Company Registration No. 00746956

SAFEWAY STORES LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE 52 WEEKS ENDED 3 FEBRUARY 2019

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SAFEWAY STORES LIMITED

COMPANY INFORMATION

Directors	T Strain J Burke G Mills A Charnock
Secretary	J Burke
Company number	00746956
Registered office	Hilmore House 71 Gain Lane Bradford West Yorkshire England BD3 7DL
Independent auditors	PricewaterhouseCoopers LLP Central Square 29 Wellington Street Leeds West Yorkshire England LS1 4DL

SAFEWAY STORES LIMITED

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SAFEWAY STORES LIMITED

STRATEGIC REPORT

FOR THE 52 WEEKS ENDED 3 FEBRUARY 2019

The Directors present the Strategic report and the Company's audited financial statements for the period ended 3 February 2019. These financial statements are prepared under United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101).

The term 'Company' refers to Safeway Stores Limited and the terms 'Group' and 'Morrisons' refers to Wm Morrison Supermarkets PLC and its subsidiary undertakings.

Principal activities and future developments
The principal activity of the Company is the operation of retail supermarket stores under the Morrisons brand and associated activities within the United Kingdom. As a subsidiary of Wm Morrison Supermarkets PLC the Company will benefit from the Group's commitment to developing its customer proposition, facilitating the Company's successful performance in future.

Results and dividends
The Company's revenue decreased by 0.6% to £8,307m (2018: £8,359m). Sales excluding fuel were £6,404m down 0.9% year-on-year (2018: £6,464m). Fuel sales increased by 0.4% to £1,903m due to increased volumes (2018: £1,895m).

The results for the Company show a profit for the financial period of £167m (2018: £205m). This is after £2m of property profits recognised in the period (2018: £5m profit), a £4m net charge relating to impairment and provisions for onerous contracts (2018: £14m net credit), £5m credit for pension exceptional items (2018: £5m credit), other exceptional items of £1m credit (2018: £11m charge) and a £12m credit for net pension interest (2018: £7m). For more detail on these items, see notes 4 and 5 in the financial statements.

The Directors did not authorise an interim dividend (2018: £0.652 per share). The interim dividend authorised in the 53 weeks ended 4 February 2018 absorbed £150m of shareholders' funds.

As at 3 February 2019 the Company had net assets of £1,069m (2018: £859m).

Strategy update
The concurrent Fix, Rebuild and Grow phases of the Group's turnaround strategy are progressing well. They are built around six priorities, five ways of working, and ambitions for our four sets of stakeholders, all driven by our long-held convictions: *that we still have a relative catch-up opportunity, can always keep improving for* customers, and execution is key.

The six priorities are the drivers of our growth. Being more competitive, serving customers better, local solutions, popular and useful services, simplifying and speeding up, and making core supermarkets strong again encapsulate our many opportunities, and we made good progress with each during the year.

Our ways of working are customers first, teamwork, freedom in our framework, listening and responding, and improving our operations. They inform all our actions and behaviour.

Our stakeholder ambitions - for customers, colleagues, suppliers and shareholders - ensure progress is balanced and broad, and allow us to assess and measure success.

We again made strong progress for stakeholders. Debt remains low, and both the balance sheet and cash flow are very strong.

Our supermarkets continued to improve: for example, in own brand, the '*Morrisons Makes it*' range, the Morrisons price list, local solutions, store format, and productivity. This helped another increase in our measure of customer satisfaction, now up 20 percentage points since the start of 2015/16. In addition, we opened three new stores, which are proving successful in the communities they serve, and also inspiring us with new ideas for the whole estate.

Strategy update (continued)
We still have significant opportunities to continue building a broader, stronger Morrisons that is more popular and accessible for customers. Those opportunities span sales, costs, productivity and every aspect of improving the customer shopping trip, and give us confidence that a meaningful, sustainable turnaround remains in our own hands.

Growth will continue to be capital light, but also driven by investment, particularly in digital capability, Fresh Look and new supermarkets, distribution and technology infrastructure. We will continue to adhere strictly to the principles of our capital allocation framework, and will review the uses of free cash flow each year.

Six priorities update

1. To be more competitive

British food retail is highly competitive, and this year it became increasingly so as the year progressed. After a strong summer, helped by favourable weather and the football World Cup, there was a change in consumer behaviour in the autumn, as uncertainty around Brexit became more personal and customers became more cautious. We listened hard to customers and responded quickly, and continued to invest in the shopping trip, providing consistently great value and good quality in the run-up to Christmas. Sales responded and improved towards the end of 2018 for the Group.

As we more fully integrate manufacturing and retail, we are developing *'Morrisons Makes it'* as a standalone brand. This is great value, authentically British, fresh food, made by our skilled team of food makers. We have *'Morrisons Makes it'* fresh items across all of Market Street.

Customers are becoming more familiar with how these and their other favourites are part of an evolving Morrisons price list: a basket of the most popular items that customers regularly buy, where we are working hard to consistently ensure the best possible value. For example, at Christmas, despite some broader grocery industry inflation, we again kept the price of our customers' basket of the most popular items the same as last year.

2018 was also a very busy year for own-brand innovation. Always listening to and following customers closely, we have developed several successful new ranges, including *'Naturally Wonky'*, our brand of low-priced, good quality fruit and vegetables; *'Savers'*, our lowest-priced range; *'V Taste'*, our new vegan range; *'Little Kitchen'*, a new healthy range for children; two more new healthy ranges, *'Counted'* and *'Fresh Ideas'*; and *'Nutmeg'*, our clothing brand, has been extended into womenswear. In addition, as we stated at our interim results, we have increased the number of items we direct source, so cutting out the need for middlemen and enabling both closer relationships with suppliers and lower prices for customers.

As we become more competitive for customers, the work of our team of expert food makers and shopkeepers is increasingly being recognised. In addition to several awards during the first half – including Own Label Retailer of the Year at the Grocer Food & Drink Own Label Awards – in the second half, we won Supermarket of the Year at the Retail Industry Awards, Retailer of the Year at the Food and Farming Industry Awards, and Multiple Beer Retailer and Multiple Wine Retailer of the Year at the Drinks Retailing Awards. In addition, individual product successes included recognition for the quality and innovation of our Christmas products, with our *'Best'* All Butter Deep Filled Mince Pies, *'Free From'* Mince Pies and *'Best'* Poinsettia Hand Decorated Christmas Cake all winning both the Good Housekeeping and BBC Good Food taste tests.

2. To serve customers better

The key measure of our turnaround progress, and how we are serving customers better, is customer satisfaction. Our measure is an online survey questionnaire, completed by thousands of our customers every week, rating key measures such as checkout queues, availability and the friendliness of our colleagues. It has shown consistent improvement, with our overall customer satisfaction score up another eight percentage points during the year, and now up 20 percentage points since the start of 2015/16 for the Group. During the second half, the busiest weeks ahead of Christmas and New Year showed the best year-on-year scores, with customers noting the improvements in colleague friendliness and checkout experience especially.

Six priorities update (continued)

2. To serve customers better (continued)
During the period the Group launched the Morrisons More app, allowing customers to collect and redeem Morrisons loyalty points digitally. The app is easy to use, avoids paper coupons and plastic loyalty cards, and allows customers to receive personalised offers and useful recipes direct to their mobile phones.

3. Find local solutions

Local had another strong year and is becoming increasingly popular with customers.

Many local ideas are now being rolled out across Morrisons. Our initiative allowing customers to select individual local eggs started in 60 stores in June and is already in more than 330 for the Group, meaning Morrisons is increasing its support of local farmers nationwide. Other examples include Squeaky Cheese, made from local Yorkshire milk, which was first seen at our food maker roadshow in June, was in 40 local stores in July, and is now in 75 stores.

Some stores and areas lend themselves especially well to local solutions, and we have been incorporating this into our new store and Fresh Look programmes. Similarly, Fresh Look refit stores with particular local speciality food makers nearby have been welcoming hundreds of new local products into stores. Examples include Prime Seafoods, based less than a mile from our Peterhead store in Aberdeenshire; Devonshire Apple Juice, sourced and pressed near our store in Plymouth; and English Lakes Ice Cream in Kendal, Cumbria.

Overall, sales of local suppliers' products for the Group were up by another 27% during the year, and have now almost doubled over the last three years.

Our team are also improving the regional events offer for customers, and better targeting important customer groups. For example, Hogmanay sales were up 4.5% year on year for the Group, and St David's Day sales were up 23% for the Group. For Ramadan, we expanded our offer and introduced 55 new special-buy lines, and Group sales were up 13%. We have also identified around over 50 Morrisons stores popular with students, and this year attended nearly 30 freshers' fairs, raising awareness of offers such as our 'More for Students Club'. Group sales at our autumn student event were up 5.2% year on year. In addition, we again increased the range and space allocated to seasonal items in stores popular with tourists and holidaymakers, and grew sales well ahead of the rest of the estate in those stores during the summer.

4. Develop popular and useful services

There has been significant growth in useful services, helping make Morrisons supermarkets more popular destinations for customers.

Since the start of the programme with partners such as Amazon, Doddle and Timpson, we have introduced over 1,000 service points for customers at our stores in the Group, including another 50 Doddle locations during the second half. As a Group, we also now have over 60 car and tyre change services in our car parks, with partners including We Buy Any Car, Car Park Valeting and Autoglass. We expect this number to increase substantially next year, including a plan to install electric car charging points at up to 100 stores across the Group.

5. To simplify and speed up the organisation

As we simplify and speed up, productivity improves, which itself creates more opportunity to simplify and speed up. This has become a virtuous circle, which we expect to generate further significant cost savings for many years to come.

For example, at our interim results we highlighted how automated in-store ordering was enabling the introduction of a new forecasting system. In the second half, we further improved our end-to-end distribution infrastructure: as well as some of the one-off improvements to the network, we also invested in enhancements in goods-in and goods-out capacity at our depots, and created additional capacity in existing depots.

Six priorities update (continued)

6. To make core supermarkets strong again

During the year the Group completed around 60 further Fresh Look store improvements, bringing the total to almost 300 since the start of the programme.

The Fresh Look refits and extensions, together with our new stores, are providing innovation and learnings that we can apply across Morrisons. As stated in recent announcements, this has enabled new developments in areas such as Fruit & Veg, Café, Nutmeg, Home & Leisure, Toys, Garden and Party to be rolled out across the estate.

More broadly, we also have some new and innovative ideas on store design and layout. Our very high footfall Wood Green store in London is our first to be designed around a food market and food-to-go. These and other new ideas are inspiring how we think about developing new formats across our estate.

Key judgements and assumptions
Judgements and assumptions made in these financial statements are reviewed each reporting period. In particular consideration of impairment to the carrying value of assets has been made and we have concluded that the individual carrying values of stores and other operating assets were supported either by value in use or by market value.

Principal risks and uncertainties
From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks and uncertainties of the Group and are not managed separately. Accordingly, the principal risks and uncertainties of the Group, which include those of the Company, are disclosed on pages 24 and 25 of the Wm Morrison Supermarkets PLC Annual Report and Financial Statements 2018/19, which does not form part of this report.

Key performance indicators (KPIs)
The KPIs of the Company are integrated with those of the Group and are not managed separately. The KPIs of the Group, which include those of the Company, are disclosed on pages 1,5,18,19 and 20 of the Wm Morrison Supermarkets PLC Annual Report and Financial Statements 2018/19, which does not form part of this report.

Non-financial information statement
The Corporate Responsibility Report for the Morrisons Group, which does not form part of this report, details the disclosure requirements for the new Non Financial Reporting requirements of the Companies Act 2006.

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

J Burke
Director
22 October 2019

DIRECTORS' REPORT

FOR THE 52 WEEKS ENDED 3 FEBRUARY 2019

The Directors present their Annual Report and Company's audited Financial Statements for the 52 weeks ended 3 February 2019. These financial statements are prepared under United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101).

The term 'Company' refers to Safeway Stores Limited and the terms 'Group' and 'Morrisons' refers to Wm Morrison Supermarkets PLC and its subsidiary undertakings.

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

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

T Strain
J Burke
G Mills
A Charnock

The Company is ultimately wholly owned by Wm Morrison Supermarkets PLC and none of the Directors who held office at the period end held any interest in the shares of the Company or any of its subsidiaries. The interest in the shares of the ultimate parent undertaking held by Directors of that company is disclosed in the Wm Morrison Supermarkets PLC Annual Report and Financial Statements 2018/19, which does not form part of this report.

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

Directors' and Officers' liability insurance
The Group maintains insurance cover for the protection of Directors and senior management from personal liabilities and costs which may arise in the course of fulfilling their duties. This insurance was in force during the 52 weeks ended 3 February 2019 and to the date of approval of the Company financial statements.

Disabled persons
Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment within the company's continues and that the appropriate training is arranged. It is the policy of the company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Employee involvement
The Company's policy is to consult and discuss with employees, through unions, staff councils and at meetings, matters likely to affect employees' interests.

Information of matters of concern to employees is given through information bulletins and reports which seek to achieve a common awareness on the part of all employees of the financial and economic factors affecting the group's performance.

There is no employee share scheme at present, but the Directors are considering the introduction of such a scheme as a means of further encouraging the involvement of employees in the Company's performance.

Going concern

The Directors' assessment of the Company's ability to continue as a going concern has taken into consideration the effect that the current economic climate has on the Group.

Notwithstanding net current liabilities of £1,615m (2018: £1,813m), these financial statements have been prepared on a going concern basis.

The Company is a subsidiary undertaking of Wm Morrison Supermarkets PLC. Wm Morrison Supermarkets PLC has indicated its intention to provide such financial support as may be necessary for the foreseeable future and at least twelve months from the date of signing the financial statements and, in particular, not to demand repayment of amounts currently outstanding.

Internal control

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

Corporate and social responsibility

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

Employment policy

The Group'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 and local, regional and national consultative committees. The Group recognises a number of trade unions and has a partnership agreement with USDAW. The Group is committed to involving employees in the business through a policy of regular communication and consultation. The Group encourages employee involvement in the financial performance of the business through participation in either the Morrisons Group profit share scheme, management bonus plan or the savings related share option schemes.

Equal opportunity

The Group is an equal opportunities employer. Equal opportunities are offered to all regardless of race, colour, nationality, ethnic origin, sex (including gender reassignment), marital or civil partnership status, disability, religion or belief, sexual orientation, age or trade union membership.

The Group gives full and fair consideration to applications for employment made by people with disabilities. The policy is to offer equal opportunity to all disabled candidates and employees who have a disability or become disabled in any way during the course of their employment. A full assessment of the individual's needs is undertaken and reasonable adjustments are made to the work environment or practices in order to assist those with disabilities. All candidates and employees are treated equally in respect of recruitment, promotion, training, pay and other employment policies and conditions. All decisions are based on relevant merits and abilities.

Financial risk management

The financial risk management and policies of the Company are consistent with those of the Group. For further details, see pages 99 and 100 of the Wm Morrison Supermarkets PLC Annual Report and Financial Statements 2018/19, which does not form part of this report.

Political donations

There were no political donations (2018: none) for the period and the Company did not incur any political expenditure (2018: £nil).

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

Company law requires the Directors to prepare financial statements for each financil 52 week period. Under that law the Directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 'Reduced Disclosure Framework', and applicable law). Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit and loss of the Company for that period. In preparing the financial statements, the Directors are required to:

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

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

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

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

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

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

J Burke
Director
22 October 2019

SAFEWAY STORES LIMITED

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF SAFEWAY STORES LIMITED

Report on the audit of the financial statements

Opinion

In our opinion, Safeway Stores Limited's financial statements:

- give a true and fair view of the state of the Company's affairs as at 3 February 2019 and of its profit for the 52 week period (the 'period') then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 'Reduced Disclosure Framework', and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the Balance sheet as at 3 February 2019; the Income statement, the Statement of comprehensive income, the statement of changes in equity for the period then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

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

We have nothing to report in the respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the Company's trade, customers, suppliers and the wider economy.

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

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

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

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

Strategic report and Directors' report
In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the period ended 3 February 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit
Responsibilities of the Directors for the financial statements
As explained more fully in the Statement of Directors' Responsibilities, set out on page 7, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Andrew Paynter (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
23 October 2019

SAFEWAY STORES LIMITED

INCOME STATEMENT

FOR THE 52 WEEKS ENDED 3 FEBRUARY 2019

	Note(s)	52 Weeks ended 3 February 2019 £m	53 Weeks ended 4 February 2018 £m
Revenue	**2**	8,307	8,359
Cost of sales		(8,009)	(8,026)
Cost of sales before exceptional items		(7,988)	(8,026)
Adjustments for:			
Other exceptional items	**4**	(21)	-
Gross profit		298	333
Administrative expenses		(124)	(122)
Administrative expenses before exceptional items		126	130
Adjustments for:			
Impairment and provision for onerous contracts	**4, 9**	4	(14)
Pension exceptional items	**4, 19**	(5)	(5)
Other exceptional items	**4**	(1)	11
Loss on disposal and exit of properties		2	5
Other operating income		37	33
Operating profit	**4**	213	249
Interest receivable and similar income	**5**	12	7
Interest receivable and similar income before exceptional items		-	-
Adjustments for:			
Net pension interest	**5, 19**	12	7
Interest payable and similar expenses	**6**	(2)	(2)
Profit on ordinary activities before taxation		223	254
Tax on profit on ordinary activities	**7**	(56)	(49)
Profit for the financial period		167	205

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

The notes on pages 15 to 40 form part of these financial statements.

SAFEWAY STORES LIMITED

STATEMENT OF COMPREHENSIVE INCOME

FOR THE 52 WEEKS ENDED 3 FEBRUARY 2019

	Note	52 Weeks ended 3 February 2019 £m	53 Weeks ended 4 February 2018 £m
Profit for the financial period		167	205
Other comprehensive income/(expenses):			
Items that will not be reclassified to profit or loss:			
Remeasurement of defined benefit pension schemes	**19**	52	191
Tax in relation to components of other comprehensive income		(9)	(37)
Other comprehensive income, net of tax		43	154
Total comprehensive income for the period		210	359

The notes on pages 15 to 40 form part of these financial statements.

SAFEWAY STORES LIMITED

BALANCE SHEET

AS AT 3 FEBRUARY 2019

	Note	2019 £m	2018 £m
Fixed assets			
Property, plant and equipment	**9**	2,625	2,629
Investment property	**10**	11	12
Investments	**11**	350	350
		2,986	2,991
Current assets			
Stock	**13**	214	221
Debtors	**14**	1,137	701
Pension asset due after more than one year	**19**	525	463
Cash and cash equivalents		26	28
		1,902	1,413
Creditors: amounts falling due within one year	**15**	(3,453)	(3,107)
Current tax liabilities		(64)	(119)
		(3,517)	(3,226)
Net current liabilities		(1,615)	(1,813)
Total assets less current liabilities		1,371	1,178
Other financial liabilities greater than one year	**16**	(70)	(96)
Deferred tax liabilities	**17**	(193)	(175)
Provisions for liabilities	**18**	(39)	(48)
		(302)	(319)
Net assets		1,069	859
Capital and reserves			
Called-up share capital	**20**	230	230
Retained earnings		839	629
Total shareholders' funds		1,069	859

The notes on pages 15 to 40 form part of these financial statements. The financial statements on pages 11 to 40 were approved by the Board of Directors and authorised for issue on 22 October 2019 and are signed on its behalf by:

T Strain
Director
Company Registration No. 00746956

STATEMENT OF CHANGES IN EQUITY

FOR THE 52 WEEKS ENDED 3 FEBRUARY 2019

	Note	Called-up share capital £m	Retained earnings £m	Total shareholders' funds £m
Balance at 30 January 2017		230	420	650
Profit for the period		-	205	205
Other comprehensive income:				
Remeasurement of defined benefit pension scheme	19	-	191	191
Tax relating to other comprehensive income		-	(37)	(37)
Total comprehensive income for the period		-	359	359
Dividends	8	-	(150)	(150)
Balance at 4 February 2018		230	629	859
Profit for the period		-	167	167
Other comprehensive income:				
Remeasurement of defined benefit pension scheme	19	-	52	52
Tax relating to other comprehensive income		-	(9)	(9)
Total comprehensive income for the period		-	210	210
Balance at 3 February 2019		230	839	1,069

The notes on pages 15 to 40 form part of these financial statements.

1 Accounting policies

Company information

Safeway Stores Limited is a private company, limited by shares and incorporated in the United Kingdom under the Companies Act 2006 (Registration number 00746956). The Company is domiciled in the United Kingdom and its registered address is Hilmore House, 71 Gain Lane, Bradford, West Yorkshire, BD3 7DL, United Kingdom.

Basis of preparation

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

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

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

The going concern basis of preparation takes into account an undertaking from the parent company of its intention to provide such financial support as may be necessary for the foreseeable future and at least twelve months from the date of signing the financial statements and, in particular, not to demand repayment of amounts currently outstanding.

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

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

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

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

d) IAS 1, 'Presentation of financial statements' (paragraph 38) – comparative information requirements in respect of:

(i) paragraph 79(a)(iv) of IAS 1;

(ii) paragraph 73(e) of IAS 16, 'Property, plant and equipment'; and

(iii) paragraph 76 and 79(d) of IAS 40 'Investment property'.

e) The following paragraphs of IAS 1, 'Presentation of financial statements':

(i) 10(d), (statement of cash flows);

(ii) 111 (cash flow statement information); and

(iii) 134-136 (capital management disclosures);

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

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

1 Accounting policies **(Continued)**

h) The following requirements of IAS 24, 'Related party disclosures':

(i) paragraph 17 – key management compensation; and

(ii) the requirements to disclose related party transactions entered into with two or more wholly owned members of a group.

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

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are the same for the Company as they are for the Group. For further details, see the Wm Morrison Supermarkets PLC Annual Report and Financial Statements 2018/19 , which does not form part of this report.

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

New accounting standards, amendments and interpretations adopted by the Company
The following new standards, interpretations and amendments to standards are mandatory for the first time for the financial period ended 3 February 2019:

- IFRS 9 'Financial Instruments'
- IFRS 15 'Revenue from Contracts with Customers'
- IFRIC 22 'Foreign Currency Transactions and Advance Consideration'

Amendments to the following standards:

- IAS 40 'Transfers of Investment Property'
- IFRS 2 'Classification and Measurement of Share-based Payment Transactions'
- IFRS 4 'Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts'
- Clarifications to IFRS 15 'Revenue from Contracts with Customers'
- Improvements to IFRSs (2014-2016)

The Company has considered the above new standards, and amendments to published standards and has concluded that, except for IFRS 9 and IFRS 15, they are either not relevant to the Company or they do not have a significant impact on the Company's financial statements.

1 Accounting policies **(Continued)**

New accounting standards, amendments and interpretations adopted by the Company (continued)

IFRS 9 'Financial Instruments'

IFRS 9 'Financial Instruments' replaces IAS 39 'Recognition and Measurement' and is applicable to financial assets and financial liabilities. Transition to IFRS 9 for the Company took place on 5 February 2018 and the Company has adopted the standard using the modified retrospective transition approach, which does not require restatement of prior year comparatives.

IFRS 9 introduced three key changes when compared to IAS 39 relating to:

- new requirements for the classification and measurement of financial assets and financial liabilities;
- a new model for recognising provisions for impairment of financial assets based on expected credit losses; and
- revised hedge accounting treatment by aligning hedge accounting more closely to risk management objectives.

Upon adoption of IFRS 9, there has been no change in the classification of financial assets. All trade receivables of the Company and amounts owed by Group undertakings continue to be held at amortised cost under IFRS 9. For financial liabilities, the classification and measurement requirements under IFRS 9 are similar to those under IAS 39.

IFRS 9 also introduced a forward-looking expected credit loss model for recognising provisions in respect of financial assets and receivables. This, in theory, could result in earlier recognition of credit losses, than the incurred loss model of IAS 39. The Company has updated its accounting policy for the establishment of provisions against trade receivables to reflect the lifetime expected credit loss, consistent with the simplified approach under IFRS 9. However, the impact of using the expected credit loss model on the financial statements of the Company is immaterial.

As a result of the assessment, the Company concluded that IFRS 9 has an immaterial impact on the financial statements. Accordingly, no adjustment to the opening balance sheet at 5 February 2018 has been recognised.

IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 'Revenue from Contracts with Customers' was published in May 2014 and has become effective for the Company from the period beginning 5 February 2018. The standard replaces IAS 18 'Revenue', IAS 11 'Construction contracts' and related interpretations. Transition to IFRS 15 for the Company took place on 5 February 2018 and the Company has adopted the modified retrospective transition approach which does not require restatement of prior year comparatives.

The standard introduces a five-step approach to the timing and recognition of revenue, based on performance obligations in customer contracts. Under IFRS 15, revenue should only be recognised when a customer obtains control of goods or services and has the ability to direct the use and obtain the benefits from the goods or services. It applies to all contracts with customers, except those in the scope of other standards.

During the 53 weeks ended 4 February 2018, the Company assessed the impact of IFRS 15 on the financial statements and concluded that IFRS 15 had an immaterial impact on the existing accounting policies for revenue recognition on the basis that the majority of the Company's transactions (volume and value) are for sale of goods to customers where the transfer of control is clear (at the till). Accordingly, no adjustment to the opening balance sheet at 5 February 2018 has been recognised.

1 Accounting policies **(Continued)**

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

Revenue recognition
Revenue is recognised when the Group has a contract with a customer and a performance obligation has been satisfied, at the transaction price allocated to that performance obligation.

The Company does not adjust any of the transaction prices for the time value of money due to the nature of the Company's transactions being completed shortly after the transaction is entered into with the customer.

a) Sale of goods in-store and fuel
For revenue from the sale of goods in-store and from fuel, the transaction price is the value of goods net of returns, colleague discounts, coupons, vouchers, 'More' points earned in-store, and the free element of multi-save transactions. It comprises cash from customers and excludes VAT. Sale of fuel is recognised net of VAT and 'More' points earned on fuel. Revenue is recognised when the customer obtains control of the goods.

b) Other revenue
Other revenue includes income from concessions and commissions based on the terms of the contract. Revenue collected on behalf of others is not recognised as revenue, other than the related commission. Sales are recorded net of VAT and intra-group transactions.

c) 'More' points
For 'More' points, the fair value of the points is the value to the customer of the points issued, adjusted for factors such as the expected redemption rate. The Company continues to assess the appropriateness of the expected redemption rates against actual redemptions. The fair value is recognised once the performance obligation has been satisfied. The fair value is treated as a deferral from revenue, and is deferred until the rewards are redeemed by the customer in a future sale, as at the point of issue the customer has a material right to acquire additional goods and services (but at a future date).

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

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

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

Other operating income
Other operating income primarily consists of income not directly related to the operating of supermarkets and mainly comprises rental income from investment properties and income generated from recycling of packaging. Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease term. Details of rental income from investment property are provided in note 10.

1 Accounting policies **(Continued)**

Profit/loss on disposal and exit of properties
Profit/loss from the disposal and exit of properties includes gains and losses on disposal of property assets and other costs incurred by the Company following a decision to dispose, close or no longer purchase properties. Where the Company disposes of a property, this disposal transaction is accounted for upon unconditional exchange of contracts. Gains and losses are determined by comparing sale proceeds with the asset's carrying amount and are presented net of costs associated with disposal.

Administrative expenses
Administrative costs for the Company are borne by Morrisons. To the extent these costs are considered to relate to specific stores held within the Group these are recharged from Morrisons to the Company.

Borrowing costs
All borrowing costs are recognised in the Company's profit for the period on an effective interest rate basis except for interest costs that are directly attributable to the construction of buildings and other qualifying assets, which are capitalised and included within the initial cost of the asset. Capitalisation commences when both expenditure on the asset and borrowing costs are being incurred, and necessary activities to prepare the asset for use are in progress. In the case of new stores, this is generally once planning permission has been obtained. Capitalisation of interest ceases when the asset is ready for use. Interest is capitalised at the effective rate incurred on borrowings before taxation of 5% (2018: 5%). Capitalised interest is included within interest paid in cash flow from operating activities.

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

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

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

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

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

1 Accounting policies **(Continued)**

Uncertain tax positions
The Company uses in-house tax specialists, professional advisers and relevant previous experience to assess tax risks, and considers IFRIC 23 *'Accounting for Uncertainties in Income Taxes'*, which provides guidance on the determination of taxable profit and tax bases, when making its assessment.

The Company recognises a tax provision when it is considered probable that there will be a future outflow of funds to a tax authority. Provisions are measured based on the single most likely outcome for each item unless there is a range of possible outcomes for a particular item where a weighted average measurement is more appropriate. Provisions are included in current liabilities.

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

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

Freehold land	0%
Freehold buildings	2.5%
Leasehold land	Over the lease period
Leasehold buildings	Over the shorter of lease period and 2.5%
Plant, equipment, fixtures and vehicles	10% to 33%

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

Investment properties
Property held to earn rental income is classified as investment property. Investment property is recorded at cost less accumulated depreciation and any recognised impairment loss.

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

Freehold land	0%
Freehold buildings	2.5%

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

Impairment of non-financial assets
Group policy is to test non-financial assets annually for impairment or if events or changes in circumstances indicate that the carrying amount may not be recoverable.

Testing is performed at the level of a cash generating unit (CGU) in order to compare the CGU's recoverable amount against its carrying value. An impaired CGU is written down to its recoverable amount, which is the higher of value in use or its fair value less costs to dispose. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

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

1 Accounting policies (Continued)

Stock

Stock represents goods for resale and is measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale. Cost is calculated on a weighted average basis and comprises purchase price, and other directly attributable costs, including import duties and other non-recoverable taxes, reduced by promotional funding and commercial income and a provision for estimated losses relating to shrinkage and obsolescence.

Losses relating to shrinkage in stores are based on historical losses verified by physical stock counts conducted by an independent third party. Provision is made for obsolete and slow moving items.

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.

Lessee accounting – operating leases

Rental payments are taken to profit for the period 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.

Lessee accounting – finance leases

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

Sale and leaseback on properties

The accounting treatment of the sale and leaseback depends upon the substance of the transaction (by applying the lease classification principles described above). For sale and operating leasebacks, the assets are sold at fair value, and accordingly the profit or loss from the sale is recognised immediately in the Statement of comprehensive income. When forming the conclusion of operating lease classification, consideration was given to the key lease classification indicators of IAS 17. The leases are typically for a 25 year period. On making this assessment the Directors reviewed the remaining useful lives for these particular properties and concluded they are significantly longer than the period of the lease. As disclosed in note 9 a review of the useful economic lives of each of the property, plant and equipment categories has been performed in the period with no changes made. Other key indicators considered in reaching an operating lease classification were the present value of the minimum lease payments and the ownership clauses in the contracts upon expiry of the lease.

Provisions

Provisions are created where the Group has a present obligation as a result of a past event, where it is probable that it will result in an outflow of economic benefits to settle the obligation and where it can be reliably measured.

For petrol filling station decommissioning costs this is when the filling station is first constructed and for dilapidations on leased buildings, when the lease is entered into. Provisions for onerous leases other onerous contracts are recognised when the Group believes that the unavoidable costs of meeting the obligations exceed the economic benefits expected to be received under the contract. The amounts provided are based on the Group's best estimate of the least net cost of exit. Where material, these estimated outflows are discounted to net present value using a pre-tax rate that reflects current market assumptions. The unwinding of this discount is recognised as a financing cost in the income statement.

1 Accounting policies **(Continued)**

Retirement benefits

The Company operates a defined benefit scheme (the 'CARE scheme') and was party to the Morrison Group Retirement saver plan ('RSP') which is a cash balance scheme during the 52 weeks ended 3 February 2019. 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.

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

Pension scheme assets are valued at market rates. Pension scheme obligations are an estimate of the amount required to pay the benefits that employees have earned in exchange for current and past service cost, assessed and discounted to present value using the assumptions shown in note 19.

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

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

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

Amounts shown within note 19 are before any adjustments for deferred taxation.

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

Retirement Saver Plan

The Morrisons Group also operated a cash balance scheme (the 'RSP') that the Company's employees could join. This scheme provided a lump sum benefit based upon a defined proportion of an employee's earnings each year. This scheme was defined benefit in nature and is now closed to future accrual.

The Morrisons Group accounts for the RSP as a defined benefit scheme. The RSP is a Group Plan as defined in IAS 19. The Morrisons Group has chosen not to put in place a contractual agreement or stated policy for sharing across its group the net defined benefit cost, which is recognised in the individual financial statements of the sponsoring employer for the plan (Wm Morrison Supermarkets PLC). Each of the other group entities, including those within the Company, recognises a cost equal to its contribution payable for the period.

Payments by the Company to the RSP are charged to profit for the period as they arise.

1 Accounting policies **(Continued)**

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

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

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

Financial instruments
Financial assets and liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

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

Cash and cash equivalents includes debit and credit card payments made by customers which clear the bank shortly after the sale takes place.

Amounts owed to/by Group undertakings
Amounts owed to/by Group undertakings are initially recorded at fair value, which is generally the proceeds received. They are subsequently carried at amortised cost. The amounts are non-interest bearing and repayable on demand.

Trade and other debtors
Trade and other debtors are initially recognised at fair value, which is generally equal to face value, and subsequently held at amortised cost. Provision is recognised based on lifetime expected credit losses with the charge being included in administrative expenses.

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

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

2 Revenue

	2019 £m	2018 £m
Sale of goods in-store	6,404	6,464
Total sales excluding fuel	6,404	6,464
Fuel	1,903	1,895
Total revenue	8,307	8,359

All revenue is derived from contracts with customers.

3 Employees and Directors

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

	2019	2018
Stores	42,356	44,528

Employee benefit expense for the Company during the period:

	2019 £m	2018 £m
Wages and salaries	585	631
Social security costs	41	44
Other pension costs	35	32
Share-based payments	5	7
	666	714

The share-based payments cost was recharged from Wm Morrison Supermarkets PLC in respect of shares it has granted to employees of the Company. The fair value assumptions, method of accounting and financial models used in determining the share-based payment charge are consistent with those adopted in the Wm Morrison Supermarkets PLC Annual Report and financial statements. The charge in the period in respect of the Company was £5m (2018: £7m).

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

Where the Directors are also Directors of the ultimate parent company, Wm Morrison Supermarkets PLC, details of the emoluments and accrued benefits under the defined benefit pension schemes that the Directors received for the 52 weeks ended 3 February 2019 are disclosed in the Annual Report and Financial Statements of that company.

4 Operating profit

	2019 £m	2018 £m
Operating profit for the period is stated after charging/(crediting):		
Employee costs (note 3)	666	714
Depreciation of property, plant and equipment (note 9)	151	144
Net impairment charge/(reversal) (note 9)	4	(16)
Provision for onerous contracts	-	2
Profit on disposal and exit of properties	(2)	(5)
Pension exceptional items	(5)	(5)
Other exceptional items - in cost of sales	21	-
Other exceptional items - in adminstrative expenses	(1)	11
Operating lease rentals payable	16	31
Operating lease sub-receipts	(2)	(2)
Value of stock expensed	6,605	6,563

In line with the accounting policy, the Company performed its annual CGU review for impairment and onerous contracts. The net impact on the income statement in relation to impairment and provision for onerous contracts is £4m net charge which reflects fluctuations in store level performance. It comprised £19m reversal of previous impairments on certain cash generating units, offset by a £23m impairment charge in relation to others (2018: £14m net credit representing £16m net impairment credit, offset by £2m charges on onerous contracts).

Pension exceptional items of £5m relates to guaranteed minimum pensions, being the estimated cost of equalising guaranteed minimum pension benefits for men and women, following a ruling by the High Court in October 2018. For further details see note 19. The £5m credit in the 53 weeks ended 4 February 2018 related to the Company's allocation of back dated contributions in respect of the Morrisons Group's new defined contribution scheme which was established in the period and is the auto enrolment scheme for the Group.

Other exceptional items include a £21m charge recognised in cost of sales and a £1m credit recognised in administrative expenses. These are detailed below:

- £15m in relation to increased stock provisioning recognised in cost of sales. During the 52 weeks ended 3 February 2019, the Company continued to automate its ordering systems. This lead to operational changes and additional information regarding stock levels, and a change in the methodology for estimating stock provisions.
- A £6m charge, relating to one-off costs associated with improvements to the Company's distribution network capacity and support the accelerated roll out of wholesale supply.
- A net credit of £1m, primarily in relation to previously recognised provisions for restructuring (£3m credit), and other costs incurred including in relation to legal cases in respect of historic events (£2m charge). The credit recognised in respect of restructuring costs represents the difference between the expected costs recognised based on estimates and the actual cost incurred. In the 53 weeks ended 4 February 2018, other exceptional items in administrative expenses included restructuring costs of £11m primarily relating to the restructuring of store management teams, and legal costs incurred in relation to cases in respect of historic events.

Fees for the auditors of £10,000 (2018: £10,000) in relation to audit services were paid by Wm Morrison Supermarkets PLC on the Company's behalf. No fees were paid in relation to non-audit services (2018: £nil).

5 Interest receivable and similar income

	2019 £m	2018 £m
Net pension interest income (note 19)	12	7

6 Interest payable and similar charges

	2019 £m	2018 £m
Unwinding of discount on provisions (note 18)	2	1
Other interest payable	-	1
	2	2

7 Tax on profit

	2019 £m	2018 £m
Current tax		
UK corporation tax on profits for the current period	47	50
Adjustments in respect of prior periods	-	(2)
	47	48
Deferred tax		
Current period	9	4
Adjustment in respect of prior periods	-	(3)
	9	1
Total tax charge for the period	56	49

7 Tax on profit (Continued)

The tax rate for both periods is equal to the standard rate of corporation tax in the UK of 19% (2018: 19.16%). The differences are explained below:

	2019 £m	2018 £m
Profit before taxation	223	254
Expected tax charge based on a corporation tax rate of 19.00% (2018: 19.16%)	42	49
Effect of expenses not deductible for tax purposes	4	4
Effect of change in UK corporation tax rate	(2)	(6)
Current tax adjustments in respect of prior periods	-	(2)
Deferred tax adjustments in respect of prior periods	-	(3)
Fixed asset differences	14	10
Transfer pricing adjustments	(2)	(3)
Total tax charge for the period	56	49

Factors affecting current and future tax charges
Legislation to reduce the standard rate of corporation tax to 17% from 1 April 2020 was included in Finance Act 2016. Accordingly, deferred tax has been provided at 17% depending upon when the temporary difference is expected to reverse (2018: 17%).

There have not been any further announcements of changes to the rate of corporation tax after 1 April 2020.

8 Dividends

	2019 per share	2018 per share	2019 £m	2018 £m
Amounts recognised as distributions to equity holders:				
Interim dividend paid	-	0.65	-	150

9 Property, plant and equipment

	Freehold land	Freehold buildings	Leasehold land and buildings	Plant, equipment, fixtures and vehicles	Total
	£m	£m	£m	£m	£m
Cost					
At 5 February 2018	1,088	2,009	351	576	4,024
Additions	18	18	2	161	199
Reclassifications	3	9	(12)	-	-
Disposals	(3)	(7)	(3)	(23)	(36)
Transfers to other Group companies	(17)	(12)	(23)	(55)	(107)
Fully written down assets	-	(14)	-	(10)	(24)
At 3 February 2019	1,089	2,003	315	649	4,056
Accumulated depreciation and impairment					
At 5 February 2018	57	964	170	204	1,395
Depreciation charge for the period	-	53	6	92	151
Impairment charge	4	4	-	15	23
Impairment reversal	(7)	(6)	(5)	(1)	(19)
Reclassifications	-	8	(8)	-	-
Disposals	-	(4)	(3)	(22)	(29)
Transfers to other Group companies	-	(6)	(21)	(39)	(66)
Fully written down assets	-	(14)	-	(10)	(24)
At 3 February 2019	54	999	139	239	1,431
Net book amount					
At 3 February 2019	1,035	1,004	176	410	2,625

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

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

The totals above include a cost of £169m (2018: £215m) and depreciation of £91m (2018: £109m) in relation to property, plant and equipment held under finance lease.

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

Impairment

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

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

- use the actual cash flows for each store in the current year;
- allocate a proportion of the Company's central costs to each store on an appropriate basis;
- project each store's cash flows over the next three years by applying forecast sales and cost growth assumptions;
- project cash flows beyond year three for the life of each store by applying a long term growth rate; and
- discount the cash flows using a pre-tax rate of 9.0% (2018: 9.0%). The discount rate takes into account the Company's weighted average cost of capital.

'Fair value less costs of disposal' is estimated by the Directors based on their knowledge of individual stores, the markets they serve and likely demand from grocers or other retailers. This assessment takes into account the continued low demand from major grocery retailers for supermarket space, when assessing rent and yield assumptions on a store by store basis. In certain years, the Directors also obtain store level valuations prepared by independent valuers to aid this assessment. When assessing the assumptions at individual store level the Directors take into account the following factors:

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

Having applied the methodology and assumptions, the Company has recognised a net impairment charge of £4m (£19m impairment reversal offset by £23m impairment charge) during the year (2018: net reversal of £16m). This movement reflects fluctuations from store level trading performance and local market conditions.

At 3 February 2019, the assumption to which the value in use calculation is most sensitive to is the discount and growth rates. The Group has estimated a charge of +/-1% in either would result in a change of impairment of c.£11m.

10 Investment property

	£m
Cost	
At 5 February 2018	19
Transfers to other Group companies	(1)
At 3 February 2019	18
Accumulated depreciation	
At 5 February 2018 and 3 February 2019	7
Net book amount	
At 3 February 2019	11

Included in other operating income is £3m (2018: £2m) of rental income generated from investment properties. The fair value of investment properties at the end of the period was £13m (2018: £14m). Investment properties are valued by independent surveyors on a vacant possession basis using observable inputs (fair value hierarchy level 2).

11 Investments

	2019 £m	2018 £m
Cost and net book value	350	350

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

12 Related undertakings

In accordance with section 409 of the Companies Act 2006, a full list of related undertakings including the country of incorporation, the principal activity and the effective percentage of equity owned as at 3 February 2019 is detailed below. The registered address of all undertakings is Hilmore House, Gain Lane, Bradford, BD3 7DL unless otherwise stated.

Related undertaking	Country of incorporation	Interest (%)	Principal activity
English Real Estates Limited	United Kingdom	100	Dormant
Evermere Limited	United Kingdom	100	Dormant
Freehold Investments Limited	Jersey	100	Property investment
J3 Property Limited	United Kingdom	100	Dormant
Lease Securities Limited	United Kingdom	100	Property investment
Maypole Limited	Guernsey	100	Property investment
Oldwest Limited	United Kingdom	100	Dormant
Safeway (Overseas) Limited	United Kingdom	100	Grocery retailing
Safeway Pension Trustees Limited	United Kingdom	100	Dormant
Safeway Properties Limited	United Kingdom	100	Holding company
Safeway Stores (Gibraltar) Pension Trustees Limited	Gibraltar	51	Pension Trustees
Safeway Stores (Ireland) Limited	United Kingdom	100	Dormant
Stalwart Investments Limited	Jersey	100	Property investment
The Medical Hall Limited	Gibraltar	100	Pharmaceutical licence holder
Velligrist Limited	United Kingdom	100	Dormant

The registered address of Freehold Investments Limited and Stalwart Investments Limited is Lime Grove House, Green Street, St Helier, Jersey, JE1 2ST.

The registered address of Maypole Limited is 1st & 2nd floors, Elizabeth House, Les Ruettes Brayes, St Peter Port, Guernsey, GY1 4LX.

The registered address of The Medical Hall Limited and Safeway Stores (Gibraltar) Pension Trustees Limited is 5 Secretary's Lane, Gibraltar GX11 1AA.

13 Stock

	2019 £m	2018 £m
Finished goods	214	221

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

14 Debtors

	2019 £m	2018 £m
Amounts owed by Group undertakings	1,088	695
Prepayments and accrued income	47	6
	1,137	701

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

Provision for impairment of amounts owed by Group undertakings has been assessed based on expected credit losses. For amounts owed by Group undertakings, as all balances are repayable on demand, and the Company expects to be able to recover the outstanding intercompany balance if demanded, no provision has been recognised.

15 Creditors: amounts falling due within one year

	2019 £m	2018 £m
Amounts due to fellow Group undertakings	3,329	3,006
Net obligations under finance leases	26	39
Accruals and deferred income	76	41
Other creditors	22	21
	3,453	3,107

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

Net obligations under finance leases of £26m (2018: £39m) are payable within one year, unsecured and are repayable on demand.

16 Other financial liabilities greater than one year

	2019 £m	2018 £m
Net obligations under finance leases	70	96

Net obligations under finance leases are payable in two to five years, are non-interest bearing and are unsecured.

17 Deferred tax liabilities

The movements in deferred tax assets and liabilities during the period are shown below.

	Property, plant and equipment	Pensions	Other	Total
	£m	£m	£m	£m
Deferred tax liability/(asset) at 30 January 2017	100	44	(7)	137
Charged/(credited) to income statement for the period	2	(2)	1	1
Charged to other comprehensive income	-	37	-	37
Deferred tax liability/(asset) at 5 February 2018	102	79	(6)	175
Charged to income statement for the period	6	2	1	9
Charged to other comprehensive income	-	9	-	9
Deferred tax liability/(asset) at 3 February 2019	108	90	(5)	193

IAS 12 'Income Taxes' permits the offsetting of balances within the same tax jurisdiction. All of the deferred tax assets were available for offset against deferred tax liabilities.

	2019	2018
	£m	£m
Deferred tax liabilities	198	181
Deferred tax assets	(5)	(6)
	193	175

18 Provisions for liabilities

	Onerous lease provisions	Other property provisions	Total
	£m	£m	£m
At 5 February 2018	38	10	48
Utilised/released in period	(7)	(4)	(11)
Unwinding of discount	2	-	2
At 3 February 2019	33	6	39

Onerous lease provisions relate to sublet and vacant properties, with commitments ranging from one to 55 years. The provision is revised regularly in response to market conditions. The utilisation of provisions relates to the ongoing utilisation of onerous leases.

Other property provisions include a petrol filling station decommissioning reserve for the cost of decommissioning petrol tanks, and provisions for dilapidations on leased buildings, for the cost of restoring assets to their original condition.

19 Pension asset

a) Defined benefit schemes

The Company operates a defined benefit retirement scheme ('the Scheme') providing benefits based on a benefit formula that depends on factors including the employee's age and number of years of service. The Scheme provides pension benefits based on either the employee's compensation package or career average revalued earnings (CARE). The Scheme is not open to new members and was closed to future accrual on 5 July 2015. The Retirement Saver Plan ('RSP') is a cash balance scheme, which provides a lump sum benefit based upon a defined proportion of an employee's annual earnings in each year, which is revalued each year in line with inflation subject to a cap. The RSP has closed to future accrual in September 2018 (see note 19g).

Balance sheet	**2019 £m**	**2018 £m**
Fair value of scheme assets	3,285	3,371
Present value of obligations	(2,760)	(2,908)
Net pension asset	525	463

Income statement:	**2019 £m**	**2018 £m**
Past service cost (guaranteed minimum pension) (note 19h)	5	-
Administrative costs paid by schemes	1	1
Curtailment gain	(1)	(1)
Net interest on net pension asset – finance income	(12)	(7)
Total income credited to income statement	(7)	(7)
Statement of comprehensive income:		
Remeasurements in other comprehensive income - credit	(52)	(191)

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

b) Scheme assets

Assets of the Scheme generate returns and ultimately cash that is used to satisfy the Scheme's obligations. They are not necessarily intended to be realised in the short term. The Trustees of the Scheme invest in different categories of asset and with different allocations amongst those categories, according to the investment principles of the Scheme.

Currently, the investment strategy of the Scheme is to maintain a balance of growth assets (equities and diversified growth funds), income assets (comprising credit investments and corporate bonds) and protection assets (comprising an LDI portfolio and buy-in policy), with a weighting towards protection assets. There are no direct investments in the Morrison Group's own shares or property occupied by any member of the Morrisons Group.

19 Pension asset **(Continued)**

b) Scheme assets (continued)

Liability driven investments (LDI)

Part of the investment objective of the Schemes is to minimise fluctuations in the Schemes' funding levels due to changes in the value of the liabilities. This is primarily achieved through the use of 'liability driven investments' (LDI), whose main goal is to align movements in the value of assets with movements in the schemes' liabilities arising from changes in market conditions. The Schemes have hedging that broadly covers interest rate movements and inflation movements, as measured on the Trustees' funding assumptions which use a discount rate derived from gilt yields.

LDI primarily involves the use of government bonds (including re-purchase agreements). Derivatives such as interest rate and inflation swaps are also used. There are no annuities or longevity swaps.

The value of the LDI assets is determined based on the latest market bid price for the underlying investments, which are traded daily on liquid markets.

Annuity policies

During the 53 weeks ended 4 February 2018, the Safeway Scheme entered into a buy-in policy that provides insurance for a proportion of the pensioner population. The policy pays an income to the scheme that is exactly equal to the benefits paid to the insured population. This has removed all investment, interest rate, inflation and longevity risks in respect of these members.

Diversified growth funds

The Scheme employs diversified growth funds in order to reduce its exposure to equity markets. These funds typically invest in a range of public and private market assets, including equities, bonds, commodities, property and other assets.

Credit funds

The Scheme invests in credit funds in order to improve returns available from its bond assets. These funds typically lend directly to corporations on a senior secured basis, rather than purchasing debt issued in the public markets.

	2019 £m	2018 £m
Equities (quoted)	320	356
Diversified growth funds (quoted)	-	377
Credit funds (unquoted)	281	316
Corporate bonds (quoted)	338	269
Liability driven investments (unquoted)	1,607	1,633
Scottish Limited Partnership (unquoted)	52	53
Cash (quoted)	22	31
Annuity policies (unquoted)	665	336
	3,285	3,371

19 Pension asset **(Continued)**

b) Scheme assets (continued)
The movement in the fair value of the Scheme's assets over the period is as follows:

	2019 £m	2018 £m
Fair value of scheme assets at start of period	3,371	3,315
Interest income	90	92
Return on scheme assets excluding interest	(60)	97
Employer contributions	3	7
Benefits paid	(118)	(139)
Administrative expenses	(1)	(1)
Fair value of scheme assets at end of period	3,285	3,371

Scottish Limited Partnership
The Morrisons Group has previously entered into a pension funding partnership structure. In January 2013, Wm Morrison Supermarkets Plc made a contribution to the CARE Schemes of £60m. On the same day, the Scheme invested £60m in the Wm Morrison Property Partnership ('SLP') as a limited partner. The SLP holds properties which have been leased back to the Morrisons Group in return for rental income payments. The Morrisons Group retains control over these properties, including the flexibility to substitute alternative properties.

As a partner in the SLP, the Scheme is entitled to receive a fixed distribution of £4m pa from the profits of the SLP for 20 years from 2013, subject to certain conditions. The distributions shared with the Scheme are reflected in the Company financial statements as Employer pension contributions.

In July 2015, the SLP was amended to enhance the security provided to the Scheme by including additional properties. The terms of these additional properties are such that the Scheme has no entitlement to receive a distribution.

The Scheme's interest in the SLP increases the net pension asset on an IAS 19 accounting basis because the investments held by the Scheme qualify as an asset for Company IAS 19 purposes.

c) Present value of obligations
The movement in the defined benefit obligation over the period was as follows:

	2019 £m	2018 £m
Defined benefit obligation at start of period	(2,908)	(3,057)
Past service cost (guaranteed minimum pension)	(5)	-
Interest expense	(78)	(85)
Actuarial gain - demographic assumptions	92	-
Actuarial gain - financial assumptions	20	94
Curtailment gain	1	1
Benefits paid	118	139
Defined benefit obligation at end of period	(2,760)	(2,908)

The duration of the defined benefit obligation at 3 February 2019 is 24 years.

19 Pension asset **(Continued)**

d) Significant actuarial assumptions

The following are the principal actuarial assumptions at the reporting date:

Financial assumptions

	2019	2018
Discount rate applied to Scheme liabilities (% p.a.)	2.8%	2.8%
Inflation assumption (RPI) (% p.a.)	3.2%	3.3%

Life expectancies

Longevity in years from age 65 for current pensioners	**2019**	**2018**
Male	22.2	22.6
Female	23.5	24.1
Longevity in years from age 65 for current members aged 45		
Male	23.9	24.8
Female	25.4	26.5

During the 53 weeks ended 4 February 2018, the Company updated the methodology for deriving the discount rate assumption used in valuing the pension scheme liabilities. This methodology has also been used in the IAS 19 valuation at 3 February 2019. The Company believes that this approach better reflects expected yields on high quality corporate bonds over the duration of the Company's pension schemes, as required by IAS 19. The previous methodology estimated the discount rate with reference to both corporate bond and gilt yields. The updated method uses high quality corporate bond yields where available. At very long durations, where there are no high quality corporate bonds, the yield curve is extrapolated based on available corporate bond yields of mid to long duration.

Assumptions regarding future mortality experience are set based on actuarial advice and in accordance with published statistics. The mortality tables used for the 52 weeks ended 3 February 2019 are the S2PMA/S2PFA-Heavy tables (males/females) based on year of birth with a scaling factor of 100% applied to the mortality rates in the Safeway Scheme, with CMI 2017 projections and a long-term rate of improvement of 1.5% p.a. For the 53 weeks ended 4 February 2018, the Company used the S2PMA/ S2PFA-Heavy mortality tables (males/females) based on year of birth with a scaling factor of 100% applied to the mortality rates in the Safeway Scheme, with CMI 2015 projections and a long-term rate of improvement of 1.5% p.a.

Related actuarial assumptions (expressed as weighted averages)	**2019**	**2018**
Rate of increase of pensions in payment: RPI inflation capped annually at either 2.5% p.a. or 5% p.a. (% p.a.)	2.1% / 3.1%	2.1% / 3.1%
Rate of increase of pensions in deferment: CPI inflation capped over the deferment period at either 2.5% p.a. or 5% p.a. (% p.a.)	n/a / 2.1%	n/a / 2.2%
CPI inflation (% p.a.)	2.1%	2.2%

19 Pension asset **(Continued)**

e) Sensitivity analysis

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

		2019 £m	2018 £m
Discount rate applied to Scheme obligations	+/- 0.1% pa	-/+ 65	-/+ 70
Inflation assumption (RPI and associated assumptions)	+/- 0.1% pa	+/- 60	+/- 60
Longevity	+ one year	+ 115	+ 120

f) Funding

The Scheme is funded by Safeway Limited and its subsidiaries.

The latest full actuarial valuation was carried out as at 1 April 2016 for the Scheme. The valuation indicated that, on the agreed funding basis, the Scheme had a surplus of £100m. As a result of the funding position there are currently no deficit contributions payable. As such there is no "minimum funding requirement" in force.

The results of the 2016 actuarial valuations for the Scheme has been used and updated for IAS 19 'Employee benefits' purposes for the period to 4 February 2018 by a qualified independent actuary. The Scheme exposes the Group to inflation risk, interest rate risk, market investment risk and longevity risk.

At 3 February 2019, the scheme in surplus has been disclosed within the assets on the balance sheet. The Company has taken legal advice with regard to the recognition of a pension surplus and also recognition of a minimum funding requirement under IFRIC 14 'IAS 19 – The limit on a defined benefit asset, minimum funding requirement and their interaction'. This advice concluded that recognition of a surplus is appropriate on the basis that the Group has an unconditional right to a refund of a surplus. In respect of the Scheme, a refund is available on the basis that paragraph 11(b) of IFRIC 14 applies. Amendments to the current version of IFRIC 14 are currently being considered. The legal advice received by the Group has concluded that the above accounting treatment should not be affected by the current exposure draft to IFRIC 14.

The current best estimate of Group contributions to be paid to the defined benefit schemes for the accounting period commencing 4 February 2019 is £7m (2018: £6m).

g) Closure of the Morrisons Retirement Saver Plan (RSP)

Following the conclusion of a consultation process, the Group announced the closure of the RSP to future accrual in September 2018. The full costs of this closure was bourne by Wm Morrison Supermarkets PLC.

19 Pension asset **(Continued)**

h) Guaranteed minimum pension

On 26 October 2018, the High Court issued a judgement in a claim involving Lloyds Banking Group's defined benefit pension schemes. This judgement concluded the schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. The issues determined by the judgement have a potential consequence for many other defined benefit pension schemes and are likely to result in an increase in the liabilities of the CARE Scheme. The Company has worked with the Trustees of the scheme and independent actuaries and has estimated the cost of equalising benefits at £5m. This cost has been recognised in the income statement as an exceptional item in the 52 weeks ended 3 February 2019 (2018: £nil). Any subsequent changes to this amount in future periods will be treated as a change in actuarial assumption, and as such will be recognised in other comprehensive income.

i) Defined contribution scheme

The Company opened a defined contribution pension scheme called the Morrisons Personal Retirement Scheme (MPRS) for colleagues during the 53 weeks ended 4 February 2018. The MPRS has become the auto enrolment scheme for the Company and as such the Company was liable for backdated contributions for eligible employees to 1 October 2012. This was paid in January 2018.

As the MPRS is a defined contribution scheme, the Company is not subject to the same investment, interest rate, inflation or longevity risks as it is for the defined benefit schemes. The benefits that employees receive are dependent on the contributions paid, investment returns and the form of benefit chosen at retirement. During the 52 weeks ended 3 February 2019, the Company paid contributions of £21m to the MPRS (2018: £3m), and expects to contribute £52m for the following period (2018: £15m)

20 Called-up share capital

	2019 £m	2018 £m
229,536,776 (2018: 229,536,776) Ordinary shares of £1 each	230	230

All issued shares are fully paid.

21 Operating lease arrangements

Lessee arrangements

The Company has outstanding commitments for future minimum lease payments under non-cancellable operating lease agreements. The leases have various terms, escalation clauses and renewal rights, and fall due as follows:

	2019 £m	2018 £m
Within one year	19	27
More than one year and less than five years	58	95
After five years	203	341
	280	463

In addition to the above, the Group has operating lease commitments of £77m (2018: £124m) with other Morrisons Group companies.

Lessor arrangements

The Company sub-lets buildings for various usages under now-cancellable arrangements. The leases have various terms, escalation clauses and renewal rights. The future minimum lease income is as follows:

	2019 £m	2018 £m
Within one year	6	6
More than one year and less than five years	14	16
After five years	8	8
	28	30

22 Ultimate holding company

The immediate parent undertaking is Stores Group Limited. The head of the smallest and largest group in which the results of the Company are consolidated is Wm Morrison Supermarkets PLC which is incorporated in Great Britain and registered in England and Wales.

Copies of the financial statements of Wm Morrison Supermarkets PLC are available from:

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Wm Morrison Supermarkets PLC
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