Company Registration No. 00746956

SAFEWAY STORES LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 2 FEBRUARY 2020

SAFEWAY STORES LIMITED

COMPANY INFORMATION

Directors	J Burke A Charnock M Gleeson D Lepley
Secretary	J Burke
Company number	00746956
Registered office	Hilmore House 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 PERIOD ENDED 2 FEBRUARY 2020

The Directors present the Strategic report and the Company's audited financial statements for the period ended 2 February 2020. 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 5.8% to £7,829m (2019: £8,307m). Sales excluding fuel were £6,036m, down 5.7% year-on-year (2019: £6,404m). Fuel sales decreased by 5.8% to £1,793m (2019: £1,903m).

The results for the Company show a profit for the financial period of £154m (2019: £167m). This is after £68m of property profits recognised in the period (2019: £2m profit), a £27m net charge relating to impairment and provisions for onerous contracts (2019: £4m net charge), £nil credit for pension exceptional items (2019: £5m charge), other exceptional items of £25m charge (2019: £20m charge) and a £14m credit for net pension interest (2019: £12m credit). For more detail on these items, see notes 4 and 5 in the financial statements.

The Directors authorised an interim dividend of £262m (2019: £nil). The Directors have not recommended a final ordinary dividend (2019: £nil).

As at 2 February 2020 the Company had net assets of £1,072m (2019: £1,069m).

Strategy update
The Group is currently focused on combating the impact of COVID-19 for all our stakeholders. Our broader strategy for the Group continues in parallel with these efforts.

Alongside Fix, Rebuild, and Grow, we have recently introduced a fourth concurrent phase of our strategy – 'Sustain' – encompassing both the critical importance of our broader societal and environmental responsibilities, and our initiatives to sustain the strong momentum of the turnaround so far.

In addition to our existing six priorities of being more competitive, serving customers better, local solutions, popular and useful services, simplifying and speeding up, and making core supermarkets strong again; we have introduced a seventh priority 'Naturally Digital' as we progress across many fronts, digitalising all aspects of our business is becoming increasingly important. These priorities remain the drivers of our growth and all other aspects of our strategy are unchanged.

Our five ways of working (customers first, teamwork, freedom in our framework, listening and responding, and improving our operations) inform all our actions and behaviour, while our ambitions for our four stakeholders (for customers, colleagues, suppliers and shareholders) ensure that progress is balanced and broad, and allow us to measure success. This process is underpinned by our long-held convictions: that we still have a relative catch-up opportunity, that we can always keep improving for customers, and that execution is key.

Seven priorities update

1. To be more competitive

We continue to invest in the shopping trip and improve our relative competitiveness for customers. During the year, we cut prices and improved product specification, packaging, and merchandising across hundreds of our customers' favourite items.

Alongside these investments, we still have substantial cost saving, productivity, and cost of goods opportunities which we continue to access in partnership with our suppliers. These include supply chain and distribution costs, mix, volume-related discounts, replenishment, packaging, and digitalisation.

We also continue to make good progress in becoming a product business and developing our brands. 'Morrisons Makes It', 'Naturally Wonky, Naturally Wonderful', and 'Best', are all going from strength to strength. 'Free From' and our vegan range, 'V Taste', grew by 56% and 117% respectively within the Group. We are also adding many new items from our own unique fresh food businesses, with brands such as International Seafoods Ltd (based in the port town of Grimsby) and Woodhead Bros (our fresh meat business). In non-food 'Nutmeg' is growing rapidly across clothing and baby, as is our Home and Leisure range.

We again achieved recognition for our own-brand quality. As well as the many awards we noted in our interim results, we were widely recognised during the second half too. At Christmas we won Best Fizz for our Best Prosecco in the Good Housekeeping Christmas Taste Test; and our Best All Butter Mince Pies, Best Classic Panettone and vegan Best Layered Tart all won their categories at the BBC Good Food Christmas Taste Test. We also won 97 awards at the International Wine Challenge 2020 and Supermarket of the Year at the Drinks Retailing Industry Awards.

2. To serve customers better

We recently announced that as a Group we would be investing to create 4,000 net new frontline jobs in our stores. We are removing over 3,000 managerial roles and creating 7,000 new customer-facing roles. This new colleague structure is aligned with our food maker and shopkeeper credentials. It will put more colleagues and more colleague hours on the shop floor, to serve customers better.

In addition, we are investing in continuing to improve availability and shrink, with more dedicated colleague hours on the shop floor, plus some IT and security initiatives, which means our teams can focus more on selling as well as controlling stock.

Since year end we have launched our 'Nutmeg' clothing offer online. It is available nationwide for home delivery, or click & collect from any Morrisons store.

3. Find local solutions

We have made further good progress in finding local solutions. Since the start of the local food maker programme three years ago, we have sourced over 1,000 new items from more than 200 suppliers at 37 local food maker events across Britain. Sales of these items were up more than 30% last year across the Group.

'Local' has wider societal importance for Morrisons. We are working at becoming truly integrated locally and more and more part of local communities, helping them thrive in a sustainable way. This includes supporting the most local food makers in delivering direct to our stores, thereby reducing food miles, supporting the local economy, and ensuring the freshest food for our customers. We are also providing support for the local communities we serve in many different ways: through a dedicated in-store Community Champion; community rooms where local groups can meet; and a range of education and support programmes to both help customers enjoy eating well, and to address local issues.

Seven priorities update (continued)

4. Develop popular and useful services

Plans to install electric vehicle chargers progressed well during the year. We now have 50–100 kW rapid chargers at over 100 Morrisons stores across the Group, which is Britain's biggest supermarket network. These are the highest specification available and allow customers to fully recharge their electric vehicle in just 20 to 60 minutes.

We also made good progress with our plans for gift cards, successfully launching both Morrisons and 'Nutmeg' cards, introducing new third-party gift card fixtures and digital screens, and expanding the range of gift card services available for customers.

We added over 40 Travel Money currency exchange kiosks during the year across the Group, taking the total to 50. Timpsons continues to grow, adding more than 30 sites in the year and is now in 245 stores. We made good progress with rolling out various car care, tyre change and car connect services with partners such as Car Care Valeting, Black Circles and We Buy Any Car. We also continue to introduce the cash-for-clothes service, Smart Recycling, and are progressing our plans for popular services such as barbers and beauty bars.

In addition, we now have 55 Morrisons Daily convenience stores on our forecourts across the Group.

During the period, Doddle announced it would no longer operate a collection service from Morrisons stores. We are currently reviewing our options to restore a parcel pick-up service.

5. To simplify and speed up the organisation

Many components of our Fix, Rebuild, Grow, and Sustain strategy aim at simplifying and speeding up Morrisons, demonstrating how our priorities are all interconnected. For example, our plans to serve customers better by creating 4,000 net new roles, and our initiatives to improve availability and reduce shrink, are resulting in productivity and cost saving benefits. Our work around cost of goods sold and suppliers has the dual benefit of making Morrisons more competitive for customers and encouraging simpler, more collaborative relationships. In addition, our new priority, Naturally Digital, will further improve the shopping trip by making processes simpler, quicker, and easier to execute.

6. To make core supermarkets strong again

During the year we completed 44 further Fresh Look store improvements across the Group, bringing the total to almost 350 since the start of the programme.

These refits continue to drive our modular roll-out of new learnings and innovation across the estate. During the year, the Group introduced almost 70 new Garden Centres and improved 50 Home & Leisure departments in our stores. 'Nutmeg' womenswear is now in around 300 stores, and we have plans to launch menswear too.

7. Naturally digital

We have set up a team to identify opportunities and act at pace to create value for all stakeholders by building digital solutions which will help us organise our colleagues and processes to: simplify all aspects of Morrisons, eliminate wasted effort, improve the shopping trip, and become more popular and accessible for customers. It will involve working with existing teams and infrastructure to improve or accelerate what we have, rather than invest significant new capital.

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, other than where a specific impairment charge has been recognised.

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 28 and 29 of the Wm Morrison Supermarkets PLC Annual Report and Financial Statements 2019/20, 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, 20, 21 and 22 of the Wm Morrison Supermarkets PLC Annual Report and Financial Statements 2019/20, which does not form part of this report.

S172 statement
The Board of Directors consider that they have acted in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole and having due regard to the requirements of section 172 of the Companies Act 2006, in the decisions taken during the period ended 2 February 2020.

In doing so, the Directors have regard (amongst other matters) to the likely consequences of any decision in the long term; the interests of employees; the need to foster relationships with suppliers, customers and others; the impact of its operations on the community and the environment; the maintaining of a reputation for high standards of business conduct; and the need to act fairly between members of the Company. There were no significant developments during the period ended 2 February 2020 requiring specific consideration of the long-terms consequences on stakeholders, of decisions made.

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
19 November 2020

SAFEWAY STORES LIMITED

DIRECTORS' REPORT

FOR THE PERIOD ENDED 2 FEBRUARY 2020

The Directors present their Annual Report and Company's audited Financial Statements for the period ended 2 February 2020. 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 pages 1 to 4 of the Annual Report and Financial Statements, including the Company's principal activity, business review, future developments 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:

J Burke	
A Charnock	
T Strain	(Resigned 18 December 2019)
M Gleeson	(Appointed 18 December 2019)
G Mills	(Resigned 30 January 2020)
D Lepley	(Appointed 30 January 2020)

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 2019/20, 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 2 February 2020 and to the date of approval of the Company financial statements.

Going Concern
The Directors' assessment of the Company's ability to continue as a going concern as set out in note 1 of these financial statements, has taken into consideration the effect that the current economic climate has on the Group and any implications this may have on the Company.

Notwithstanding net current liabilities of £1,590m (2019: £1,615m) these financial statements have been prepared on a going concern basis.

The Company is a subsidiary undertaking of Wm Morrison Supermarkets PLC. The Company has obtained a letter of support from Wm Morrison Supermarkets PLC that confirms financial support will be provided where required, for the foreseeable future and at least twelve months from the date of signing the financial statements and, in particular, it will not demand repayment of any 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.

Relationships with Customers
The Company is focussed on maintaining its relationships with its existing customer base, whilst attracting new customers in what is a highly competitive market. This is achieved through a relentless drive to improve the shopping trip by listening and responding to customers, providing them what they want, when they want it. This includes investments in price and customer experience, and offering local solutions to customers. The Company is a wholly owned subsidiary of Wm Morrison Supermarkets PLC and as such, is aligned to the priorities and ways of working of the Group. For more information on how the Company and Group engage with its customers see the "Our Customers" section of the Group's Annual Report and Financial Statements which forms part of this report.

Employees interests
The Company recognises the importance of having engaged and motivated colleagues, that share in the success of the business and receive a fair day's pay for a fair day's work. The Company's comprehensive employment policies cover recruitment, selection, retention, remuneration, education, development and equality.

Employee engagement
Employees have their say on what matters to them through monthly 'Your say' forums and the annual 'Your Say' survey. They are kept as fully informed as possible about the activities of the business, through internal publications, communications programmes, notice boards, briefings and local, regional and national consultative committees. The Company recognises a number of trade unions and has a partnership agreement with USDAW.

The Company encourages employee involvement in the financial performance of the business through participation in either the Morrisons Group colleague bonus scheme, management bonus plan or the savings related share option schemes.

Equal opportunity
Equal opportunities are offered to all regardless of race, colour, nationality, religion, sex, marital status, disability or age. All applicants and employees are treated equally in respect of recruitment, promotion, training, pay and other employment policies and practices. All decisions are based on merit. Reasonable adjustments will be made to accommodate those with special needs. Under no circumstances will discrimination against any individual or group be tolerated. All employees have access to confidential counselling provided by trained counsellors as part of our special complaints procedure and occupational health team.

The Company is conscious of its responsibility to society and to the local community in particular and we aim to provide employment opportunities which are compatible with work and family responsibilities. Management is required to apply all of the Company's policies fully and diligently to ensure that the highest standards are maintained.

For more information of how the Company looks to operate in the best interests of its employees, see the "Our Colleagues" section of the Group's Annual Report and Financial Statements which forms part of this report.

Relationships with suppliers
The Company looks to foster strong and lasting relationships with its suppliers, based on mutual respect and benefit. As such, the Directors consider it appropriate to operate 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. These policies look to ensure that the Company is working closely with its suppliers, listening and responding to them, paying them on time, simplifying terms and adhering to ways of working that comply with the Groceries Supply Code of Practice.

Investor
The Company is a wholly owned subsidiary of Wm Morrison Supermarkets PLC, providing a largely aligned service offer (albeit regionally relevant) to the UK food retail market. As such, there exists an effective balance of integration, governance and communication between the Company and Group, to ensure the Company is strategically aligned to the Morrisons brand and priorities. In addition, the Company looks to pay a sustainable dividend each year through to Wm Morrison Supermarkets PLC to support its external dividend.

Community and environment
The Company recognises the importance of its social and environmental responsibilities. As such, the Directors consider it appropriate to operate 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. These policies look to monitor the Group's impact on the environment and minimise any damage that might be caused by the impact of business activities. Initiatives designed to minimise the Company's impact on the environment include recycling and reducing energy consumption.

Financial risk management
The financial risk management and policies of the Company are consistent with those of the Group. For further details, see pages 113 and 114 of the Wm Morrison Supermarkets PLC Annual Report and Financial Statements 2019/20, which does not form part of this report.

Political donations
There were no political donations (2019: none) for the period and the Company did not incur any political expenditure (2019: £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 financial 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
29 November 2020

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 2 February 2020 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 2 February 2020; the income statement, the statement of comprehensive income and 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.

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 2 February 2020 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 8, 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.

A Paynter

Andrew Paynter (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
19 November 2020

SAFEWAY STORES LIMITED

INCOME STATEMENT

FOR THE PERIOD ENDED 2 FEBRUARY 2020

	Note(s)	52 Weeks ended 2 February 2020 £m	52 Weeks ended 3 February 2019 £m
Revenue	2	7,829	8,307
Cost of sales		(7,610)	(8,009)
Cost of sales before exceptional items		(7,586)	(7,988)
Adjustments for:			
Other exceptional items	4	(24)	(21)
Gross profit		219	298
Administrative expenses		(128)	(124)
Administrative expenses before exceptional items		(100)	(116)
Adjustment for:			
Impairment and provision for onerous contracts	4	(27)	(4)
Pension exceptional items	4, 20	-	(5)
Other exceptional items	4	(1)	1
Profit on disposal and exit of properties	4	68	2
Other operating income		42	37
Operating profit	4	201	213
Interest receivable and similar income	5	14	12
Interest receivable and similar income before exceptional items		-	-
Adjustment for:			
Net pension interest	5, 20	14	12
Interest payable and similar expenses	6	(8)	(2)
Profit on ordinary activities before taxation		207	223
Tax on profit on ordinary activities	7	(53)	(56)
Profit for the financial period		154	167

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

The notes on pages 16 to 46 form part of these financial statements.

SAFEWAY STORES LIMITED

STATEMENT OF COMPREHENSIVE INCOME

FOR THE PERIOD ENDED 2 FEBRUARY 2020

	Note	52 Weeks ended 2 February 2020 £m	52 Weeks ended 3 February 2019 £m
Profit for the financial period		154	167
Other comprehensive income/(expenses):			
Items that will not be reclassified to profit or loss:			
Remeasurement of defined benefit schemes	**20**	134	52
Tax in relation to components of other comprehensive income		(23)	(9)
Total other comprehensive income, net of tax		111	43
Total comprehensive income for the period		265	210

SAFEWAY STORES LIMITED

BALANCE SHEET

AS AT 2 FEBRUARY 2020

	Note	2020 £m	2019 £m
Fixed assets			
Property, plant and equipment	**9**	2,521	2,625
Investment property	**10**	38	11
Right-of-use assets	**11**	238	-
Investments	**12**	350	350
		3,147	2,986
Current assets			
Stock	**14**	193	214
Debtors due within one year	**15**	1,169	1,137
Debtors due after more than one year	**15**	63	-
Pension asset: due after more than one year	**20**	675	525
Cash and cash equivalents		27	26
		2,127	1,902
Creditors: amounts falling due within one year	**16**	(3,558)	(3,453)
Current tax liabilities		(105)	(64)
Lease liabilities: due within one year	**17**	(54)	-
		(3,717)	(3,517)
Net current liabilities		(1,590)	(1,615)
Total assets less current liabilities		1,557	1,371
Lease liabilities: due after more than one year	**17**	(246)	(70)
Deferred tax liabilities	**18**	(222)	(193)
Provisions for liabilities	**19**	(17)	(39)
		(485)	(302)
Net assets		1,072	1,069
Shareholders' equity			
Called-up share capital	**21**	230	230
Retained earnings		842	839
Total shareholders' funds		1,072	1,069

The notes on pages 16 to 46 form part of these financial statements. The financial statements on pages 12 to 46 were approved by the Board of Directors and authorised for issue on 19 November 2020 and are signed on its behalf by:

Michael Gleeson

M Gleeson
Director
Company Registration No. 00746956

SAFEWAY STORES LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE PERIOD ENDED 2 FEBRUARY 2020

	Note	Called-up share capital £m	Retained earnings £m	Total shareholders' funds £m
Balance at 4 February 2018		230	629	859
Profit for the period		-	167	167
Other comprehensive income:				
Remeasurement of defined benefit pension scheme	**20**	-	52	52
Tax relating to other comprehensive income		-	(9)	(9)
Total comprehensive income for the period		-	210	210
Balance at 4 February 2019		230	839	1,069
Profit for the period		-	154	154
Other comprehensive income:				
Remeasurement of defined benefit pension scheme	**20**	-	134	134
Tax relating to other comprehensive income		-	(23)	(23)
Total comprehensive income for the period		-	265	265
Dividends		-	(262)	(262)
Balance at 2 February 2020		230	842	1,072

The notes on pages 16 to 46 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.

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 profit before exceptionals, leases, retirement benefit schemes, impairment of property, plant and equipment, right-of-use assets and onerous contracts, commercial income and stock. These 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 2019/20 pages 83 and 84, which does not form part of this report. The Directors do not expect Covid-19 to have a material impact on the judgements and estimates impacting the balance sheet as at 2 February 2020.

Going concern

These financial statements, which have been prepared on a 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 Companies Act.

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 and any implications this may have on the Company. The assessment specifically considered the impact that Covid-19 has had on the Group during the period since the reporting date and the ongoing economic uncertainty that exists, as set out in the Group's interim financial results for the 26 weeks ended 2 August 2020.

Whilst the pandemic has had a temporary impact on the Group's performance during the period through to the approval of these financial statements, the Group has continued to trade strongly, maintains a robust financial position providing it with sufficient access to liquidity to meet its needs in the short and medium-term, and has modelled its ability to absorb a number of more extreme downside scenarios than those experienced. Considering the nature of the Company's principal activities in the context of the Group, the Directors conclude that the Covid-19 pandemic does not present a significant risk to the going concern of the Company.

Further to this, the Company has obtained a letter of support from Wm Morrison Supermarkets PLC that confirms financial support will be provided where required, for the foreseeable future and at least twelve months from the date of signing the financial statements and, in particular, it will not demand repayment of any amounts currently outstanding.

Based on the Directors' assessment above and notwithstanding the Company having net current liabilities of £1,590m (2019: £1,615m) these financial statements have been prepared on a going concern basis.

1 Accounting policies **(Continued)**

Disclosure exemptions

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) IFRS 16 'Leases':

(i) paragraph 52 (single disclosure note);

(ii) paragraph 58 (maturity analyses); and

(iii) the second sentence of paragraph 89, paragraph 90-91, 93 (lessor disclosures);

e) 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'.

f) 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).

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

h) 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;

i) 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.

1 Accounting policies **(Continued)**

Basis of preparation (continued)
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 Company for the first time for the 52 weeks ended 2 February 2020:

- IFRS 16 'Leases'; and
- IFRIC 23 'Uncertainty over Income Tax Treatments'

Amendments to the following standards:

- IAS 19 'Employee Benefits';
- IAS 28 'Investments in Associates';
- IFRS 9 'Financial Instruments'; and
- Improvements to IFRSs (2015-2017)

The Company has considered the above new standards, and amendments to published standards and has concluded that, except for IFRS 16, they are either not relevant to the Company or they do not have a significant impact on the Company's financial statements.

IFRS 16 'Leases'
IFRS 16 'Leases' was published in January 2016 and has become effective for the Company for the period beginning 4 February 2019. The standard replaces IAS 17 'Leases', IFRIC 4 'Determining whether and Arrangement contains a lease', SIC-15 'Operating Leases-Incentives' and SIC-27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'. The standard applies a single recognition and measurement approach for all applicable leases under which the Company is the lessee.

The Company has lease contracts for land and buildings, and property and equipment. Before the adoption of IFRS 16, leases in which substantially all the risks and rewards of ownership were retained by the lessor were classified as operating leases; all other leases were classified as finance leases. Under the previous standard, lease payments on operating leases were recognised as rental costs in the income statement. There was no recognition of the associated assets or liability in the balance sheet, except to the extent that there were any prepaid or accrued rents.

Upon adoption of IFRS 16, for all leases where the Company is a lessee, the Company recognises a right-of-use asset and a lease liability in its balance sheet. The income statement includes depreciation in relation to the right-of-use assets and a finance charge in relation to the lease liabilities. The value of the assets recognised have been adjusted for any onerous leases provisions recognised on the balance sheet immediately before transition.

The transition to IFRS 16 for the Company took place on 4 February 2019 and the Company has adopted the modified retrospective transition approach. In accordance with this transition method, the Company has applied IFRS 16 at the date of initial application with no restatement of comparative information being required.

On transition the Group elected to use the practical expedients allowing the standard to be applied only to contracts that were previously identified as leases when applying IAS 17 and IFRIC 4 'Determining whether an Arrangement contains a Lease' at the date of initial application and allowing reliance on previous assessments of whether a lease is onerous applying IAS 37 'Provisions, Liabilities and Contingent Assets', and adjusting the right-of-use assets accordingly, rather than testing the assets for impairment.

1 Accounting policies (Continued)

New IFRS and amendments and interpretations adopted by the company (continued)
The operating lease commitments disclosed as at 3 February 2019 were £357m. On a discounted basis (at the lessee's weighted average incremental borrowing rate at the date of application of 3.2%) these commitments are £232m. The difference between this and the lease liabilities recognised at 4 February 2019 of £328m are the £96m of Finance leases recognised at 3 February 2019.

IFRIC 23 'Uncertainty over income tax treatments'
IFRIC 23 'Uncertainty over income tax treatments' was issued in June 2017 and has become effective for the Company from the period beginning 4 February 2019. The interpretation covers how the Company accounts for taxation, where there is some uncertainty over whether treatments in the tax return will be accepted by HM Revenue and Customs or the relevant overseas jurisdictions.

Each uncertain treatment (or combination of treatments) is considered for whether it will be accepted, and if probable taxable profits/losses, tax bases, unused tax losses, unused tax credits and tax rates are accounted for consistently with the tax return. The Company accounts for each treatment using whichever of the two allowed measurement methods is expected to best predict the final outcome – the single most likely outcome or a probability weighted-average value of a range of possible outcomes.

The Company adopted the modified retrospective approach to transition on 4 February 2019. Under this approach, no restatement of comparative financial statements was required.

The Company has referred to the IFRIC guidance, including Draft Interpretation DI/2015/1 in previous periods, resulting in the accounting policy prior to the adoption of IFRIC 23 applying similar principles for selecting measurement methods as in the new interpretation. Accordingly, the impact of IFRIC 23 has had an immaterial impact on the financial statements and there has been no adjustment necessary to the opening statement of financial position as at 4 February 2019.

Amendment to IAS 19 'Employee Benefits'
An amendment to IAS 19 'Employee Benefits' was published in February 2018 and has become effective for the Company from the period beginning 4 February 2019. The amendment applies prospectively in connection with accounting for plan amendments, curtailments and settlements.

The amendment requires entities to use updated assumptions to determine current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement. The impact of this amendment has had an immaterial impact on the financial statements.

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

1 Accounting policies **(Continued)**

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, which is when the transaction is completed in-store or at the filling station.

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, which is based on the terms of the contract. 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 history of 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. 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, store-based employee costs and Group management recharges 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 by the Company 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% (2019: 5%).

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.

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 *'Uncertainty over income tax treatments'*, 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 property improvements	2.5% or the lease term if shorter
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.

The depreciation policy is consistent with that described for property above.

Right-of-use assets
Right-of-use assets are stated at cost less accumulated depreciation and accumulated impairment losses. Costs include the initial amount of the lease liability, any initial direct costs incurred, and an estimate of any applicable dilapidation costs. Also included are the costs of lease payments made, less any lease incentives received, at or before the commencement date. Depreciation is charged from the commencement date which is when the underlying asset is made available for use. Depreciation rates used to write off cost on a straight line basis:

Leasehold land	The lease term
Leasehold buildings	2.5% or the lease term if shorter
Plant, equipment, fixtures and vehicles	10 to 33% or the lease term if shorter

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

Subsequent to initial measurement, the right-of-use asset is also adjusted for certain remeasurements of the associated lease liability and provision for dilapidations, details of which are provided in the Lease liabilities accounting policy below.

1 Accounting policies **(Continued)**

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.

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.

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 2 February 2020. A defined contribution scheme is a pension scheme under which the Group pays fixed contributions into a separate entity and provides no guarantee as to the quantum of pension benefits that those contributions will ultimately purchase. 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 the CARE scheme are defined on retirement based on age at date of retirement, years of service and a formula using either the employee's compensation package or career average revalued earnings.

Pension scheme assets are valued at fair value. 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, assessed and discounted to present value using the assumptions shown in note 20.

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.

1 Accounting policies **(Continued)**

Retirement benefits (continued)
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 Income statement 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 20 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 operates a cash balance scheme (the 'RSP'). This scheme provides a lump sum benefit based upon a defined proportion of an employee's earnings each year. This scheme is 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.

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 the Black-Scholes 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.

1 Accounting policies **(Continued)**

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.

Lease Liabilities
For leases where the Company is a lessee, the Company recognises a right-of-use asset and a lease liability at the commencement date of the lease. Lease liabilities are initially measured at the present value of the lease payments due during the lease term but that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the lessee's incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise fixed payments and applicable variable lease payments (which depend on an index or a rate). The exercise price of purchase options are also included if reasonably certain to exercise the option.

The lease term includes periods covered by extension and break options if the Company is reasonably certain to extend the lease or to not exercise the break.

The incremental borrowing rates are determined through a build up approach, starting with a risk-free rate specific to the term and economic environment of the lease, adjusted for both the credit risk of the lessee and other characteristics of the lease (for example the quality of the underlying assets). The inputs used to determine the rates are regularly re-assessed, based on historical experience and other factors which the Directors believe to be reasonable.

Each lease payment is allocated between the capital repayment of the liability and the finance cost element. The finance cost is charged to the income statement over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Lease liabilities are remeasured when there is a change in future lease payments arising from a change in an index, rate or a lease modification, when purchase, extension or break options are exercised (or not exercised) in a way inconsistent with the prior assessments of those options, or if those assessments are changed, then lease liabilities will also be remeasured. The likelihood of options being exercised will only be re-assessed on the occurrence of a significant event or change in circumstance within the control of the Company.

The Company has elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets'). Lease payments on short-term leases and leases of low-value assets are recognised as an expense in the consolidated income statement on a straight-line basis over the lease term.

1 Accounting policies **(Continued)**

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

	2020 £m	2019 £m
Sale of goods in-store	6,036	6,404
Total sales excluding fuel	6,036	6,404
Fuel	1,793	1,903
Total revenue	7,829	8,307

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:

	2020	2019
Stores	38,312	42,356

Employee benefit expense for the Company during the period:

	2020 £m	2019 £m
Wages and salaries	539	585
Social security costs	35	41
Other pension costs	29	35
Share-based payments	12	5
	615	666

3 Employees and Directors **(Continued)**

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 £12m (2019: £5m).

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 period ended 2 February 2020 are disclosed in the Annual Report and Financial Statements of that company.

4 Operating profit

	2020 £m	2019 £m
Operating profit for the period is stated after charging/(crediting):		
Employee costs (note 3)	615	666
Depreciation of property, plant and equipment (note 9)	152	151
Depreciation of Investment property (note 10)	1	-
Depreciation of right-of-use assets (note 11)	30	-
Net impairment charge (notes 9, 10 and 11)	27	4
Profit on disposal and exit of properties	(68)	(2)
Pension exceptional items	-	5
Other exceptional items - in cost of sales	24	21
Other exceptional items - in administrative expenses	1	(1)
Operating lease rentals payable*	-	16
Operating lease sub-receipts*	-	(2)
Value of stock expensed	6,166	6,605

* No amounts disclosed for the 52 weeks ended 2 February 2020 following the adoption of IFRS 16.

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 a £27m net charge, comprising of a £31m impairment charge on certain cash generating units offset by a £4m impairment reversal in relation to others (2019: £4m net charge comprising a £19m reversal of previous impairments on certain cash generating units, offset by a £23m impairment charge in relation to others).

On 13 December 2019, the Company disposed of £34m of assets in relation to its Camden site. The consideration includes £85m in cash (£25m received in the period, with a further £20m due in 2020 and the remaining £40m due in 2025) together with £34m in non-cash consideration due by 2024 (representing the undiscounted value of the future leases of a new store on part of the same site). The total consideration has been discounted, resulting in a profit on disposal of £68m after disposal costs in the 52 week period ended 2 February 2020. Consideration receivable as at the period end is included within both current and non-current other debtors, on a discounted basis.

Pension exceptional items during the 52 weeks to 3 February 2019 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 20.

Other exceptional items include a £24m charge recognised in cost of sales and a £1m charge recognised in administrative expenses. These relate to £22m in respect of restructuring of store management teams, £2m relating to one-off costs associated with improvements to the distribution network and £1m of restructuring costs relating to the closure of a store during the period.

In the 52 weeks ended 3 February 2019, other exceptional items included a £21m charge recognised in cost of sales which comprised a £15m charge in relation to increase stock provisioning and a £6m charge relating to one-off costs associated with improvements to the Company's distribution network capacity. In addition, other exceptional items included a net £1m credit, 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).

Fees for the auditors of £10,000 (2019: £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 (2019: £nil).

5 Interest receivable and similar income

	2020 £m	2019 £m
Net pension interest income (note 20)	14	12

6 Interest payable and similar expenses

	2020 £m	2019 £m
Interest on lease liabilities (note 17)	8	-
Unwinding of discount on provisions (note 19)	-	2
	8	2

7 Tax on profit on ordinary activities

	2020 £m	2019 £m
Current tax		
UK corporation tax on profits for the current period	47	47
Adjustments in respect of prior periods	(1)	-
	46	47
Deferred tax		
Current period	8	9
Adjustment in respect of prior periods	(1)	-
	7	9
Total tax charge for the period	53	56

7 Tax on profit on ordinary activities (Continued)

The tax rate for both periods is equal to the standard rate of corporation tax in the UK of 19.00% (2019: 19.00%). The differences are explained below:

	2020 £m	2019 £m
Profit on ordinary activities before taxation	207	223
Expected tax charge based on a corporation tax rate of 19.00% (2019: 19.00%)	39	42
Effect of expenses not deductible for tax purposes	6	4
Effect of change in UK corporation tax rate	(4)	(2)
Current tax adjustments in respect of prior periods	(1)	-
Fixed asset differences	10	14
Transfer pricing adjustments	(2)	(2)
Other differences	5	-
Total tax charge for the period	53	56

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 and was enacted in a previous period. Accordingly, deferred tax has been provided at 19% or 17% depending upon when the temporary difference is expected to reverse (2019: 19% or 17%).

The March 2020 Budget cancelled the planned reduction to 17% so the UK statutory tax rate will remain at 19% from 1 April 2020. The legislation was not enacted during the year so deferred tax has been provided using the 17% rate. If deferred tax was calculated using the 19% rate, the net deferred tax liability recognised at the reporting date would be increased from £222m to £248m.

8 Dividends

	2020 per share	2019 per share	2020 £m	2019 £m
Interim dividend paid	1.14	-	262	-
	1.14	-	262	-

The Directors have not recommended a final ordinary dividend (2019: £nil).

9 Property, plant and equipment

	Freehold land	Freehold buildings	Leasehold property improvements	Plant, equipment, fixtures and vehicles	Total
	£m	£m	£m	£m	£m
Cost					
At 4 February 2019	1,089	2,003	315	649	4,056
Reclassification to right-of-use assets on adoption of IFRS 16	-	-	(73)	(96)	(169)
Additions	3	30	1	139	173
Disposals	(22)	(21)	-	(6)	(49)
Transfers from right-of-use assets	-	-	-	17	17
Fully written down assets	-	(5)	(1)	(42)	(48)
At 2 February 2020	1,070	2,007	242	661	3,980
Accumulated depreciation and impairment					
At 4 February 2019	54	999	139	239	1,431
Reclassification to right-of-use assets on adoption of IFRS 16	-	-	(41)	(50)	(91)
Depreciation charge for the period	-	54	7	91	152
Impairment charge	4	1	2	12	19
Impairment reversal	-	-	(1)	-	(1)
Disposals	-	(8)	-	(5)	(13)
Transfers from right-of-use assets	-	-	-	10	10
Fully written down assets	-	(5)	(1)	(42)	(48)
At 2 February 2020	58	1,041	105	255	1,459
Net book amount					
At 2 February 2020	1,012	966	137	406	2,521

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 £nil (2019: £169m) and depreciation of £nil (2019: £91m) in relation to property, plant and equipment held under finance lease, leased assets at 2 February 2020 are held within right-of-use assets (see note 11).

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% (2019: 9.0%). A number of factors are taken into account when assessing the discount rate, including the Company's WACC and other wider market factors; and
- consideration is given to any significant one-off factors impacting the stores during the current year and any strategic or market factors which may impact future store performance.

'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 £18m (£19m impairment charge offset by £1m impairment reversal) during the year (2019: net impairment charge of £4m). This movement reflects fluctuations from store level trading performance and local market conditions.

At 2 February 2020, 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.£5m.

10 Investment property

	£m
Cost	
At 4 February 2019	18
Additions	4
Additional assets recognised on IFRS 16 transition	29
At 2 February 2020	51
Accumulated depreciation	
At 4 February 2019	7
Charge for the period	1
Impairment charge	6
Impairment reversal	(1)
At 2 February 2020	13
Net book amount	
At 2 February 2020	38

Included in other operating income is £4m (2019: £3m) of rental income generated from investment properties. The fair value of owned investment properties at the end of the period was £12m (2019: £13m). Investment properties are valued by independent surveyors on a vacant possession basis using observable inputs (fair value hierarchy level 2). The net book value of these properties at the 2 February 2020 is £10m (2019 £11m).

Included in the table above are leasehold land and buildings held under a finance lease with a cost of £33m (2019: £nil) and accumulated depreciation of £5m (2019: £nil).

11 Right-of-use assets

	Land & buildings	Plant, equipment, fixtures and vehicles	Total
	£m	£m	£m
Cost			
At 4 February 2019	-	-	-
Transfers from property, plant and equipment on adoption of IFRS 16	73	96	169
Additional assets recognised on IFRS 16 transition	192	-	192
Additions	13	-	13
Transfers to property, plant and equipment	-	(17)	(17)
Disposals	(1)	-	(1)
Fully depreciated assets	-	(9)	(9)
At 2 February 2020	277	70	347
Amortisation and impairment			
At 4 February 2019	-	-	-
Transfers from property, plant and equipment on adoption of IFRS 16	41	50	91
Additional assets recognised on IFRS 16 transition	4	-	4
Charge for the year	17	13	30
Impairment charge	6	-	6
Impairment reversal	(2)	-	(2)
Transfers to property, plant and equipment	-	(10)	(10)
Disposals	(1)	-	(1)
Fully depreciated assets	-	(9)	(9)
At 2 February 2020	65	44	109
Carrying amount			
At 2 February 2020	212	26	238

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

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.

Impairment

Having applied the same methodology and key assumptions as for property, plant and equipment as set out in note 9, the Company has recognised a net impairment of £4m (£6m impairment charge offset by £2m impairment reversal) during the year in respect of right-of-use assets. This movement reflects fluctuations from store level trading performance and local market conditions.

At 2 February 2020, the assumptions to which the value in use calculation is most sensitive are the discount and growth rates. The Company has estimated a reasonably possible change of +/-1% in either would result in a negligible change in impairment.

12 Investments

	2020 £m	2019 £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. A list of related undertakings are presented in note 13.

13 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 2 February 2020 is detailed below. The registered address of all undertakings is Hilmore House, Gain Lane, Bradford, West Yorkshire, 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	Jersey	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	50	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.

14 Stock

	2020 £m	2019 £m
Finished goods	193	214

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

15 Debtors

	2020 £m	2019 £m
Amounts owed by Group undertakings	1,111	1,090
Prepayments and accrued income	38	47
Other debtors	83	-
	1,232	1,137

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.

Other debtors comprise deferred consideration in relation to the disposal of the Camden site (see note 4), of which £63m is due after more than one year. The amount includes £33m of deferred cash consideration on a discounted basis and £30m representing the fair value of a future lease of a newly constructed supermarket and convenience store on part of the site.

16 Creditors: amounts falling due within one year

	2020 £m	2019 £m
Amounts due to Group undertakings	3,266	3,329
Net obligations under finance leases	-	26
Other taxation and social security	214	-
Accruals and deferred income	58	76
Other creditors	20	22
	3,558	3,453

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

Net obligations under finance leases of £nil (2019: £26m) are payable within one year, unsecured and are repayable on demand.

17 Lease liabilities

	2020 £m
Amounts owed to Group undertakings: due within one year	54
Amounts owed to Group undertakings: due after one year	246
	300

	2020 £m
Total cash outflow for lessee leases	50
Interest expense on lease liabilities	8

The Company is the lessee on a diverse portfolio of leases for property and equipment, with the vast majority of lease liabilities relating to property. A number of these property leases contain rent review terms that require rents to be adjusted upwards on a periodic basis, which may be subject to market rent or capped increases in inflation measurements. In addition, certain property leases contain break clauses that would allow the Company to exit leases early.

18 *Deferred tax liabilities*

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

	Property, plant and equipment £m	Pensions £m	Other £m	Total £m
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
Charged to income statement for the period	5	2	-	7
Charged to other comprehensive income	-	22	-	22
Deferred tax liability/(asset) at 2 February 2020	113	114	(5)	222

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.

19 Provisions for liabilities

	Onerous contracts £m	Other provisions £m	Total £m
At 4 February 2019	33	6	39
IFRS 16 adjustments	(26)	4	(22)
Charged to profit for the period	1	4	5
Utilised in the period	(3)	(1)	(4)
Released in the period	(1)	-	(1)
At 2 February 2020	4	13	17

Included within the above balance at 2 February 2020 is £5m (2019: £4m) relating to a balance due within one year.

Other 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 required condition.

20 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 no longer open to new members and closed to the accrual of future benefits on 5 July 2015.

The Company was also party to the Morrison Group Retirement Saver Plan ('RSP'). The 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 closed to future accrual in September 2018.

Balance sheet	2020 £m	2019 £m
Fair value of scheme assets	3,620	3,285
Present value of obligations	(2,945)	(2,760)
Net pension asset	675	525

Income statement:	2020 £m	2019 £m
Past service cost (guaranteed minimum pension)	-	5
Administrative costs paid by schemes	1	1
Curtailment gain	-	(1)
Net interest on net pension asset – finance income	(14)	(12)
Total income credited to income statement	(13)	(7)
Statement of comprehensive income:		
Remeasurements in other comprehensive income - credit	(134)	(52)

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.

The Company recognised a past service cost of £5m in the 52 weeks ended 3 February 2019 in relation to the estimated cost of the equalisation of guaranteed minimum retirement benefits for men and women, following a ruling by the High Court in October 2018.

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.

20 Pension asset **(Continued)**

b) Scheme assets (continued)

Currently, the investment strategy of the Scheme is to maintain a balance of growth assets (equities), income assets (comprising credit investments and corporate bonds) and protection assets (comprising an LDI portfolio and two buy-in annuity policies), 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.

Liability driven investments (LDI)

Part of the investment objective of the Scheme is to minimise fluctuations in the Scheme's 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 its liabilities arising from changes in market conditions. The Scheme has 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

The Scheme has two buy-in annuity policies that provide insurance for a proportion of the pensioner population. The policies pay 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. The value of the annuity is determined using the disclosed assumptions used for valuing the benefits of the Scheme and is equal to the accounting liabilities of the insured pensioner population.

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.

The credit funds invest in a portfolio of different debt instruments and their fair value is equal to the value of the component assets. For high yield debt, the value is based on the latest available market price. for senior debt and private credit, where no such market exists, the value is taken either at par value or by determining a fair enterprise value using a variety of techniques. For real-estate related investments, the value is derived from market comparables or third party valuations.

	2020	**2019**
	£m	**£m**
Equities (quoted)	359	320
Credit funds (unquoted)	288	281
Corporate bonds (quoted)	391	338
Liability driven investments (unquoted)	1,858	1,607
Scottish Limited Partnership (unquoted)	53	52
Cash (quoted)	22	22
Annuity policies (unquoted)	649	665
	3,620	3,285

20 Pension asset **(Continued)**

b) Scheme assets (continued)

The movement in the fair value of the Scheme's assets over the period was as follows:

	2020 £m	2019 £m
Fair value of scheme assets at start of period	3,285	3,371
Interest income	89	90
Return on scheme assets excluding interest	353	(60)
Employer contributions	2	3
Benefits paid	(108)	(118)
Administrative expenses	(1)	(1)
Fair value of scheme assets at end of period	3,620	3,285

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 Scheme 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.

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 IAS19 accounting basis because the investments held by the Scheme qualify as an asset for Company IAS 19 purposes.

On 30 July 2020, the Morrisons Group made changes to the Scottish Limited Partnership structure as set out in note 23.

20 Pension asset **(Continued)**

c) Present value of obligations

The movement in the defined benefit obligation over the period was as follows:

	2020 £m	2019 £m
Defined benefit obligation at start of period	(2,760)	(2,908)
Past service cost (guaranteed minimum pension)	-	(5)
Interest expense	(74)	(78)
Actuarial gain - demographic assumptions	65	92
Actuarial (loss)/gain - financial assumptions	(429)	20
Actuarial gain - experience	145	-
Curtailment gain	-	1
Benefits paid	108	118
Defined benefit obligation at end of period	(2,945)	(2,760)

The duration of the defined benefit obligation at 2 February 2020 is 20 years.

d) Significant actuarial assumptions

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

Financial assumptions

	2020	2019
Discount rate applied to Scheme liabilities (% p.a.)	1.8%	2.8%
Inflation assumption (RPI) (% p.a.)	2.9%	3.2%

Life expectancies

Longevity in years from age 65 for current pensioners	**2020**	**2019**
Male	20.9	22.2
Female	22.3	23.5
Longevity in years from age 65 for current members aged 45		
Male	22.6	23.9
Female	24.2	25.4

20 Pension asset **(Continued)**

d) Significant actuarial assumptions (continued)

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 2 February 2020 are the S2PMA/S2PFA-Heavy tables (males/females) based on year of birth with a scaling factor of 110% applied to the mortality rates for both males and females in the Scheme respectively, with CMI 2018 core projections and a long term rate of improvement of 1.5% pa.

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 Scheme, with CMI 2017 projections and a long term rate of improvement of 1.5% pa.

Related actuarial assumptions (expressed as weighted averages)	**2020**	**2019**
Rate of increase of pensions in payment: RPI inflation capped annually at either 2.5% p.a. or 5% p.a. (% p.a.)	2.0% / 2.9%	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 /2.0%	n/a / 2.1%
CPI inflation (% p.a.)	2.0%	2.1%

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/(liability) is therefore likely to be lower than the amounts below in a number of scenarios. Extrapolation of the sensitivities shown may not be appropriate.

		2020	**2019**
Discount rate applied to Scheme obligations	+/- 0.1% pa	-/+ 60	-/+ 65
Inflation assumption (RPI and associated assumptions)	+/- 0.1% pa	+/- 45	+/- 60
Longevity	+ one year	+ 105	+ 115

20 Pension asset **(Continued)**

f) Funding
The Scheme is funded by Safeway Limited and its subsidiaries.

The latest full actuarial valuation was carried out as at 1 April 2019 for the Scheme. The valuation indicated that, on the agreed funding basis, the Scheme had a surplus of £518m. 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 2019 actuarial valuations for the Scheme has been used and updated for IAS19 'Employee benefits' purposes for the period to 2 February 2020 by a qualified independent actuary. The Scheme exposes the Group to inflation risk, interest rate risk, market investment risk and longevity risk.

At the year end, the scheme surplus has been disclosed within the assets on the balance sheet. The Group has taken legal advice with regard to the recognition of a pension surplus and also recognition of a minimum funding requirement under IFRIC 14 'IAS19 – 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 materially affected by the 2015 exposure draft of the revised wording to IFRIC 14.

The current best estimate of Group contributions to be paid to the defined benefit schemes for the accounting period commencing 3 February 2020 is £2m (2019: £2m).

g) 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.

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 2 February 2020, the Company paid contributions of £29m to the MPRS (2019: £7m), and expects to contribute £30m for the following period (2019: £25m).

21 Called-up share capital	**2020 £m**	**2019 £m**
229,536,776 (2019: 229,536,776) Ordinary shares of £1 each	230	230

All issued shares are fully paid.

22 Operating lease arrangements - lessor

The Company is the lessor on a diverse portfolio of leases for property – for example retail units located by stores. A number of these property leases contain rent review terms that require rents to be adjusted upwards on a periodic basis. The increases are normally either to market rent or to follow capped increases in inflation measurement. The future minimum lease income is as follows:

	2020 £m	2019 £m
Within one year	6	6
More than one year and less than five years	14	14
After five years	2	8
	22	28

23 Post balance sheet events

Scottish Limited Partnership
On 30 July 2020, the Morrisons Group agreed with the various Pension Trustees to divert future funding from the 'CARE Schemes' to the Group's Retirement Saver Plan "RSP", so continuing to utilise the existing partnership structure (see note 20). As part of this agreement, the CARE Schemes' Trustees have agreed to permanently waive their rights to distributions from SLP, with the associated pension scheme asset being written off as at 30 July 2020.

The CARE Schemes' Trustees agreed to waive their rights in return for increased security in relation to that already provided by the properties held within the structure in the event of the Group's insolvency. In addition to this, the Schemes were fully funded on a self sufficiency basis and as such, rights to fixed distributions were to be temporarily switched off under the terms of the existing arrangement, with no expectation of these being switched back on, as this was conditional in the unlikely event that the Schemes did not maintain their fully funded position.

The Company continues to be a party to the RSP, which is operated by Wm Morrison Supermarkets PLC, and so will benefit from the new pension funding partnership arrangement through a reduction in future pension deficit payments in respect of the RSP.

The Directors consider this event to be a non-adjusting post balance sheet event.

Impact of the Covid-19 pandemic
The Covid-19 outbreak was largely confined to China as at the 2 February 2020, but developed quickly in the weeks following this. On 11 March the World Health Organisation declared the virus a pandemic, and from 16 March the UK Government announced social distancing measures which impacted day-to day life, with additional, stay at home measures being enforced later. As the subsequent impact on the UK was not apparent at the balance sheet date it has been concluded this represents a non-adjusting post balance sheet event. The directors have reassessed the position as at the date of signing these financial statements and there is no change in view regarding the pandemic being considered a non-adjusting event.

The Directors do not expect Covid-19 to have a material impact on the judgements and estimates impacting the balance sheet as at 2 February 2020.

24 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:

The Company Secretary
Wm Morrison Supermarkets PLC
Hilmore House
Gain Lane
Bradford
West Yorkshire
BD3 7DL