Safeway Stores Limited

Directors' report and financial statements

Registered number 746956

52 weeks ended 3 February 2008

Contents

Directors' report

The Directors have pleasure in presenting their report and the Company's audited financial statements for the 52 weeks ended 3 February 2008

Result and dividend

The profit for the period after taxation amounted to £250 0m (2007 £244 2m) The Directors do not propose a dividend (2007 £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 £324 7m (2007 £247 5m) for the year and turnover of £7,182 4m (2007 £6,391 2m)

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

Total turnover of £7,182 4m was an increase over the previous period – even though the prior period included a 53rd week

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 Overall, 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 Like for like sales per square foot grew by 7 7% in the period with an average of 2,242 extra customers per store, per week Customer spend per basket has also increased by 3 7% at £22 47 Smaller stores, defined as having less than 25,000 square feet of selling area performed particularly well, with sales densities up 9% 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 Sales per labour hour, a key measure for us, improving by 3 8% year on year giving £84 29 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

Principal risks and uncertainties

The Company is a 100% owned subsidiary, ultimately of Wm Morrison Supermarkets PLC and all risks and uncertainties are the same as the Group and are considered in the Group accounts

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 has lead to changes to branding, product ranging and systems, all of which will help make stores more appealing, efficient and responsive to customer needs

External and internal re-branding is now complete

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

Directors' report (continued)

Equal opportunities (continued)

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 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 (resigned 29 June 2007)

R Owen

R Pennycook

Richard Pennycook retires in accordance with the articles of association and, being eligible, offers himself for re-election

Payment to creditors

Supplier credit is an important factor in the success of the business The Company will, as previously acknowledged, work within the spirit and letter of the supermarkets' code of practice The Company will continue with its policy to ensure all payments are made within mutually agreed credit terms Where disputes arise the Company attempts to sort these out promptly and amicably to ensure delays in payment are kept to a minimum Creditors are now paid by Wm Morrison Supermarkets PLC and recharged to the Company Creditor days outstanding for Wm Morrison Supermarkets group at 3 February 2008 were 34 (2007 31)

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 of the Companies Act 1985, a resolution to re-appoint KPMG Audit Plc as auditors 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

3 October 2008

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 they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

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 52 weeks ended 3 February 2008 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of total recognised gains and losses 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 3 February 2008 and of its profit for the 52 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

3 October 2008

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 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

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

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	52 weeks ended 3 February 2008 £m	53 weeks ended 4 February 2007 £m
Turnover	1	7,182 4	6,391 2
Cost of sales		(6,859 1)	(6,220 8)
Gross operating profit		323 3	170 4
Other operatıng ıncome		7 0	3 0
Admınıstratıon expenses		(34 0)	(71 2)
Profit on dıvestment of assets	3	20 0	29 5
Operatıng profit		316 3	131 7
Income from shares ın group undertakıngs		-	115 4
Net finance ıncome	4	8 4	0 4
Profit on ordınary actıvıtıes before taxatıon	5	324 7	247 5
Tax on profit on ordınary actıvıtıes	6	(74 7)	(3 3)
Profit for the perıod		250 0	244 2

All recognısed gaıns and losses relatıng to the perıod and the precedıng perıod arıse from contınuıng operatıons and are shown ın the profıt and loss account or the statement of total recognısed gaıns and losses

Statement of total recognised gains and losses

	52 weeks ended 3 February 2008 £m	53 weeks ended 4 February 2007 £m
Profit for the financıal year	250 0	244 2
Actuanal (loss)/gaın recognısed ın the pensıon scheme (note 14)	(24 5)	127 0
Deferred tax thereon (note 14)	6.9	(38 1)
Total recognısed gaıns and losses relatıng to the financıal year	232.4	333 1

Safeway Stores Limited

52 weeks ended 3 February 2008

Balance sheet

3 February 2008

	Note	2008 £m	2007 £m
Fixed assets			
Tangible assets	7	**2,844 8**	2,974 2
Investment in subsidiaries	8	**355 1**	355 1
		3,199 9	3,329 3
Current assets			
Stocks	9	**107 3**	146 8
Debtors	10	**201 7**	41 4
		309 0	188 2
Creditors amounts falling due within one year	11	**(1,059 1)**	(1,236 3)
Net current liabilities		**(750 1)**	(1,048 1)
Total assets less current liabilities		**2,449 8**	2,281 2
Creditors amounts falling due after more than one year	12	**(1,153 3)**	(1,155 2)
Provisions for liabilities and charges	13	**(209 1)**	(195 1)
Net assets excluding pension liabilities		**1,087 4**	930 9
Pension liabilities	14	**(14 7)**	(90 6)
Net assets including pension liabilities		**1,072 7**	840 3
Capital and reserves			
Called-up share capital	15	**229 5**	229 5
Profit and loss account	16	**843 2**	610 8
Equity shareholders' funds	17	**1,072 7**	840 3

The accounting policies on pages 9 to 11 and notes on pages 14 to 24 form part of these financial statements

These financial statements were approved by the board of Directors on 3 October 2008 and were signed on its behalf by

R Pennycook
Director

Notes to the financial statements

1. Turnover

	52 weeks ended 3 February 2008 £m	53 weeks ended 4 February 2007 £m
Supermarket takıngs	**7,163 7**	6,373 2
Income from concessıons	**18 7**	17 1
Other turnover	**-**	0 9
Turnover	**7,182 4**	6,391 2

2. Staff numbers and costs

The average number of persons employed by the Company durıng the perıod was as follows

	Number of employees 2008	2007
Full tıme	**21,849**	21,470
Part tıme	**38,934**	35,228
	60,783	56,698

The aggregate payroll costs of these persons were as follows

	52 weeks ended 3 February 2008 £m	53 weeks ended 4 February 2007 £m
Wages and salarıes	**631 9**	574 3
Socıal securıty costs	**40 2**	39 8
Other pensıon costs	**24 5**	23 8
	696 6	637 9

Durıng the perıod no emoluments of the Dırectors have been allocated to Safeway Stores Lımıted Detaıls of the emoluments and accrued benefıts under defined benefıt pensıon schemes that the Dırectors receıved for the 52 week perıod to 3 February 2008 from the ultımate parent company Wm Morrıson Supermarkets PLC are dısclosed ın the accounts of that company

3. Profit on divestment of assets

The current period profit on divestment of assets of £20 0m (2007 £29 5m) relates to a small number of non-retail properties

4 Net finance income

	Note	**52 weeks ended 3 February 2008 £m**	53 weeks ended 4 February 2007 £m
Interest payable			
Short term bank loans and overdrafts repayable within five years		**-**	(0 3)
Finance charges payable on finance leases		**(0 2)**	(0 4)
Inter company loan interest		**(0 9)**	(3 3)
Other finance cost	13	**(4 7)**	(4 7)
		(5 8)	(8 7)
Interest receivable			
Bank interest receivable		**1 0**	1 0
Other finance income (note 14)		**13 2**	6 6
Interest capitalised on freehold and long leasehold developments		**-**	1 5
		14 2	9 1
Net finance income		**8 4**	0 4

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 on ordinary activities before taxation

	52 weeks ended 3 February 2008 £m	53 weeks ended 4 February 2007 £m
Profit on ordinary activities before taxation is stated after charging		
Depreciation of tangible fixed assets	**177 4**	153 2
Hire charges under operating leases		
- Plant and equipment	**0 6**	2 4
- Property	**19 3**	23 8
Auditors' remuneration	**0 1**	0 1

Fees paid to the auditors in relation to non-audit services were borne by the Wm Morrison Supermarkets PLC

6. Taxation

Analysis of charge in period

	52 weeks ended 3 February 2008 £m	53 weeks ended 4 February 2007 £m
Current taxation		
UK corporation tax at 30% (2007 30%)	**44 9**	6 4
Adjustment in respect of prior periods	**(19 7)**	0 1
Total current tax	**25 2**	6 5
Deferred taxation		
Origination / reversal of timing differences	**57 5**	27 8
Adjustment in respect of prior periods	**(8 0)**	(31 0)
Total deferred tax	**49 5**	(3 2)
Tax on profit on ordinary activities	**74 7**	3 3

Total deferred tax (excluding the movement reflected in the STRGL) includes a charge of £40 0m (2007 £16 0m) 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 3 February 2008 £m	53 weeks ended 4 February 2007 £m
Profit before tax	**324 7**	247 5
Tax on profit on ordinary activities at 30 % (2007 30%)	**97 5**	74 3
Expenses not deductible for tax purposes	**20 4**	10 8
Non-qualifying profit on disposals	**(7 6)**	(16 7)
Capitalised interest	**-**	(0 5)
Current year impact of tax rate change	**(7 9)**	-
Dividend income not taxed	**-**	(33 7)
Short term timing differences	**(57 5)**	(27 8)
Adjustments to tax charge in respect of previous periods	**(19 7)**	0 1
Resulting current tax charge for the period	**25 2**	6 5

7. Tangible fixed assets

	Land and buildings				
	Freehold £m	Long leasehold £m	Short leasehold £m	Plant, equipment and vehicles £m	Total £m
Cost					
At 4 February 2007	2,999 5	255 0	87 7	999 1	4,341 3
Reclassifications	(75 8)	38 8	12 1	24 9	-
Additions	78 3	4 3	1 3	21 9	105 8
Disposals	(116 5)	(12 0)	(4 2)	(17 9)	(150 6)
At 3 February 2008	**2,885 5**	**286 1**	**96 9**	**1,028 0**	**4,296 5**
Accumulated depreciation					
At 4 February 2007	447 6	56 1	40 8	822 6	1,367 1
Reclassifications	(5 1)	-	-	5 1	-
Charge for period	50 4	6 9	3 4	116 7	177 4
Disposals	(69 1)	(6 6)	(4 2)	(12 9)	(92 8)
At 3 February 2008	**423 8**	**56 4**	**40 0**	**931 5**	**1,451 7**
Net book value					
At 3 February 2008	**2,461 7**	**229 7**	**56 9**	**96 5**	**2,844 8**
At 4 February 2007	2,551 9	198 9	46 9	176 5	2,974 2

Freehold land included in the total cost above amounts to £1,196m (2007 £1,197m)

At 3 February 2008, the net book value of tangible fixed assets included £3 million of leased plant, equipment and vehicles (2007 £5 million) The depreciation charged in respect of leased plant, equipment and vehicles during the period amounted to £2 million (2007 £2 million)

There was nil interest capitalised in the period (2007 £2m) The cumulative amount of interest capitalised in the total cost above amounts to £150 million (2007 £150 million)

The classification of Property, Plant and Equipment (PPE) was reviewed as part of upgrading systems As a result of this review, it was deemed appropriate to reclassify certain amounts

8. Investments

	£m
Cost	
At 4 February 2007 and 3 February 2008	**458 0**
Provision for impairments	
At 4 February 2007 and 3 February 2008	**(102 9)**
Net book amount at 4 February 2007 and 3 February 2008	**355 1**

The provision of £102 9m (2007 £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

	2008 £m	2007 £m
Trade debtors	-	-
Amounts owed by group undertakings	183 6	25 8
Other debtors	3 0	-
Prepayments and accrued income	15 1	15 6
	201 7	41 4

The amounts owed by Group undertakings are non-interest bearing

11. Creditors amounts falling due within one year

	2008 £m	2007 £m
Bank loans and overdrafts	1 0	-
Trade creditors	46 7	70 5
Amounts owed to group undertakings	925 5	1,084 5
Corporation tax	44 5	6 4
Other creditors	5 0	5 0
Finance leases obligations	1 8	2 4
Accruals and deferred income	34 6	67 5
	1,059 1	1,236 3

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

	2008 £m	2007 £m
Amounts due to parent company	1,150 0	1,150 0
Term loans	1 9	2 0
Finance lease obligations	1 4	3 2
	1,153 3	1,155 2

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 4 February 2007	14 1	81 5	99 5	195 1
Charged to profit and loss account	-	14 0	9 5	23 5
Utilised in period	(0 8)	(13 4)	-	(14 2)
Reclassification	(4 0)	4 0	-	-
Unwinding of discount	-	4 7	-	4 7
At 3 February 2008	**9 3**	**90 8**	**109 0**	**209 1**

The deferred tax liability can be analysed as follows

	2008 £m	2007 £m
Accelerated capital allowances	**146 0**	108 6
Other timing differences	**(37 0)**	(9 1)
	109 0	99 5

Restructuring

The restructuring provision is for the continuing program of rationalising the distribution network

Property provisions

Property disposal provisions comprise petrol filling station decommissioning reserve, onerous leases provision and provisions for dilapidations on leased buildings

Decommissioning costs are incurred when the petrol filling station tanks have reached the end of their useful life or when they become redundant A provision is recognised for the present value of costs to be incurred to decommission the petrol tanks

Onerous leases relate to sublet properties Where the rent receivable on the properties is less than the rent payable, a provision based on present value of the net cost is made to cover the expected shortfall The lease commitments range from 1 to 65 years

Dilapidation costs are incurred to bring a leased building back to the condition to which it was originally leased The costs are due to the landlord on termination of the lease

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 provisional actuarial valuation was carried out at 1 April 2007 and was updated for FRS 17 purposes to 3 February 2008 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

	2008	2007	2006
Rate of increase in salaries	**5 00%**	4 45%	4 25-5 25%
Rate of increase in pensions in payment and deferred pensions to April 2005	**3 75%**	3 20%	3 00%
Rate of increase in pensions in payment and deferred pensions from April 2005	**2 50%**	2 40%	3 00%
Discount rate applied to scheme liabilities	**5 75%**	5 00%	4 75%
Inflation assumption	**3 75%**	3 20%	3 00%

Assumptions regarding future mortality experience are set based on advice in accordance with published statistics The current mortality table used is PNXA00 YOB LC with 115% scaling (2007 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	2008	2007	2006
Equities	**7 00%**	7 00%	7 00%
Bonds	**6 00%**	5 00%	4 25%
Gilts	**4 25-4 50%**	-	-
Property	**6 00%**	6 00%	7 00%
Active currency management assets	-	5 25%	4 50%
Cash	**5 50%**	5 25%	4 50%

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

	2008 £m	2007 £m	2006 £m
Equities	**788 0**	922 2	940 8
Bonds	**180 0**	178 3	177 1
Gilts	**470 9**	-	-
Property	**73 2**	225 1	53 3
Cash	**19 1**	84 3	61 4
Total market value of assets	**1,531 2**	1,409 9	1,232 6
Present value of scheme liabilities	**(1,551 6)**	(1,539 3)	(1,542 4)
Deficit in the scheme - pension liability	**(20 4)**	(129 4)	(309 8)
Related deferred tax asset	**5 7**	38 8	92 9
Net pension liability	**(14 7)**	(90 6)	(216 9)

Safeway Stores Limited

52 weeks ended 3 February 2008

The movement in the deficit during the period was as follows

Movement in the deficit during the period:	**2008 £m**	2007 £m	2006 £m
Deficit in the scheme at beginning of period	**(129 4)**	(309 8)	(304 4)
Current service cost	**(22 5)**	(22 7)	(32 1)
Contributions	**142 8**	69 7	67 2
Past service costs	**-**	(0 2)	(1 9)
Other finance income / (costs)	**13 2**	6 6	(2 2)
Actuarial (loss)/gain	**(24 5)**	127 0	(36 4)
Deficit in the scheme at the end of the period	**(20 4)**	(129 4)	(309 8)

Profit and loss account impact

The following amounts have been charged in arriving at operating profit in respect of pension costs	**2008 £m**	2007 £m	2006 £m
Current service cost	**(22 5)**	(22 7)	(32 1)
Past service cost	**-**	(0 2)	(1 9)
	(22 5)	(22 9)	(34 0)

The following amounts have been included in other finance income/(cost)	**2008 £m**	2007 £m	2006 £m
Expected return on pension scheme assets	**90 4**	81 0	66 0
Interest on pension scheme liabilities	**(77 2)**	(74 4)	(68 2)
	13 2	6 6	(2 2)

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	**2008 £m**	2007 £m	2006 £m
Actual return less expected return on scheme assets	**(84 1)**	61 9	131 5
Experience gains and losses arising on scheme liabilities	**54 8**	26 5	3 2
Changes in assumptions underlying the present value of scheme liabilities	**4 8**	38 6	(171 1)
Actuarial (loss)/ gain recognised in STRGL	**(24 5)**	127 0	(36 4)

History of experience gaıns and losses

The hıstory of experıence gaıns and losses ıs as follows	**2008 £m**	2007 £m	2006 £m	2005 £m	2004 £m
Dıfference between the expected and actual return on scheme assets					
- Amount	**(84 1)**	61 9	131 5	52 4	59 8
- Percentage of scheme assets	**(5 5)%**	4 4%	10 7%	5 2%	7 0%
Experıence gaıns and losses on scheme lıabılıtıes					
- Amount	**54 8**	26 5	3 2	(38 1)	-
- Percentage of present value of scheme lıabılıtıes	**3 5%**	1 7%	0 2%	2 9%	-
Effects to changes ın the demographıc and fınancıal assumptıons underlyıng the present value of the scheme lıabılıtıes					
- Amount	**4 8**	38 6	(171 1)	(88 5)	(146 3)
- Percentage of present value of scheme lıabılıtıes	**0 3%**	2 5%	(11 1)%	6 8%	13 5%
Total amount recognısed ın STRGL					
- Amount	**(24.5)**	127 0	(36 4)	(74 2)	(86 5)
- Percentage of present value of scheme lıabılıtıes	**(1 6)%**	8 3%	(2 4)%	(5 7)%	(8 0)%

Defined contrıbutıon pensıon scheme

Employees joınıng the Company after September 2000 are no longer elıgıble to gaın automatıc entry ınto the fınal salary pensıon scheme In June 2001 the Company establıshed a stakeholder pensıon scheme, open to all employees, to whıch the Company makes matchıng contrıbutıons of a maxımum of 5% of elıgıble earnıngs Pensıon costs for the defıned contrıbutıon scheme are as follows

	2008 £m	2007 £m
Stakeholder pensıon scheme	**(2)**	-
Lıfe assurance scheme	**-**	-
Total costs	**(2)**	-

15. Called up share capital

	2008 £m	2007 £m
Authorısed		
250,000,000 ordınary shares of £1 each	**250 0**	250 0
Allotted, called up and fully paıd		
229,536,776 ordınary shares of £1 each	**229 5**	229 5

16. Profit and loss account

	2008 £m	2007 £m
At start of period as previously stated	610 8	57 9
Prior year adjustment (see note 18)	-	219 8
At start of period as restated	610 8	277 7
Profit for the financial period	250 0	244 2
Actuarial (loss)/gain recognised in the pension scheme	(24 5)	127 0
Tax arising on actuarial loss/(gains)	6 9	(38 1)
At end of period	**843 2**	610 8

17. Reconciliation of movements in shareholders' funds

	2008 £m	2007 £m
Retained profit for the period	250 0	244 2
Other recognised gains and losses	(17 6)	88 9
Net increase in shareholders' funds	232.4	333 1
Opening shareholders' funds as previously stated	840.3	287 4
Prior year adjustment (see note 18)	-	219 8
Opening shareholders funds as restated	840 3	507 2
Closing shareholders' funds	**1,072 7**	840 3

18 Prior year adjustment

In the 2007 accounts, 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 was adopted in the 2007 accounts

19 Operating lease commitments

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

	Property 2008 £m	Property 2007 £m
Operating leases which expire		
Within one year	**0 5**	0 5
Within two to five years	**4 1**	0 6
After five years	**27 0**	23 9
	31 6	25 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