Safeway Stores Limited

Directors' report and financial statements

Registered number 746956

52 weeks ended 1 February 2009

Contents

Directors' report

The Directors have pleasure in presenting their report and the Company's audited financial statements for the 52 weeks ended 1 February 2009.

Result and dividend

The profit for the period after taxation amounted to £272.5m (2008: £250.0m). The Directors do not propose a dividend (2008: £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 £358.3m (2008: £324.7m) for the year and turnover of £8,118.2m (2008: £7,182.4m).

2008/9 was another good year for the Company – we made sure that we offered our customers great value everyday, in a rapidly deteriorating economy, whilst still investing for the long term future of the business.

We opened four new stores in the year, at Giffnock, Kidderminster, Northallerton and Blandford Forum. Two of these (Giffnock and Kidderminster) were replacements of existing stores and two (Blandford and Northallerton) were former Safeway stores which had been closed down since the acquisition due to their small size. Our decision to reopen them reflects our growing confidence in the operation of, and return from, smaller stores, and we have been pleased with their performance.

Turnover grew by £936m to £8.1bn, a 13% increase. Part of this increase was due to the very high prices of fuel seen in our forecourts business in the year caused by the worldwide spike in oil prices, and this will unwind again in the coming year as pump prices have come back down. We were pleased with our stores' sales growth, which was industry leading and broad based; like for like sales, the measure of growth in existing stores showed an increase of 11% on the prior period.

Principal risks and uncertainties

The list below sets out the most significant risks to the achievement of the Company's business goals. The list does not include all risks that the Company faces and it does not list the risks in any order of priority.

<u>Product quality and safety</u>

We recognise that the quality and safety of our products is of critical importance to us and that any failure in this regard would affect the confidence of our customers in us. We work with our suppliers to ensure the integrity of the products supplied. Also, as a manufacturer of food products, we have maintained strict standards and monitoring processes to manage the risks associated with food safety throughout our Group and its supply chain. Food hygiene practices are taken very seriously throughout our Group, and are monitored both through internal audit procedures and external bodies such as environmental health departments. We have well prepared procedures for crisis management in order to act quickly when required.

We are aware that if we fail or are perceived to fail to deliver, to our customers' satisfaction, the expected standards of quality and safety in our products this has the potential to impact on their loyalty to us. This in turn could adversely impact on our market share and our financial results.

Directors' report (continued)

<u>Business interruption</u>

Our distribution and systems infrastructures are fundamental to ensuring the normal continuity of trading in our stores. If a major incident occurred to this infrastructure or another key facility this would have a detrimental impact on the business' ability to operate effectively. To reduce the chances of this happening and also to reduce the impact of such an event if it were to happen, we have developed recovery plans and invested in the creation of a remote IT disaster recovery site.

The current challenging economic environment increases the risk that one of our key suppliers is adversely impacted by the recession and is unable to supply our stores. We mitigate the potential impact of this on our business by seeking several sources of supply for products wherever possible.

<u>Colleague engagement and retention</u>

The continued success of the Company relies heavily on the investment in the training and development of our colleagues. The Company's employment policies, remuneration and benefits packages are designed to be competitive, as well as providing colleagues with fulfilling career opportunities. The Company continually engages with colleagues across the business to ensure that we keep strengthening our team at every level.

Further risks and uncertainties have been identified in the group accounts which would impact the company that are being managed on a group basis. Details of these risks and uncertainties can be found in the group accounts.

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.

Directors' report (continued)

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.

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

The Directors who served during the period were:

M Gunter

R Owen (retired 1 February 2009)

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 PLC group at 1 February 2009 were 33 (2008: 34).

Directors' report (continued)

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

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG Audit Plc will therefore continue in office and a resolution to authorise the Directors to set their remuneration is to be proposed at the forthcoming Annual General Meeting.

By order of the board

G McMahon
Company Secretary

Registered office
Hilmore House
Gain Lane
Bradford
BD3 7DL

7 September 2009

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.

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 1 February 2009 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 7.

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 1 February 2009 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

7 September 2009

Chartered Accountants

Registered Auditor

Leeds

Accounting policies

Basis of preparation

These separate financial statements which have been prepared on the going concern basis, 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 financial statements 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.

Income from concessions and commissions

Income from concessions and commissions is based on the terms of the contract. Revenue collected on behalf of others is not recognised as turnover, other than the related commission.

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 profit and loss account 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.

Investment properties

Investment 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.

Capitalisation of interest

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

Investments

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

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.

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.

Share-based payments

Wm Morrison Supermarkets PLC, the ultimate holding company, issues equity-settled share-based payments to certain employees in exchange for services rendered by them.

The fair value of the share-based award is calculated at the date of grant and is expensed on a straight line basis over the vesting period based on an estimate of share options that will eventually vest. This takes into account movement of non-market conditions, being service conditions and financial performance, if relevant. The fair value of equity-settled awards granted is not subsequently revisited.

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

The cost of the share-based award relating to each subsidiary of the ultimate holding company is calculated based on an appropriate apportionment at the date of grant and recharged through intercompany. The charge to reserves is retained within Wm Morrison Supermarkets PLC's retained earnings.

Safeway Stores Limited

52 weeks ended 1 February 2009

Profit and loss account

	Note	52 weeks ended 1 February 2009 £m	52 weeks ended 3 February 2008 £m
Turnover	1	**8,118.2**	7,182.4
Cost of sales		**(7,736.8)**	(6,859.1)
Gross operating profit		**381.4**	323.3
Other operating income		**2.0**	7.0
Administration expenses		**(31.7)**	(34.0)
impairment of investment	8	**(5.5)**	
Profit on divestment of assets	3	**1.5**	20.0
Operating profit		**347.7**	316.3
Net finance income	4	**5.1**	8.4
Profit on ordinary activities before taxation	5	**352.8**	324.7
Tax on profit on ordinary activities	6	**(95.9)**	(74.7)
Profit for the period		**256.9**	250.0

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.

There is no difference between the profit on ordinary activities before tax and profit for the period as stated above and their historical cost equivalents.

Statement of total recognised gains and losses

	52 weeks ended 1 February 2009 £m	52 weeks ended 3 February 2008 £m
Profit for the financial year	**256.9**	250.0
Actuarial (loss)/gain recognised in the pension scheme (note 14)	**(97.1)**	(24.5)
Deferred tax thereon (note 14)	**27.1**	6.9
Total recognised gains and losses relating to the financial year	**186.9**	232.4

Safeway Stores Limited

52 weeks ended 1 February 2009

Balance sheet

1 February 2009

	Note	2009 £m	2008 £m
Fixed assets			
Tangible assets	7	**2,949.5**	2,844.8
Investment in subsidiaries	8	**349.6**	355.1
		3,299.1	3,199.9
Current assets			
Stocks	9	**179.1**	107.3
Debtors	10	**767.6**	201.7
		946.7	309.0
Creditors: amounts falling due within one year	11	**(1,622.3)**	(1,059.1)
Net current liabilities		**(675.6)**	(750.1)
Total assets less current liabilities		**2,623.5**	2,449.8
Creditors: amounts falling due after more than one year	12	**(1,150.4)**	(1,153.3)
Provisions for liabilities	13	**(192.4)**	(209.1)
Net assets excluding pension liabilities		**1280.7**	1,087.4
Pension liabilities	14	**(21.1)**	(14.7)
Net assets including pension liabilities		**1,259.6**	1,072.7
Capital and reserves			
Called-up share capital	15	**229.5**	229.5
Profit and loss account	16	**1,030.1**	843.2
Equity shareholders' funds	17	**1,259.6**	1,072.7

The accounting policies on pages 9 to 11 and notes on pages 15 to 25 form part of these financial statements.

These financial statements were approved by the board of Directors on 7 September 2009 and were signed on its behalf by:

R Pennycook

Director

Notes to the financial statements

1. Turnover

	52 weeks ended 1 February 2009 £m	52 weeks ended 3 February 2008 £m
Supermarket takings	**8,095.3**	7,163.7
Income from concessions	**22.9**	18.7
Turnover	**8,118.2**	7,182.4

2. Staff numbers and costs

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

	Number of employees	
	2009	2008
Full time	**22,512**	21,849
Part time	**39,982**	38,934
	62,494	60,783

The aggregate payroll costs of these persons were as follows:

	52 weeks ended 1 February 2009 £m	52 weeks ended 3 February 2008 £m
Wages and salaries	**679.1**	631.9
Social security costs	**43.8**	40.2
Other pension costs	**18.3**	24.5
	741.2	696.6

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 1 February 2009 from the ultimate parent company Wm Morrison Supermarkets PLC are disclosed in the accounts of that company.

3. Profit on divestment of assets

The current period profit on divestment of assets of £1.5m (2008: £20.0m) relates to a small number of non-retail properties.

4. Net finance income

	Note	**52 weeks ended 1 February 2009 £m**	52 weeks ended 3 February 2008 £m
Interest payable:			
Finance charges payable on finance leases		**(0.2)**	(0.2)
Inter company loan interest		**(0.6)**	(0.9)
Other finance cost		**(5.1)**	(4.7)
		(5.9)	(5.8)
Interest receivable:			
Bank interest receivable		**-**	1.0
Other finance income	14	**11.0**	13.2
		11.0	14.2
Net finance income		**5.1**	8.4

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 1 February 2009 £m	52 weeks ended 3 February 2008 £m
Profit on ordinary activities before taxation is stated after charging:		
Depreciation of tangible fixed assets	**142.7**	177.4
Hire charges under operating leases		
- Plant and equipment	**-**	0.6
- Property	**31.6**	25.0
Auditors' remuneration – audit fees	**0.1**	0.1

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

6. Taxation

Analysis of charge in period

	52 weeks ended 1 February 2009 £m	52 weeks ended 3 February 2008 £m
Current taxation		
UK corporation tax at 28% (2008: 30%)	**89.4**	44.9
Adjustment in respect of prior periods	**(9.0)**	(19.7)
Total current tax	**80.4**	25.2
Deferred taxation		
Origination / reversal of timing differences	**27.7**	57.5
Adjustment in respect of prior periods	**(12.2)**	(8.0)
Total deferred tax	**15.5**	49.5
Tax on profit on ordinary activities	**95.9**	74.7

Total deferred tax (excluding the movement reflected in the STRGL) includes a charge of £24.7m (2008: £40.0m) 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 (note 14).

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

	52 weeks ended 1 February 2009 £m	52 weeks ended 3 February 2008 £m
Profit before tax	**352.8**	324.7
Tax on profit on ordinary activities at 28% (2008: 30%)	**98.8**	97.5
Expenses not deductible for tax purposes	**15.9**	20.4
Non-qualifying profit on disposals	**0.8**	(7.6)
Current year impact of tax rate change	**-**	(7.9)
Short term timing differences	**(26.1)**	(57.5)
Adjustments to tax charge in respect of previous periods	**(9.0)**	(19.7)
Resulting current tax charge for the period	**80.4**	25.2

7. Tangible fixed assets

	Land and buildings				
	Freehold £m	Long leasehold £m	Short leasehold £m	Plant, equipment and vehicles £m	Total £m
Cost					
At 3 February 2008	2,885.5	286.1	96.9	1,028.0	4,296.5
Additions	137.9	2.7	3.1	90.3	234.0
Reclassifications	16.4	-	(16.4)	-	-
Transferred from parent company	11.8	-	3.9	1.9	17.6
Disposals	(3.0)	-	(2.7)	(4.7)	(10.4)
At 1 February 2009	**3,048.6**	**288.8**	**84.8**	**1,115.5**	**4,537.7**
Accumulated depreciation					
At 3 February 2008	423.8	56.4	40.0	931.5	1,451.7
Charge for period	52.5	6.7	2.6	80.9	142.7
Reclassifications	7.3	-	(7.3)	-	-
Transferred from parent company	-	-	0.1	0.2	0.3
Disposals	-	-	(2.7)	(3.8)	(6.5)
At 1 February 2009	**483.6**	**63.1**	**32.7**	**1,008.8**	**1,588.2**
Net book value					
At 1 February 2009	**2,565.0**	**225.7**	**52.1**	**106.7**	**2,949.5**
At 3 February 2008	2,461.7	229.7	56.9	96.5	2,844.8

Freehold land included in the total cost above amounts to £1,258m (2008: £1,196m).

At 1 February 2009, the net book value of tangible fixed assets included £1 million of leased plant, equipment and vehicles (2008: £3 million). The depreciation charged in respect of leased plant, equipment and vehicles during the period amounted to £2 million (2008: £2 million).

There was nil interest capitalised in the period (2008: £nil). The cumulative amount of interest capitalised in the total cost above amounts to £150 million (2008: £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 3 February 2008 and 1 February 2009	**458.0**
Provision for impairments	
At 3 February 2008 and 1 February 2009	**(108.4)**
Net book amount at 3 February 2008 and 1 February 2009	**349.6**

The provision of £108.4m (2008: £102.9m) relates to the company's investment in Safeway Stores (Ireland) Limited. Following a review of investment carrying values in the year, an additional £5.5m impairment has been made.

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

	2009 £m	2008 £m
Amounts owed by group undertakings	**750.0**	183.6
Other debtors	**-**	3.0
Prepayments and accrued income	**17.6**	15.1
	767.6	201.7

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

11. Creditors: amounts falling due within one year

	2009 £m	2008 £m
Bank loans and overdrafts	**60.1**	1.0
Trade creditors	**25.7**	46.7
Amounts owed to group undertakings	**1,400.0**	925.5
Corporation tax	**80.4**	44.5
Other creditors	**5.0**	5.0
Finance leases obligations	**1.0**	1.8
Accruals and deferred income	**50.1**	34.6
	1,622.3	1,059.1

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

	2009 £m	2008 £m
Amounts due to parent company	**1,150.0**	1,150.0
Term loans	**-**	1.9
Finance lease obligations	**0.4**	1.4
	1,150.4	1,153.3

13. Provisions for liabilities

	Restructuring £m	Property provisions £m	Deferred tax £m	Total £m
At 3 February 2008	9.3	90.8	109.0	209.1
Charged to profit and loss account	(8.3)	6.8	(9.2)	(10.7)
Utilised in period	(1.0)	(3.9)	-	(4.9)
Unwinding of discount	-	(1.1)	-	(1.1)
At 1 February 2009	**-**	**92.6**	**99.8**	**192.4**

The deferred tax liability can be analysed as follows:

	2009 £m	2008 £m
Accelerated capital allowances	**135.2**	146.0
Other timing differences	**(35.4)**	(37.0)
	99.8	109.0

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.

Restructuring provisions

Provisions are established for announced and ongoing restructuring programmes planned and controlled by management where there is an obligation to make changes to the scope of the business undertaken by the company or the manner in which business is conducted. The provision includes costs of severance to the affected employees, costs of property closure, and other direct expenditures not associated with ongoing activities.

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 2007 and was updated for FRS 17 purposes to 1 February 2009 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:

	2009	2008	2007
Rate of increase in salaries	**4.75%**	5.00%	4.45%
Rate of increase in pensions in payment and deferred pensions to April 2005	**3.50%**	3.75%	3.20%
Rate of increase in pensions in payment and deferred pensions from April 2005	**2.20%**	2.50%	2.40%
Discount rate applied to scheme liabilities	**6.25%**	5.75%	5.00%
Inflation assumption	**3.50%**	3.75%	3.20%

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 (2008: PNXA00 YOB LC and 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	**2009**	2008	2007
Equities	**7.00%**	7.00%	7.00%
Bonds	**6.00%**	6.00%	5.00%
Gilts	**4.25 – 4.50%**	4.25-4.50%	-
Property	**6.00%**	6.00%	6.00%
Active currency management assets	-	-	5.25%
Cash	**2.50%**	5.50%	5.25%

Safeway Stores Limited

52 weeks ended 1 February 2009

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:

	2009 £m	2008 £m	2007 £m
Equities	**474.2**	788.0	922.2
Bonds	**419.0**	180.0	178.3
Gilts	**420.7**	470.9	-
Property	**44.7**	73.2	225.1
Cash	**1.2**	19.1	84.3
Total market value of assets	**1,359.8**	1,531.2	1,409.9
Present value of scheme liabilities	**(1,389.1)**	(1,551.6)	(1,539.3)
Deficit in the scheme - pension liability	**(29.3)**	(20.4)	(129.4)
Related deferred tax asset	**8.2**	5.7	38.8
Net pension liability	**(21.1)**	(14.7)	(90.6)

The movement in the deficit during the period was as follows:

Movement in the deficit during the period:	**2009 £m**	2008 £m	2007 £m
Deficit in the scheme at beginning of period	**(20.4)**	(129.4)	(309.8)
Current service cost	**(17.3)**	(22.5)	(22.7)
Contributions	**94.5**	142.8	69.7
Past service costs	**-**	-	(0.2)
Other finance income	**11.0**	13.2	6.6
Actuarial (loss)/gain	**(97.1)**	(24.5)	127.0
Deficit in the scheme at the end of the period	**(29.3)**	(20.4)	(129.4)

Profit and loss account impact:

The following amounts have been charged in arriving at operating profit in respect of pension costs:	**2009 £m**	2008 £m	2007 £m
Current service cost	**(17.3)**	(22.5)	(22.7)
Past service cost	**-**	-	(0.2)
	(17.3)	(22.5)	(22.9)

The following amounts have been included in other finance income/(cost):	**2009 £m**	2008 £m	2007 £m
Expected return on pension scheme assets	**98.5**	90.4	81.0
Interest on pension scheme liabilities	**(87.5)**	(77.2)	(74.4)
	11.0	13.2	6.6

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:	**2009 £m**	2008 £m	2007 £m
Actual return less expected return on scheme assets	**(338.3)**	(84.1)	61.9
Experience gains and losses arising on scheme liabilities	**(3.7)**	54.8	26.5
Changes in assumptions underlying the present value of scheme liabilities	**244.9**	4.8	38.6
Actuarial (loss)/ gain recognised in STRGL	**(97.1)**	(24.5)	127.0

History of experience gains and losses

The history of experience gains and losses is as follows:	**2009 £m**	2008 £m	2007 £m	2006 £m	2005 £m
Difference between the expected and actual return on scheme assets					
- Amount	**(338.3)**	(84.1)	61.9	131.5	52.4
- Percentage of scheme assets	**(24.9)%**	(5.5)%	4.4%	10.7%	5.2%
Experience gains and losses on scheme liabilities					
- Amount	**(3.7)**	54.8	26.5	3.2	(38.1)
- Percentage of present value of scheme liabilities	**(0.3)%**	3.5%	1.7%	0.2%	2.9%
Effects to changes in the demographic and financial assumptions underlying the present value of the scheme liabilities					
- Amount	**244.9**	4.8	38.6	(171.1)	(88.5)
- Percentage of present value of scheme liabilities	**17.6%**	0.3%	2.5%	(11.1)%	6.8%
Total amount recognised in STRGL					
- Amount	**(97.1)**	(24.5)	127.0	(36.4)	(74.2)
- Percentage of present value of scheme liabilities	**(7.0)%**	(1.6)%	8.3%	(2.4)%	(5.7)%

Defined contribution pension scheme

Employees joining the Company after September 2000 are no longer eligible to gain automatic entry into the final salary pension scheme. In June 2001 the Company established a stakeholder pension scheme, open to all employees, to which the Company makes matching contributions of a maximum of 5% of eligible earnings. Pension costs for the defined contribution scheme are as follows:

	2009 £m	2008 £m	2007 £m
Stakeholder pension scheme	**(1)**	(2)	-
Total costs	**(1)**	(2)	-

15. Called up share capital

	2009 £m	2008 £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

	2009 £m	2008 £m
At start of period	**843.2**	610.8
Profit for the financial period	**256.9**	250.0
Actuarial (loss)/gain recognised in the pension scheme	**(97.1)**	(24.5)
Tax arising on actuarial loss	**27.1**	6.9
At end of period	**1,030.1**	843.2

17. Reconciliation of movements in shareholders' funds

	2009 £m	2008 £m
Retained profit for the period	**256.9**	250.0
Other recognised gains and losses	**(70.0)**	(17.6)
Net increase in shareholders' funds	**186.9**	232.4
Opening shareholders funds	**1,072.7**	840.3
Closing shareholders' funds	**1,259.6**	1,072.7

18. Operating lease commitments

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

	Property 2009 £m	Property 2008 £m
Operating leases which expire:		
Within one year	**4.1**	0.5
Within two to five years	**2.9**	4.1
After five years	**26.7**	27.0
	33.7	31.6

19. Capital commitments

	2009 £m	2008 £m
Contracts placed for future capital expenditure not provided in the financial statements	**19**	16

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. Principal subsidiaries

Subsidiary	Principle activity	Status	% equity holding
Safeway (Overseas) Limited	Grocery retailing	Active	100
Stalwart Investments Limited	Property Investment	Active	100
Freehold Investments Limited	Property Investment	Active	100
English Real Estates PLC	Property Investment	Dormant	100
Safeway Stores(Ireland) Limited	Grocery retailing	Dormant	100

22. 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