Safeway Stores Limited

Directors' report and financial statements

Registered number 746956

53 weeks ended 4 February 2007

Contents

Directors' report

The Directors have pleasure in presenting their report and the Company's audited financial statements for the 53 weeks ended 4 February 2007

Result and dividend

The profit for the period after taxation amounted to £244 2m (2006 £420 8m loss as restated) The Directors do not propose a dividend (2006 £nil)

Business review and principal activities

The Principal activity of the Company is the operation of retail supermarket stores and associated activities within the United Kingdom The Directors are not aware, at the date of this report, of any likely major changes in the Company's activities in the next year

The results for the Company show a pre-tax profit of £247 5m (2006 £485 2m loss as restated) for the year and sales of £6,391 2m (2006 £6,312 3m as restated)

The Company's ultimate parent company is Wm Morrison Supermarkets PLC

2006/7 was the first year of operating under one brand – Morrisons With new systems and processes attention was on delivering Morrisons best practice through the Company and on recovering profitability Targets in this regard were laid out in the Morrisons Group Optimisation Plan, published in March 2006, and all of these were achieved Total turnover of £6 4bn was in line with the previous year - although the reporting period benefited from an extra, 53rd week, it was disadvantaged by the continuing drag effect of store disposals in the previous year

For a number of years, food retail prices have been declining, giving ever greater value to consumers and reflecting the intense competition in the market In 2006/7, there were reports of inflation once again entering the market, as producers and retailers sought to pass on to customers the cumulative effect of high energy, commodity and business rates costs Overall, however, through the whole year, the Company's customers paid less for their average shopping basket than they would have paid the previous year Fuel sales in the past two years have been heavily affected by high oil prices These price rises boost sales, but contribute little to profits, as fuel is a low margin business and the Company seeks to remain highly competitive in the marketplace

The stores made good progress in the year, delivering sales growth ahead of the average for the market as a whole Smaller stores, defined as having less than 25,000 square feet of selling area performed particularly well, with sales densities up 12% in the year These stores are not able to carry the full Morrisons range, but can still offer customers our unique Market Street experience and a comprehensive range of grocery, frozen and household items

Improvements to range selection and merchandising techniques, found ways of delivering labour efficiency whilst maintaining service levels and taking cost out of the back office administration After the cost of goods sold, the biggest cost is store wages For a number of years, wage inflation has been running ahead of food price inflation, meaning that productivity improvements are required in order to keep labour ratios to sales on an improving trend In the period after the Safeway acquisition, store labour productivity had declined for two years In 2006/7 it has started to improve, with sales per labour hour, a key measure for us, improving by 14% year on year Another significant cost, both in store and throughout the business, is energy Despite energy efficiency improving, the high cost of gas and electricity in the year had a significant impact on the result

A court of Appeal ruling in July 2005 re Debenhams Retail Plc vs Revenue and Customs Commissioners has changed the way in with the Company records its costs in relation to card handling services made by another group company The impact of those changes is discussed in Note 18 to the financial statements

14 smaller stores and other properties were disposed of during the period

Directors' report (continued)

Future outlook

As a subsidiary of Wm Morrisons Supermarket PLC the Company will benefit from the implementation of changes resulting from the Morrisons Group business review (announced on 15th March 2007) This started with the business analysing feedback from customers, employees and suppliers to develop a clear picture of issues the business faces and matters for the business to concentrate on Amongst other things, this will lead to changes to branding, product ranging and systems, all of which will help make stores more appealing, efficient and responsive to customer needs

Environment

The Group recognises the importance of its environmental 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 safe disposal of manufacturing waste, 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 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, 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

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

Directors' report (continued)

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 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

Directors and their interests

The Directors who served during the period were

M Gunter	
D Hutchinson	
M Melnyk	(Resigned 6 December 2006)
R Owen	
R Stott	(Resigned 29 September 2006)
R Pennycook	

Disclosure of Information to Auditors

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each Director has taken all the steps that he/she ought to have taken as a Director to make himself/ herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

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

7 June 2007

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

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

Independent auditor's report to the members of Safeway Stores Limited

We have audited the financial statements of Safeway Stores Limited for the 53 weeks ended 4 February 2007 which comprise the Profit and Loss Account, 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

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 6

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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements

In addition we report to you if, in our opinion, 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 4 February 2007 and of its profit for the 53 weeks then ended
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

KPMG Audit Plc

KPMG Audit Plc

7 June 2007

Chartered Accountants

Registered Auditor

Leeds

Accounting policies

Basis of preparation

These separate financial statements which have been prepared under the historic cost convention and in accordance with applicable accounting standards under UK GAAP, are presented as required by the Companies Act 1985

The format of the income statement has been changed to that of a functional style Further details are provided in note 1

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

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 Morrison 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

FRS 26 "Financial instruments *recognition and measurement*" has been applied but does not have any effect

FRS 29 "Financial instruments *disclosures"* comes into effect next year but has no impact on the Company

Accounting reference date

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

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

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

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

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 The rates applied are

Freehold land	0%
Freehold and long leasehold buildings	2 5%
Short lease buildings	Over lease period
Plant, equipment and vehicles	15 -33%
Assets under construction	0%

Assets 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 An asset impaired is written down to the higher of value in use or its fair value less costs to sell

Investments

Investments properties are recorded at cost less accumulated depreciation and any recognised impairment loss

Investments 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 investment affected to assess its recoverable amount against carrying value An investment impaired is written down to the higher of value in use or its fair value less costs to sell

Retirement benefits

The Group operates defined benefit and defined contribution schemes A defined contribution scheme is a pension scheme under which the Company pays fixed contributions into a separate entity A defined benefit scheme is one that is not a defined contribution scheme Pension benefits under defined benefit schemes are defined on retirement based on age at date of retirement, years of service and either the employee's final compensation package or career average earnings

The Company operates a defined benefit retirement scheme which is funded by contributions from the Company and members The defined benefit scheme is not generally open to new members Pension scheme assets, which are held in separate trustee administered funds, are valued at market rates Pension scheme obligations are measured at discounted present value and other assumptions as shown in note 14 The operating and financing costs of the scheme are recognised separately in the profit and loss account in the period in which they arise Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses

Payments by the Company to the defined contribution scheme are charged to the profit and loss account as they arise

Deferred and current taxation

Current tax payable is based on the taxable profit for the period using tax rates enacted or substantively enacted at the reporting date Taxable profit differs from the profit as reported in the profit and loss account as it is adjusted both for items that will never be taxable or deductible and temporary timing differences

Deferred tax is provided in full on timing differences between the accounting and tax cost bases that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date Deferred tax is calculated based on current tax law and is provided at rates that are expected to apply when the timing differences crystallise Deferred tax assets are recognised to the extent that it is more likely than not that they will be recovered Deferred tax assets and liabilities are not discounted

Stocks

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

Investments

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

Capitalisation of interest

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

Profit and loss account

	Note	53 weeks ended 4 February 2007 £m	As restated 52 weeks ended 29 January 2006 £m
Turnover	1	**6,391 2**	6,312 3
Cost of sales		**(6,220 8)**	(6,709 5)
Gross operating profit / (loss)		**170 4**	(397 2)
Other operating income		**3 0**	1 1
Administration expenses		**(71 2)**	(184 3)
Profit on divestment of assets	3	**29 5**	38 6
Operating profit/(loss) before exceptional operating costs		**131 7**	(137 9)
Exceptional operating costs	3	**-**	(403 9)
Operating profit/(loss)		**131 7**	(541 8)
Income from shares in group undertakings		**115 4**	-
Profit on sale of Joint Venture assets		**-**	52 5
Net finance income	4	**0 4**	4 1
Profit/(loss) on ordinary activities before taxation	5	**247 5**	(485 2)
Tax on profit/loss on ordinary activities	6	**(3 3)**	64 4
Profit/(loss) for the period		**244 2**	(420 8)

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

The restatement in the prior year is explained in note 18 to the financial statements

Statement of total recognised gains and losses

	53 weeks ended 4 February 2007 £m	As restated 52 weeks ended 29 January 2006 £m
Profit/(loss) for the financial year	**244 2**	(420 8)
Actuarial gain / (loss) recognised in the pension scheme (note 14)	**127 0**	(36 4)
Deferred tax there on (note 14)	**(38 1)**	10 9
Total recognised gains and losses relating to the financial year	**333 1**	(446 3)
Prior year adjustment (note 18)	**-**	200 5
Total recognised gains and losses	**333.1**	(245 8)

Balance sheet

4 February 2007

	Note	2007 £m	As restated 2006 £m
Fixed assets			
Tangible assets	7	**2,974 2**	3,067 9
Investment in subsidiaries	8	**355 1**	355 1
		3,329 3	3,423 0
Current assets			
Stocks	9	**146 8**	141 6
Debtors	10	**41 4**	998 4
		188 2	1,140 0
Creditors amounts falling due within one year	11	**(1,236 3)**	(2,447 3)
Net current liabilities		**(1,048 1)**	(1,307 3)
Total assets less current liabilities		**2,281 2**	2,115 7
Creditors amounts falling due after more than one year	12	**(1,155 2)**	(1,161 8)
Provisions for liabilities and charges	13	**(195 1)**	(229 8)
Net assets excluding pension liabilities		**930 9**	724 1
Pension liabilities	14	**(90 6)**	(216 9)
Net assets including pension liabilities		**840 3**	507 2
Capital and reserves			
Called-up share capital	15	**229 5**	229 5
Profit and loss account	16	**610 8**	277 7
Equity shareholders' funds	17	**840 3**	507 2

The accounting policies on pages 9 to 11 and notes on pages 14 to 23 form part of these financial statements

The 2006 comparatives have been restated, for further details see note 18

These financial statements were approved by the board of Directors on 7 June 2007 and were signed on its behalf by

R Pennycook

Director

Notes to the financial statements

1. Turnover

	53 weeks ended 4 February 2007 £m	As restated 52 weeks ended 29 January 2006 £m
Supermarket takings	**6,373 2**	6,293 6
Income from concessions	**17 1**	16 8
Other turnover	**0 9**	1 9
Turnover	**6,391 2**	6,312 3

Restatement of Income Statement

The format of the income statement has been changed to that of a functional style that is consistent with the key competitors in the Food and Drug Retail Sector sector The practice in the Retail sector is to show Cost of Sales and a subtotal of Gross Profit The cost of operating Morrisons integrated manufacturing businesses are considered as part of the cost of sales of the retail business and have been incorporated within the Cost of Sales in this new format The impact of this change is that

- Operating profit remains unchanged
- Raw materials are subsumed into cost of sales
- Staff costs, impairment and depreciation split between cost of sales and administrative expenses as appropriate

2. Staff numbers and costs

The average number of persons employed by the Company during the period was as follows

	Number of employees **2007**	2006
Full time	**21,470**	30,248
Part time	**35,228**	45,562
	56,698	75,810

The aggregate payroll costs of these persons were as follows

	53 weeks ended 4 February 2007 £m	52 weeks ended 29 January 2006 £m
Wages and salaries	**574 3**	759 5
Social security costs	**39 8**	51 4
Redundancy costs (note 3)	-	75 5
Other pension costs	**23 8**	34 6
	637 9	921 0

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 53 week period to 4 February 2007 from its ultimate parent company Wm Morrison Supermarkets PLC are disclosed in those accounts

3. Exceptional items

	53 weeks ended 4 February 2007 £m	52 weeks ended 29 January 2006 £m
Operating exceptional items		
Redundancy costs (included in cost of sales)	-	75 5
Other payroll costs (included in cost of sales)	-	10 6
Divestment costs (included in cost of sales)	-	11 0
Store conversion costs (included in cost of sales)	-	136 4
Impairment of fixtures and fittings (included in administration expenses)	-	127 6
Impairment of stores and depots to be closed (included in administration expenses)	-	42 8
	-	403 9

The current period profit on divestment of assets of £29 5m (2006 £38 6m) relates to 14 smaller stores and other administration and distribution property no longer required to support the business as part of the enlarged Morrisons Group

The prior year's exceptional items relate to the 219 stores converted from the Safeway format to Morrisons, 256 stores (including 30 joint venture properties with BP) were disposed of 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 finance income

	53 weeks ended 4 February 2007 £m	52 weeks ended 29 January 2006 £m
Interest payable		
Short term bank loans and overdrafts repayable within five years	**(0 3)**	(4 0)
Finance charges payable on finance leases	**(0 4)**	(0 5)
Inter company loan interest	**(3 3)**	-
Other finance cost	**(4 7)**	(2 2)
	(8 7)	(6 7)
Interest receivable		
Bank interest receivable	**1 0**	6 6
Other finance income (note 14)	**6 6**	-
Interest capitalised on freehold and long leasehold developments	**1 5**	4 2
	9 1	10 8
Net finance income	**0 4**	4 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. Profit/(loss) on ordinary activities before taxation

	53 weeks ended 4 February 2007 £m	52 weeks ended 29 January 2006 £m
Profit /(loss) on ordinary activities before taxation is stated after charging		
Depreciation of tangible fixed assets	**153.2**	173 6
Hire charges under operating leases		
- Plant and equipment	**2.4**	4 4
- Property	**23.8**	47 8
Auditors' remuneration	**0.1**	0 1

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

6. Taxation

Analysis of charge in period

	53 weeks ended 4 February 2007 £m	52 weeks ended 29 January 2006 £m
Current taxation		
UK corporation tax at 30% (2006 30%)	**6 4**	-
Adjustment in respect of prior periods	**0 1**	3 5
	6 5	3 5
Deferred taxation		
Origination / reversal of timing differences	**27 8**	(61 9)
Adjustment in respect of prior periods	**(31 0)**	(6 0)
	(3 2)	(69 9)
	3 3	(64 4)

The deferred tax credit (excluding the movement reflected in the STRGL) includes a charge of £16 0m (2006 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

On the 21st March it was announced that the rate of corporation tax will be changing from 30% to 28% The calculations in the statutory account accounts are based on the rates applicable at the balance sheet date and does not reflect the change in tax rate which is anticipated to become effective as of 1 April 2008 as it is not yet considered to be substantively enacted The impact of the change of the corporation tax rate is anticipated to be an increase of £15 6m in the deferred tax credit in these financial statements

The current taxatıon charge dıffers from the standard rate of UK corporatıon tax due to the followıng factors

	53 weeks ended 4 February 2007 £m	As restated 52 weeks ended 29 January 2006 £m
Profit /(loss) before tax	**247 5**	(485 2)
Tax on loss on ordınary actıvıtıes at 30 % (2006 30%)	**74 3**	(145 5)
Expenses not deductıble for tax purposes	**10 8**	55 4
Non-qualıfyıng (profıt)/loss on dısposals	**(16 7)**	(53 4)
Capıtalısed ınterest	**(0 5)**	(1 3)
Dıvıdend ıncome not taxed	**(33 7)**	-
Group relıef not paıd for	**-**	85 9
Short term tımıng dıfferences	**(27 8)**	58 9
Adjustments to tax charge ın respect of prevıous perıods	**0 1**	3 5
Resultıng current tax charge for the perıod	**6 5**	3 5

7. Tangıble fixed assets

	Land and buıldıngs Freehold £m	Long leasehold £m	Short leasehold £m	Plant, equıpment and vehıcles £m	Total £m
Cost					
At 29 January 2006	3,127 3	261 4	109 1	1,067 6	4,565 4
Reclassıficatıons	(108 3)	(0 6)	(1 1)	110 0	-
Addıtıons	50 4	2 2	1 6	15 7	69 9
Interest capıtalısed	1 5	-	-	-	1 5
Group transfers	111 9	-	-	12 7	124 6
Dısposals	(183 3)	(8 0)	(21 9)	(206 9)	(420 1)
At 4 February 2007	**2,999 5**	**255 0**	**87 7**	**999 1**	**4,341 3**
Accumulated deprecıatıon					
At 29 January 2006	489 4	63 6	50 1	894 4	1,497 5
Reclassıficatıons	(32 5)	(5 6)	(1 7)	39 8	-
Charge for perıod	58 8	6 1	2 6	85 7	153 2
Group transfers	8 4	-	-	9 6	18 0
Dısposals	(76 5)	(8 0)	(10 2)	(206 9)	(301 6)
At 4 February 2007	**447 6**	**56 1**	**40 8**	**822 6**	**1,367 1**
Net book value					
At 4 February 2007	**2,551.9**	**198 9**	**46 9**	**176 5**	**2,974 2**
At 29 January 2006	2,637 9	197 8	59 0	173 2	3,067 9

Freehold land included in the total cost above amounts to £1,197 1m (2006 £1,160 7m)

At 4 February 2007, the net book value of tangible fixed assets included £5 3 million of leased plant, equipment and vehicles (2006 £7 4 million) The depreciation charged in respect of leased plant, equipment and vehicles during the period amounted to £2 1 million (2006 £2 1 million)

Interest capitalised on freehold and long leasehold developments included in additions during the period amounted to £1 5 million (2006 £4 2 million) The cumulative amount of interest capitalised in the total cost above amounts to £150 4 million (2006 £148 9 million)

8 Investments

	£m
Cost	
At 29 January 2006 and 4 February 2007	458 0
Provision for impairments	
At 29 January 2006 and 4 February 2007	(102 9)
Net book amount at 29 January 2006 and 4 February 2007	**355 1**

The provision of £102 9m (2006 £102 9m) relates to the company's investment in Safeway Stores (Ireland) Limited

The Company's principal subsidiary is Safeway (Overseas) Limited This is a wholly owed subsidiary registered in England and Wales The Company trades in Gibraltar as a grocery retailer

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 All stocks are goods held for resale

10. Debtors

	2007 £m	2006 £m
Trade debtors	-	0 2
Amounts owed by group undertakings	**25 8**	960 8
Other debtors	-	1 0
Prepayments and accrued income	**15 6**	36 4
	41 4	998 4

The amounts owed by Group undertakings are non-interest bearing

11. Creditors. amounts falling due within one year

	2007 £m	As restated 2006 £m
Bank loans and overdrafts	-	0 3
Trade creditors	70 5	90 2
Amounts owed to group undertakings	1,084 5	2,228 7
Corporation tax	6 4	26 7
Other taxes and social security	-	17 4
Other creditors	5.0	52 2
Finance leases obligations	2 4	2 4
Accruals and deferred income	67 5	29 4
	1,236 3	2,447 3

Amounts owed to group undertakings in 2006 was previously stated as £2,448 5m Further details relating to this adjustment are shown in note 18

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

	2007 £m	2006 £m
Amounts due to parent company	1,150 0	1,150 0
Term loans	2 0	3 7
Finance lease obligations	3 2	8 1
	1,155.2	1,161 8

The amounts owed to Group undertakings are non-interest bearing

13. Provisions for liabilities and charges

	Restructuring £m	Property provisions £m	Deferred tax £m	Total £m
At 29 January 2006	53 7	57 4	118 7	229 8
Charged (credited) to profit and loss account	-	36 9	(19 2)	17 7
Utilised in period	(39 6)	(17 5)	-	(57 1)
Unwinding of discount	-	4 7	-	4 7
At 4 February 2007	**14 1**	**81 5**	**99 5**	**195 1**

The deferred tax liability can be analysed as follows

	2007 £m	2006 £m
Accelerated capital allowances	108 6	148 7
Other timing differences	(9 1)	(30 0)
	99 5	118 7

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 4 February 2007 and 29 January 2006 by a qualified independent actuary

Assumptions

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

	2007	2006	2005
Rate of increase in salaries	**4 25%**	4 25%	4 25 – 5 25%
Rate of increase in pensions in deferred pensions	**3 20%**	3 00%	3 00%
Discount rate applied to scheme liabilities	**5 00%**	4 75%	5 25%
Inflation assumption	**3 20%**	3 00%	3 00%

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	2007	2006	2005
Equities	**7 00%**	7 00%	7 00%
Bonds	**5 00%**	4 25%	5 00%
Property	**6 00%**	7 00%	7 00%
Cash	**5 25%**	4 50%	4 75%

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

	2007 £m	2006 £m	2005 £m
Equities	**922 2**	940 8	754 1
Bonds	**178 3**	177 1	152 4
Property	**225 1**	53 3	12 5
Cash	**84 3**	61 4	71 7
Total market value of assets	**1,409 9**	1,232 6	990 7
Present value of scheme liabilities	**(1,539 3)**	(1,542 4)	(1,295 1)
Deficit in the scheme - pension liability	**(129 4)**	(309 8)	(304 4)
Related deferred tax asset	**38 8**	92 9	91 3
Net pension liability	**(90 6)**	(216 9)	(213 1)

The movement in the deficit during the period was as follows

Safeway Stores Limited

53 weeks ended 4 February 2007

Movement in the deficit during the period:	**2007 £m**	2006 £m	2005 £m
Deficit in the scheme at beginning of period	**(309 8)**	(304 4)	(229 6)
Current service cost	**(22 7)**	(32 1)	(35 2)
Contributions	**69 7**	67 2	39 3
Past service costs	**(0 2)**	(1 9)	(1 3)
Other finance income / (costs)	**6 6**	(2 2)	(3 4)
Actuarial gain / (loss)	**127 0**	(36 4)	(74 2)
Deficit in the scheme at the end of the period	**(129 4)**	(309 8)	(304 4)

Profit and loss account impact

The following amounts have been charged in arriving at operating profit in respect of pension costs	**2007 £m**	2006 £m	2005 £m
Current service cost	**(22 7)**	(32 1)	(35 2)
Past service cost	**(0 2)**	(1 9)	(1 3)
	(22 9)	(34 0)	(36 5)

The following amounts have been included in other finance income/(cost)	**2007 £m**	2006 £m	2005 £m
Expected return on pension scheme assets	**81 0**	66 0	51 0
Interest on pension scheme liabilities	**(74.4)**	(68 2)	(54 4)
	6 6	(2 2)	(3 4)

Analysis of amounts recognised in the statement of total recognised gains and losses

The amounts included in the statement of total recognised gains and losses were	**2007 £m**	2006 £m	2005 £m
Actual return less expected return on scheme assets	**61.9**	131 5	52 4
Experience gains and losses arising on scheme liabilities	**26.5**	3 2	(38 1)
Changes in assumptions underlying the present value of scheme liabilities	**38.6**	(171 1)	(88 5)
Actuarial gain / (loss) recognised in STRGL	**127.0**	(36 4)	(74 2)

History of experience gains and losses

The history of experience gains and losses is as follows	**2007 £m**	2006 £m	2005 £m	2004 £m
Difference between the expected and actual return on scheme assets				
- Amount	**61 9**	131 5	52 4	59 8
- Percentage of scheme assets	**4 4%**	10 7%	5 2%	7 0%
Experience gains and losses on scheme liabilities				
- Amount	**26.5**	3 2	(38 1)	-
- Percentage of present value of scheme liabilities	**1 7%**	0 2%	2 9%	-
Effects to changes in the demographic and financial assumptions underlying the present value of the scheme liabilities				
- Amount	**38 6**	(171 1)	(88 5)	(146 3)
- Percentage of present value of scheme liabilities	**2 5%**	(11 1)%	6 8%	13 5%
Total amount recognised in STRGL				
- Amount	**127 0**	(36 4)	(74 2)	(86 5)
- Percentage of present value of scheme liabilities	**8 3%**	(2 4)%	(5 7)%	(8 0)%

15. Called up share capital

	2007 £m	2006 £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

	2007 £m	As restated 2006 £m
At start of period as previously stated	**57 9**	523 5
Prior year adjustment (see note 18)	**219 8**	200 5
At start of period as restated	**277 7**	724 0
Profit / (loss) for the financial period	**244 2**	(420 8)
Actuarial gain/(loss) recognised in the pension scheme	**127 0**	(36 4)
Tax arising on actuarial (gains)/ loss	**(38 1)**	10 9
At 4 February 2007	**610 8**	277 7

17. Reconciliation of movements in shareholders' funds

	2007 £m	As restated 2006 £m
Retained profit / (loss) for the period	**244 2**	(420 8)
Other recognised gains and losses	**88 9**	(25 5)
Net increase/(reduction) in shareholders' funds	**333 1**	(446 3)
Opening shareholders' funds as previously stated	**287 4**	753 0
Prior year adjustment (see note 18)	**219 8**	200 5
Opening shareholders funds as restated	**507 2**	953 5
Closing shareholders' funds	**840 3**	507 2

18 Prior year adjustment

The Profit and loss account was restated for 2006 due to the fact that in previous years, a fellow group company (Safeway Stores (Card Services) Limited) accounted for revenues and costs in relation to card handling services associated with retail sales made by Safeway Stores Limited The contract law position regarding such arrangements was clarified by a legal case – Debenhams Retail PLC v Revenue and Customs Commissioners, which examined a similar arrangement The Directors have reconsidered the accounting treatment previously adopted by the Company in light of this clarification and have concluded that it is more appropriate for the Company to record these revenues and costs, rather than Safeway Stores (Card Services) Limited, on the basis that the transactions are for the account of Safeway Stores Limited The revised accounting treatment has been adopted in these accounts and the adjusted figures for 2006 have been restated accordingly

The effect of this prior year adjustment is to increase the net assets of the Company as at 29 January 2006 to £507 2m (£287 4m previously stated) The impact on the profit and loss account is as follows

	As previously stated £m	Restatement £m	**As restated £m**
Turnover	6,286 5	25 8	**6,312 3**
Administration expenses	(177 8)	(6 5)	**(184.3)**
Operating loss post exceptional items	(561 1)	19 3	**(541 7)**
Loss for the period	(440 1)	19 3	**(420 8)**

19. Operating lease commitments

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

	Property 2007 £m	Property 2006 £m
Operating leases which expire		
Within one year	**0 5**	0 2
Within two to five years	**0 6**	2 2
After five years	**23 9**	26 6
	25 0	29 0

20. Guarantees and other financial commitments

The Company is party to a Group-wide 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