

10. Debtors

	2006 £m	2005 £m
Trade debtors	**0.2**	16.9
Amounts owed by group undertakings	**960.8**	982.9
Taxation recoverable	**-**	47.3
Other debtors	**1.0**	48.7
Prepayments and accrued income	**36.4**	30.3
	998.4	1,126.1

The amounts owed by group undertakings are non-interest bearing.

11. Creditors: amounts falling due within one year

	2006 £m	2005 £m
Bank loans and overdrafts	**2.7**	102.3
Trade creditors	**90.2**	392.4
Amounts owed to group undertakings	**2,448.5**	1,890.0
Amounts due to BP joint venture	**-**	43.8
Corporation tax	**26.7**	-
Other taxes and social security	**17.4**	49.2
Other creditors	**52.2**	145.5
Accruals and deferred income	**29.4**	28.9
	2,667.1	2,652.1

12. Creditors: amounts falling due after more than one year

	2006 £m	2005 £m
Amounts due to parent company	**1,150.0**	1,150.0
Term loans	**3.7**	3.7
Non cancellable lease commitments	**8.1**	10.7
	1,161.8	1,164.4

The amounts owed to group undertakings are non-interest bearing.

13. Provisions for liabilities and charges

	At 30 January 2005 £m	Charge/(credit) for the period £m	**At 30 January 2006 £m**
Deferred taxation (excluding pension asset)	195.9	(77.2)	**118.7**
Onerous contracts re leases	2.8	39.6	**42.4**
Dilapidations	-	2.4	**2.4**
Restructuring	-	53.7	**53.7**
Petrol filling station decommissioning reserve	10.3	2.3	**12.6**
	209.0	20.8	**229.8**

The deferred tax liability can be analysed as follows:

	2006 £m	2005 £m
Accelerated capital allowances	**148.7**	230.6
Other timing differences	**(30.0)**	(34.7)
	118.7	195.9

14. Pension scheme

Defined benefit scheme

The company operates a pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held in a separate trustee administered fund. The latest full actuarial valuation was carried out at 1 April 2004 and was updated for FRS 17 purposes to 29 January 2006 and 30 January 2005 by a qualified independent actuary.

The current employer/employee contribution rate of 14.0% of pensionable pay that applied during 2005/06 will continue to apply until the review following the triennial valuation due as at April 2007. Additional voluntary augmentation payments are also being made. As the scheme is closed to new entrants, the current service cost as a percentage of pensionable payroll is likely to increase as the membership ages, although it will be applied to a decreasing pensionable payroll.

The major assumptions used in this valuation to determine the present value of the scheme's liabilities were as follows:

	2006	2005	2004
Rate of increase in salaries	**4.25%**	4.25 – 5.25%	4.25%
Rate of increase in pensions in deferred pensions	**3.00%**	3.00%	3.00%
Discount rate applied to scheme liabilities	**4.75%**	5.25%	5.50%
Inflation assumption	**3.00%**	3.00%	3.00%

Assumptions

Assumptions regarding future mortality experience are set based on advice in accordance with published statistics. The current mortality table used is PA92 C2020.

The major assumptions used to determine the expected future return on the scheme's assets, were as follows:

Scheme assets long term rate of return	**2006**	2005	2004
Equities	**7.00%**	7.00%	7.00%
Bonds	**4.25%**	5.00%	5.25%
Property	**7.00%**	7.00%	7.00%
Cash	**4.50%**	4.75%	4.00%

Valuations

The fair value of the schemes assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities which are derived from cash flow projections over long periods and are inherently uncertain, were as follows:

	2006 £m	2005 £m	2004 £m
Equities	**940.8**	754.1	658.6
Bonds	**177.1**	152.4	142.2
Property	**53.3**	12.5	0.4
Cash	**61.4**	71.7	56.2
Total market value of assets	**1,232.6**	990.7	857.4
Present value of scheme liabilities	**(1,542.4)**	(1,295.1)	(1,087.0)
Deficit in the scheme - pension liability	**(309.8)**	(304.4)	(229.6)
Related deferred tax asset	**92.9**	91.3	68.9
Net pension liability	**(216.9)**	(213.1)	(160.7)

Movement in deficit during the period:	**2006 £m**	2005 £m	2004 £m
Deficit in the scheme at beginning of period	**(304.4)**	(229.6)	(217.0)
Current service cost	**(32.1)**	(35.2)	(33.2)
Contributions	**67.2**	39.3	35.1
Past service costs	**(1.9)**	(1.3)	69.6
Other finance (cost)/income	**(2.2)**	(3.4)	2.4
Actuarial loss	**(36.4)**	(74.2)	(86.5)
Deficit in the scheme at the end of the period	**(309.8)**	(304.4)	(229.6)

Analysis of other operating costs in arriving at operating profit:	**2006 £m**	2005 £m
Current service cost	**(32.1)**	(35.2)
Past service cost	**(1.9)**	(1.3)
	(34.0)	(36.5)

Analysis of amounts included in other finance charge:	**2006 £m**	2005 £m
Expected return on pension scheme assets	**66.0**	51.0
Interest on pension scheme liabilities	**(68.2)**	(54.4)
	(2.2)	(3.4)

Analysis of amounts recognised in the statement of total recognised gains and losses (STRGL):	**2006 £m**	2005 £m
Actual return less expected return on scheme assets	**131.5**	52.4
Experience gains and losses arising on scheme liabilities	**3.2**	(38.1)
Changes in assumptions underlying the present value of scheme liabilities	**(171.1)**	(88.5)
Actuarial loss recognised in STRGL	**(36.4)**	(74.2)

History of experience gains and losses

The history of experience gains and losses is as follows:	**2006 £m**	2005 £m	2004 £m	2003 £m
Difference between the expected and actual return on scheme assets				
- Amount	**131.5**	52.4	59.8	(258.3)
- Percentage of scheme assets	**10.7%**	5.2%	7.0%	35.7%
Experience gains and losses on scheme liabilities				
- Amount	**3.2**	(38.1)	-	(0.6)
- Percentage of present value of scheme liabilities	**0.2%**	2.9%	-	0.1%
Effects to changes in the demographic and financial assumptions underlying the present value of the scheme liabilities				
- Amount	**(171.1)**	(88.5)	(146.3)	(13.5)
- Percentage of present value of scheme liabilities	**11.1%**	6.8%	13.5%	1.4%
Total amount recognised in STRGL				
- Amount	**(36.4)**	(74.2)	(86.5)	(272.4)
- Percentage of present value of scheme liabilities	**2.4%**	5.7%	8.0%	29.0%

15. Called up share capital

	2006 £m	2005 £m
Authorised		
250,000,000 ordinary shares of £1 each	**250.0**	250.0
Allotted, called up and fully paid		
229,536,776 ordinary shares of £1 each	**229.5**	229.5

16. Profit and loss account

	2006 £m	2005 £m
At 30 January 2005	**523.5**	602.0
Loss for the financial period	**(440.1)**	(26.6)
Other recognised gains and losses	**(36.4)**	(74.2)
Tax arising on actuarial loss	**10.9**	22.3
At 29 January 2006	**57.9**	523.5

17. Reconciliation of movements in shareholders' funds

	2006 £m	2005 £m
Retained loss for the period	**(440.1)**	(26.6)
Other recognised gains and losses	**(25.5)**	(51.9)
Net reduction in shareholders' funds	**(465.6)**	(78.5)
Opening shareholders' funds	**753.0**	831.5
Closing shareholders' funds	**287.4**	753.0

18. Operating lease commitments

The group's aggregate minimum annual rentals under non-cancellable leases inclusive of unconditional future obligations are as follows:-

	Property 2006 £m	Property 2005 £m	**Vehicles, plant and equipment 2006 £m**	Vehicles, plant and equipment 2005 £m
Operating leases which expire:				
Within one year	**0.2**	8.3	**-**	14.6
Within two to five years	**2.2**	3.2	**-**	20.3
After five years	**26.6**	34.0	**-**	-
	29.0	45.5	**-**	34.9

19. Events after the balance sheet date

17 properties were disposed between 29 January 2006 and 8 June 2006, realising disposal proceeds of £49m.

20. Guarantees and other financial commitments

The company is party to a guarantee comprising a net-off and/or set-off arrangement in connection with its bank facilities.

21. Ultimate holding company

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 largest group in which the results of the company are consolidated is that headed by Wm Morrison Supermarkets PLC which is incorporated in Great Britain and registered in England and Wales.

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
BD3 7DL