

Company Registration No. 00746956

SAFEWAY STORES LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE 39 WEEKS ENDED 31 OCTOBER 2021



SAFeway STORES LIMITED

COMPANY INFORMATION

Directors

J Burke
A Charnock
J Goff
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
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LS1 4DL

SAFEWAY STORES LIMITED

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SAFEGWAY STORES LIMITED

STRATEGIC REPORT

FOR THE PERIOD ENDED 31 OCTOBER 2021

The Directors present the Annual Report and the Company's financial statements for the 39 weeks ended 31 October 2021. 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 Limited (formerly 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 Limited the Company will benefit from the Group's commitment to developing its customer proposition, facilitating the Company's successful performance in future.

The Company's ultimate parent was acquired during the financial period. The takeover of the Group by Market Bidco Limited (a newly incorporated entity formed by Clayton, Dubilier & Rice, LLP in its capacity as adviser to Clayton, Dubilier & Rice, LLC as CD&R Fund XI) ('CD&R') for the entire issued and to be issued share capital of Wm Morrison Supermarkets Limited was approved by Morrisons shareholders on 19 October 2021, and sanctioned by the High Court on 25 October 2021. Accordingly, the scheme of arrangement became effective on 27 October 2021 and the Group subsequently de-listed and became privately owned. See further detail on the change in ownership in the ultimate parent undertaking note (note 23).

Results and dividends

The Company has changed its accounting reference date from 31 January to 31 October. Consequently, this Annual Report and financial statements of the Company represents the 39 week period to 31 October 2021, whereas the comparative period covers the 52 weeks to 31 January 2021. The shorter accounting period means that the current financial period results are not directly comparable to those of the comparative period.

The results for the Company show a loss for the financial period of £47m (31 January 2021: loss of £74m) after exceptional costs of £29m and supply chain disruption costs of £11m. Net exceptional costs of £29m (31 January 2021: £69m), include £9m (31 January 2021: £21m) of restructuring and store closure costs, £11m (31 January 2021: £nil) of transaction costs, £14m loss on disposal and closure (31 January 2021: £1m profit), net £1m writeback on impairment and onerous provisions (31 January 2021: £14m), other exceptional costs of £1m (31 January 2021: £6m) and net pension credit of £5m (31 January 2021: net charge of £42m). The comparative results also include £15m of online and home delivery expansion costs (£nil in current period). The Directors did not authorise a dividend for the period (31 January 2021: £nil).

As at 31 October 2021 the Company had net assets of £945m (31 January 2021: £893m).

Business model

The business model and strategy of the Company is integrated with that of the Group. The business model of the Group is disclosed on pages 4 and 5 of the Wm Morrison Supermarkets Limited Annual Report for the 39 weeks ended 31 October 2021, which does not form part of this report.

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 27 to 30 of the Wm Morrison Supermarkets Limited Annual Report and Financial Statements for the 39 week period ended 31 October, which does not form part of this report.

SAFEWAY STORES LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE PERIOD ENDED 31 OCTOBER 2021

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 6 to 11 of the Wm Morrison Supermarkets Limited Annual Report and Financial Statements for the 39 week period ended 31 October, 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 31 October 2021.

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.

Approval of the Strategic report

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



J Burke
Director

27 July 2022

SAFEWAY STORES LIMITED

DIRECTORS' REPORT

FOR THE PERIOD ENDED 31 OCTOBER 2021

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 and 2 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

M Gleeson

J Goff

D Lepley

(Resigned 22 April 2022)

(Appointed 22 April 2022)

The Company is wholly owned by Wm Morrison Supermarkets Limited. Prior to 27 October 2021, the Company's ultimate parent was Wm Morrison Supermarkets Limited. As at the reporting date, and following the takeover of Wm Morrison Supermarkets Limited by Market Bidco Limited on 27 October 2021, the Company's ultimate parent is now Market Topco Limited, which itself wholly owns Wm Morrison Supermarkets Limited. None of the Directors who held office at the period end held any interest in the shares of the Company at any point during the period and up to the date of signing of the financial statements.

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 39 weeks ended 31 October 2021 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 is set out in note 1 of these financial statements.

The Company is a subsidiary undertaking of Wm Morrison Supermarkets Limited. The Company has obtained a letter of support from Wm Morrison Supermarkets Limited 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 (see note 1 for more details).

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 Limited 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 "Customers" section of the Group's Annual Report and Financial Statements which does not form 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.

SAFEWAY STORES LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE PERIOD ENDED 31 OCTOBER 2021

Employees' interests (continued)

Employee engagement

Employees have their say on what matters to them through '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 Group recognises a number of trade unions and has a partnership agreement with USDAW.

The Group encourages employee involvement in the financial performance of the business through participation in either the Morrisons Group management bonus plan or, prior to the takeover of the Group, 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 "Colleagues" section of the Group's Annual Report and Financial Statements which does not form 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 does 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.

Shareholders

The Company is a wholly owned subsidiary of Wm Morrison Supermarkets Limited, 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.

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.

The Group reports on greenhouse gas emissions each calendar year in line with the requirements of the Streamlined Energy and Carbon Reporting (SECR). For further details of reporting in the 39 weeks ended 31 October 2021, see pages 17 to 23 of the Wm Morrison Supermarkets Limited Annual Report and Financial Statements.

SAFEWAY STORES LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE PERIOD ENDED 31 OCTOBER 2021

Financial risk management

The financial risk management and policies of the Company are consistent with those of the Group. For further details, see pages 100 and 101 of the Wm Morrison Supermarkets Limited Annual Report and Financial Statements for the 39 weeks ended 31 October 2021, which does not form part of this report.

Corporate governance arrangements

As part of the Wm Morrison Supermarkets Limited Group, the Company is subject to the governance applied to the Group. Further details are included in the corporate governance statement disclosed in the consolidated financial statements of Wm Morrison Supermarkets Limited.

Political donations

There were no political donations (31 January 2021: £nil) for the period and the Company did not incur any political expenditure (31 January 2021: £nil).

Statement of Directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. 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, 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 or 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 safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.


The Directors are also 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.

Directors' confirmations

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

27 July 2022

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, Sainsbury's Stores Limited's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 October 2021 and of its loss for the 39 week 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 and financial statements (the "Annual Report"), which comprise: the Balance Sheet as at 31 October 2021; 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, as applicable to other entities of public interest, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

We have provided no non-audit services to the Company in the period under audit.

Conclusions relating to going concern

Our evaluation of the Directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- We obtained from management their latest assessments that support the Board's conclusions with respect to the going concern basis of preparation of the financial statements;
- We evaluated management's base case forecast and severe but plausible downside scenarios and challenged the adequacy and appropriateness of the underlying assumptions, including a decrease in like-for-like sales;
- Evaluating the Wm Morrison Supermarket Limited's (the "Group's") access to debt facilities throughout the period of assessment, including the replacement of the entity's external revolving credit facility with intercompany funding provided by the Group's immediate parent Company, Market Bidco Limited;
- In conjunction with the above, reviewing management's analysis of both liquidity and covenant compliance to satisfy ourselves that no breaches are anticipated over the period of assessment;
- Reviewing the latest available management accounts for the financial period to date and checked that these were consistent with the starting point of management's forecasts, and supported the key assumptions included in the assessment; and
- Reviewing and assessing the appropriateness of the letters of support provided to the Company from Wm Morrison Supermarkets Limited and from Market Holdco 3 Limited to Wm Morrison Supermarkets Limited, confirming their ability and intention to provide support as required for at least twelve months from the date the financial statements are authorised for issue.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

SAFEWAY STORES LIMITED

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF SAFEWAY STORES LIMITED (CONTINUED)

Conclusions relating to going concern (continued)

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

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 our work undertaken in the course of the audit, the Companies Act 2006 requires 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 31 October 2021 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, 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.

SAFEWAY STORES LIMITED

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF SAFEWAY STORES LIMITED (CONTINUED)

Responsibilities for the financial statements and the audit (continued)

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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Company and industry, we identified that the principal risks of non-compliance with laws and regulations related to Companies Act 2006, UK tax legislation including Income, Sales and Payroll tax, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to forgery or intentional misrepresentations, or through collusion. Audit procedures performed by the engagement team included:

- review of the financial statement disclosures to underlying supporting documentation;
- review of correspondence with, and reports to, the regulators;
- review of correspondence with legal advisers;
- enquiries of management and review of internal audit reports in so far as they related to the financial statements; and
- auditing the risk of management override of controls, including through testing journal entries and other adjustments for appropriateness, testing accounting estimates (because of the risk of management bias), and evaluating the business rationale of significant transactions outside the normal course of business.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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.

SAFEWAY STORES LIMITED

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF SAFEWAY STORES LIMITED (CONTINUED)

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 obtained 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.



John Ellis (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds

29 July 2022

SAFEWAY STORES LIMITED

INCOME STATEMENT

FOR THE PERIOD ENDED 31 OCTOBER 2021

	Note(s)	39 weeks ended 31 October 2021 £m	52 weeks ended 31 January 2021 £m
Revenue	2	5,486	7,256
Cost of sales		(5,374)	(7,181)
Cost of sales before exceptional items		(5,365)	(7,139)
Adjustments for:			
Restructuring and store closure costs	4	(9)	(21)
Online and home delivery expansion	4	-	(15)
Other exceptional items	4	-	(6)
Gross profit		112	75
Administrative expenses		(102)	(169)
Administrative expenses before exceptional items		(90)	(130)
Adjustment for:			
Net impairment write back	4	1	14
Pension exceptional items	4, 20	(1)	(53)
Transaction costs	4	(11)	-
Other exceptional items	4	(1)	-
(Loss)/profit on disposal and closure	4	(14)	1
Other operating income		27	44
Operating profit/(loss)	4	23	(49)
Interest receivable and similar income	5	8	13
Interest receivable and similar income before exceptional items		2	2
Adjustment for:			
Pension interest income	5, 20	6	11
Interest payable and similar expenses	6	(7)	(10)
Profit/(loss) before taxation		24	(46)
Profit before taxation and exceptional items		53	23
Exceptional items		(29)	(69)
Tax on profit/(loss)	7	(71)	(28)
Loss for the financial period		(47)	(74)

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

The notes on pages 14 to 44 form part of these financial statements.

SAFEWAY STORES LIMITED

STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD ENDED 31 OCTOBER 2021

		39 weeks ended 31 October 2021 £m	52 weeks ended 31 January 2021 £m
	Note		
Loss for the financial period		(47)	(74)
		<u> </u>	<u> </u>
Other comprehensive income/(expense):			
Items that will not be reclassified to profit or loss:			
Remeasurement of defined benefit schemes	20	157	(130)
Tax in relation to components of other comprehensive income/(expense)	18	(58)	25
		<u> </u>	<u> </u>
Total other comprehensive income/(expense), net of tax		99	(105)
		<u> </u>	<u> </u>
Total comprehensive income/(expense) for the period		52	(179)
		<u> </u>	<u> </u>

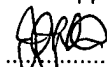
SAFEWAY STORES LIMITED

BALANCE SHEET

AS AT 31 OCTOBER 2021

		31 October 2021 £m	31 January 2021 £m
	Note		
Fixed assets			
Intangible assets	8	1	-
Property, plant and equipment	9	2,478	2,502
Investment property	10	34	35
Right-of-use assets	11	184	214
Investments	12	350	350
		<u>3,047</u>	<u>3,101</u>
Current assets			
Stock	14	236	224
Debtors: amounts falling due within one year	15	661	976
Debtors: amounts falling due after more than one year	15	66	62
Pension asset: due after more than one year	20	668	506
Current tax asset		-	36
Cash and cash equivalents		22	20
		<u>1,653</u>	<u>1,824</u>
Creditors: amounts falling due within one year	16	(3,163)	(3,554)
Current tax liabilities		(31)	-
Lease liabilities due within one year	17	(27)	(41)
		<u>(3,221)</u>	<u>(3,595)</u>
Net current liabilities		<u>(1,568)</u>	<u>(1,771)</u>
Total assets less current liabilities		<u>1,479</u>	<u>1,330</u>
Lease liabilities due after more than one year	17	(189)	(206)
Deferred tax liabilities	18	(342)	(224)
Provisions for liabilities	19	(3)	(7)
		<u>(534)</u>	<u>(437)</u>
Net assets		<u>945</u>	<u>893</u>
Equity			
Called up share capital	21	230	230
Retained earnings		715	663
Total shareholders' funds		<u>945</u>	<u>893</u>

The notes on pages 14 to 44 form part of these financial statements. The financial statements on pages 10 to 44 were approved by the Board of Directors and authorised for issue on 27 July 2022 and are signed on its behalf by:



J Goff

Director

Company Registration No. 00746956

SAFEWAY STORES LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE PERIOD ENDED 31 OCTOBER 2021

		Called up share capital	Retained earnings	Total shareholders' funds
	Note	£m	£m	£m
Balance at 3 February 2020		230	842	1,072
Loss for the period		-	(74)	(74)
Other comprehensive expense:				
Remeasurement of defined benefit pension scheme	20	-	(130)	(130)
Tax relating to other comprehensive expense	18	-	25	25
Total other comprehensive expense for the period		-	(105)	(105)
Total comprehensive expense for the period		-	(179)	(179)
Balance at 1 February 2021		230	663	893
Loss for the period		-	(47)	(47)
Other comprehensive income:				
Remeasurement of defined benefit pension scheme		-	157	157
Tax relating to other comprehensive income	18	-	(58)	(58)
Total comprehensive income for the period		-	52	52
Balance at 31 October 2021		230	715	945

The notes on pages 14 to 44 form part of these financial statements.

SAFEGWAY STORES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 31 OCTOBER 2021

1 Accounting policies

Company information

Safeway Stores Limited is a private company, limited by shares and incorporated in the United Kingdom (England and Wales) under the Companies Act 2006 (Registration number 00746956). The Company is domiciled in the United Kingdom and its registered address is Hilmore House, Gain Lane, Bradford, West Yorkshire, BD3 7DL, United Kingdom. The financial statements are presented in pound sterling which is also the Company's functional currency.

Critical accounting estimates and judgements

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, and right-of-use assets, provisions for 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 Limited Annual Report and Financial Statements for the 39 weeks ended 31 October 2021, pages 69 to 70, which does not form part of this report.

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 presentation requirements of International Accounting Standards in conformity with the requirements of the Act, but make amendments where necessary in order to comply with the Act and take advantage of FRS 101 disclosure exemptions.

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.

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 Company is a subsidiary undertaking of Wm Morrison Supermarkets Limited. The Company has obtained a letter of support from Wm Morrison Supermarkets Limited 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. As disclosed in the Ultimate holding company note, following the takeover of the Group by Market Bidco Limited on 27 October 2021, the ultimate parent undertaking is now Market Topco Limited.

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. In making their assessment of the Group's ability to continue as a going concern, the Directors have considered the projected performance of the Group and the wider financial resources of the Market Topco Limited Group along with the impact of the CD&R takeover.

SAFeway STORES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 OCTOBER 2021

1 Accounting policies

(Continued)

Basis of preparation (continued)

Going concern (continued)

The Directors' assessment of the Group's ability to continue as a going concern includes consideration of cash flow forecasts for the Group and the wider Market Topco Limited Group, and the committed borrowing and debt facilities of the Market Topco Limited Group that were in place as at the point of signing these Company financial statements or are expected to be in place during the period under consideration. These forecasts include consideration of future trading performance, working capital requirements and the wider economy and include the modelling of a number of downside scenarios. The scenarios considered take account of a number of severe, but plausible, downsides that the Group might experience by flexing the forecasts for a number of financial assumptions such as reductions in like-for-like ('LFL') sales, fuel price and cost inflation.

The Group continues to maintain a robust financial position providing it with sufficient access to liquidity, through a combination of cash, intercompany loans and access to committed facilities, to meet its needs in the short and medium term. The Group has a centralised treasury function which manages funding, liquidity and other financial risk in accordance with the Board-approved Treasury Policy, as detailed on page 100 of the Annual Report and Financial Statements for the 39 weeks ended 31 October 2021.

At the point of signing these Company financial statements, the Group has access to intercompany funding provided by Market Bidco Limited, the Group's new intermediate parent company. In respect of banking covenants in relation to the wider Market Topco Limited Group's committed revolving credit facilities at 31 October 2021, along with additional covenants in place as a result of new financing arrangements entered into since the financial year end, each scenario modelled demonstrates sufficient liquidity and financial covenant headroom being available. In addition, Market Holdco 3 Limited (the immediate parent of Market Bidco Limited) has provided a letter stating its intentions to support the Group for at least the period of the going concern assessment.

The Directors are satisfied that with the letter of support in place for the Company, combined with the assessment of the Group's ability to continue as a going concern, the going concern basis remains appropriate for the preparation of the Company financial statements.

Based on the Directors' assessment above these financial statements have been prepared on a going concern basis.

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);

SAFeway STORES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 OCTOBER 2021

1 Accounting policies

(Continued)

Basis of preparation (continued)

Disclosure exemptions (continued)

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 Limited.

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

There have been no new standards, interpretations and amendments to standards which are mandatory for the Company for the first time for the 39 weeks ended 31 October 2021, which have a material impact on the Company's financial statements.

New accounting standards, amendments and interpretations in issue but not yet effective

There are a number of standards and interpretations issued by the IASB that are effective for financial statements after this reporting period. Of these new standards, amendments and interpretations, there are none that are expected to have a material impact on the Company's financial statements.

Accounting reference date

The Company has changed its accounting reference date from 31 January to 31 October. Consequently, these financial statements represent the 39 week period to 31 October 2021. The comparative period covers the 52 weeks to 31 January 2021. The accounting period of the Company ends on a Sunday not more than seven days before or after the accounting reference date of 31 October.

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

SAFeway STORES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 OCTOBER 2021

1 Accounting policies

(Continued)

Revenue Recognition (continued)

a) Sale of goods in-store and online, and sale of fuel

For revenue from the sale of goods in-store, fuel and online (including doorstep delivery), the transaction price is the value of the goods net of returns, colleague discounts, coupons, vouchers and 'More' points earned in-store, and the free element of multi-save transactions. It comprises sales proceeds from customers and excludes VAT. Sale of fuel is recognised net of VAT. 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, or in the case of online, when goods are accepted by the customer on delivery.

b) 'More' points

The 'More' points scheme was discontinued in the financial period ended 31 October 2021.

For More points, the fair value of the points was the value to the customer of the points issued, adjusted for factors such as the expected redemption rate. The Company assessed the appropriateness of the expected redemption rates against history of actual redemptions. The fair value of More points was recognised once the performance obligation had been satisfied. The fair value was treated as a deferral from revenue, and was deferred until the rewards were redeemed by the customer in a future sale. At the point of issue, the customer had 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 some 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 generated from investment property are provided in note 10.

Profit/loss on disposal and closure

Profit/loss from the disposal and closure 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 or other businesses. 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.

SAFEWAY STORES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 OCTOBER 2021

1 Accounting policies

(Continued)

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 4% (31 January 2021: 4%).

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.

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.

SAFeway STORES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 OCTOBER 2021

1 Accounting policies

(Continued)

Software development costs

Costs that are directly attributable to the creation of identifiable software, which meet the development asset recognition criteria as laid out in IAS 38 'Intangible assets' are recognised as intangible assets.

Direct costs include consultancy costs, the employment costs of internal software developers, and borrowing costs. All other software development and maintenance costs are recognised as an expense as incurred. Software development assets are held at historic cost less accumulated amortisation and impairment, and are amortised over their estimated useful lives (3 to 10 years) on a straight-line basis (through 'cost of sales').

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.

SAFEGWAY STORES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 OCTOBER 2021

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. In calculating future cashflows for each store location this year, adjustments have been made for one off costs related to the COVID-19 pandemic and the allocation of store pick cashflows to locations for the first time where a reliable store pick trading history has been established.

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 39 weeks ended 31 October 2021. 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.

SAFEWAY STORES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 OCTOBER 2021

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 Limited). 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 Limited, a parent company, issued 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. The charge to reserves is retained within Wm Morrison Supermarkets Limited retained earnings. Upon takeover, all share based payment schemes were settled.

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 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.

SAFEWAY STORES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 OCTOBER 2021

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.

SAFEWAY STORES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 OCTOBER 2021

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.

Exceptional items

Exceptional items are those which are significant in size and/or nature and are disclosed separately on the face of the income statement.

2 Revenue

	39 weeks ended 31 October 2021 £m	52 weeks ended 31 January 2021 £m
Sale of goods in-store and online	4,329	6,054
Fuel	1,157	1,202
Total revenue	5,486	7,256

All revenue is derived from contracts with customers and is derived in the UK.

3 Employees and Directors

The average monthly number of persons whose salaries are incurred by the Company during the period was:

	39 weeks ended 31 October 2021 No.	52 weeks ended 31 January 2021 No.
Stores	43,560	46,871

Employee benefit expense for the Company during the period:

	39 weeks ended 31 October 2021 £m	52 weeks ended 31 January 2021 £m
Wages and salaries	458	701
Social security costs	33	50
Other pension costs	26	35
Share-based payments	12	8
	529	794

SAFEWAY STORES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 OCTOBER 2021

3 Employees and Directors

(Continued)

Share-based payments

Of the £12m (31 January 2021: £8m) incurred for share-based payments, £11m (31 January 2021: £nil) was disclosed as exceptionals in the period (see note 4).

The total amount of £12m was recharged from Wm Morrison Supermarkets Limited 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 Limited Annual Report and financial statements.

Directors' emoluments

The emoluments of the Directors are paid by Wm Morrison Supermarkets Limited 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 Limited and fellow subsidiaries. Accordingly, the above details include no emoluments in respect of Directors. The Directors of the Company do not receive remuneration in respect of qualifying services as Directors of this Company.

Where the Directors are also Directors of a parent company, Wm Morrison Supermarkets Limited, details of the emoluments and accrued benefits under the defined benefit pension schemes that the Directors received for the period ended 31 October 2021 are disclosed in the Annual Report and Financial Statements of that company.

4 Operating profit/(loss)

	39 weeks ended 31 October 2021 £m	52 weeks ended 31 January 2021 £m
Operating profit/(loss) for the period is stated after charging/(crediting):		
Employee costs before exceptionals (note 3)	518	794
Amortisation of intangible assets (note 8)	1	-
Depreciation of property, plant and equipment (note 9)	126	166
Depreciation of investment property (note 10)	1	3
Depreciation of right-of-use assets (note 11)	17	28
Value of stock expensed	4,226	5,575
Supply chain disruption	11	-
Exceptional items:		
Net impairment write back (notes 9, 10 and 11)	(4)	(14)
Temporary store build costs	3	-
Loss/(profit) on disposal and closure	14	(1)
Restructuring and store closure costs	9	21
Online and home delivery expansion	-	15
Other exceptional items - in cost of sales	-	6
Transaction costs	11	-
Pension exceptional administrative costs (note 20)	1	53
Other exceptional items - in administrative expenses	1	-
	<u> </u>	<u> </u>

SAFeway STORES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 OCTOBER 2021

4 Operating profit/(loss)

(Continued)

Net impairment and provision for onerous contracts

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 credit of £1m (31 January 2021: £14m), comprising a £4m net impairment write back (31 January 2021: £14m net write back), being a £36m impairment write back on certain cash generating units offset by a £32m impairment charge in relation to others (31 January 2021: £14m net write back comprising a £21m impairment charge on certain cash generating units, offset by a £7m impairment write back in relation to others) and a £3m charge in relation to temporary store build costs associated with one site (31 January 2021: £nil). The impairment write back relates to the improved utilisation of store assets and £nil in relation to onerous provision releases (31 January 2021: £4m).

Online and home delivery expansion

Exceptional costs relating to online and home delivery expansions totalled £nil (31 January 2021: £15m). In the comparative period, this represented transformation costs incurred from rapidly increasing the number and capacity of online and home delivery channels available (£9m) and stock wastage as new process and system integrations relating to store pick were being adapted (£10m) offset by a £4m impairment write back where online store pick operations had become sufficiently established.

Restructuring and store closure costs

Restructuring and store closure costs totalled £9m (31 January 2021: £21m). Of this amount there was an additional £2m (31 January 2021: £9m) charge for the restructuring of the store management and operations following a delay in the completion of the activity which commenced in the prior year; a £1m (31 January 2021: £7m) charge relating to the costs of organising and modernising the ways of working across the head office; a £6m (31 January 2021: £6m) charge in relation to improvements in the distribution network and £nil (31 January 2021: £1m credit recognised in administration expenses) relating to store closures.

Loss/(profit) arising on disposal and closure

Loss arising on disposal and closure was £14m (31 January 2021: profit of £1m).

Transaction costs

An £11m charge (31 January 2021: £nil) has been recognised in respect of the cost of accelerated maturity of open incentive schemes arising as a result of the takeover of the Group. For further details on the takeover, see note 23 of these financial statements.

Other exceptional items

Pension exceptional items of £1m represent administrative costs incurred on the pension scheme. In the 52 weeks ended 31 January 2021, the £53m charge represents the change in value of the Scottish Limited Partnership asset, described further in note 20.

In the 52 weeks ended 31 January 2021, other exceptional items of £6m were all recognised through cost of sales and include £5m relating to additional bonuses paid to Colleagues during the year who would not ordinarily have been eligible for the bonus scheme; and £1m in relation to waste and markdowns. In the 39 weeks ended 31 October 2021, other exceptional items include £1m relating to legal costs recognised through administrative expenses.

Audit fee

Fees for the auditors of £56,000 (31 January 2021: £45,000) in relation to audit services were paid by Wm Morrison Supermarkets Limited on the Company's behalf. No fees were paid in relation to non-audit services (31 January 2021: £nil).

SAFeway STORES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 OCTOBER 2021

4 Operating profit/(loss)

(Continued)

Supply chain disruption

Supply chain disruption costs in the 39 weeks ended 31 October 2021 amounted to £11m (31 January 2021: £nil) and are included in arriving at gross profit. These costs relate to the mitigating actions and impact on the Company's operations arising from the unprecedented disruption in the supply chain and lack of availability in the labour market, including warehouse, transport and manufacturing costs. These costs began to be incurred during August 2021 and returned to a stable level in March 2022.

5 Interest receivable and similar income

	39 weeks ended 31 October 2021 £m	52 weeks ended 31 January 2021 £m
Other receivables: unwinding of discount	2	2
Net pension interest income (note 20) - exceptional	6	11
Total income	8	13

6 Interest payable and similar expenses

	39 weeks ended 31 October 2021 £m	52 weeks ended 31 January 2021 £m
Interest on lease liabilities (note 17)	7	10

SAFEWAY STORES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 OCTOBER 2021

7 Tax on profit/(loss)

	39 weeks ended 31 October 2021 £m	52 weeks ended 31 January 2021 £m
Current tax		
UK corporation tax on profits/(losses) for the current period	-	10
Adjustments in respect of prior periods	11	(8)
	<u>11</u>	<u>2</u>
Deferred tax		
Current period	2	(5)
Changes in tax rates	52	26
Adjustments in respect of prior periods	6	5
	<u>60</u>	<u>26</u>
Total tax charge for the period	<u>71</u>	<u>28</u>

The tax rate for both periods is different to the standard rate of corporation tax in the UK of 19.00% (31 January 2021: 19.00%). The differences are explained below:

	39 weeks ended 31 October 2021 £m	52 weeks ended 31 January 2021 £m
Profit/(loss) before taxation	24	(46)
Expected tax charge/(credit) based on a corporation tax rate of 19% (2021: 19%)	5	(9)
Effect of expenses not deductible for tax purposes	3	11
Income not taxable	(1)	(3)
Effect of change in UK corporation tax rate	52	27
Current tax adjustments in respect of prior periods	11	(9)
Deferred tax adjustments in respect of prior periods	6	5
Fixed asset differences	7	9
Transfer pricing adjustments	-	(3)
Group relief claimed	(12)	-
Total tax charge for the period	<u>71</u>	<u>28</u>

Factors affecting current and future tax charges

The March 2021 Budget announced an increase in the UK standard rate of corporation tax from 19% to 25% from 1 April 2023. The legislation to increase the rate was enacted during the year so deferred tax has been provided using the enacted rate of 25%. There were no further rate changes proposed at the 2022 Spring Statement.

SAFeway STORES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 OCTOBER 2021

8 Intangible Assets

	Software development costs £m
Cost	
At 1 February 2021	-
Additions	2
	<hr/>
At 31 October 2021	2
	<hr/>
Accumulated amortisation	
At 1 February 2021	-
Charge for the year	1
	<hr/>
At 31 October 2021	1
	<hr/>
Carrying amount	
At 31 October 2021	1
	<hr/> <hr/>

Amortisation is charged in administrative expenses.

SAFeway STORES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 OCTOBER 2021

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 1 February 2021	1,068	1,996	238	751	4,053
Additions	-	1	-	82	83
Disposals	-	-	-	(2)	(2)
Transfers from right-of-use assets	-	-	-	12	12
Fully written down assets	-	-	(2)	(51)	(53)
At 31 October 2021	<u>1,068</u>	<u>1,997</u>	<u>236</u>	<u>792</u>	<u>4,093</u>
Accumulated depreciation and impairment					
At 1 February 2021	50	1,080	105	316	1,551
Depreciation charge for the period	-	40	6	80	126
Impairment charge	3	2	1	11	17
Impairment write back	(13)	(10)	(2)	(6)	(31)
Disposals	-	-	-	(2)	(2)
Transfers from right-of-use assets	-	-	-	7	7
Fully written down assets	-	-	(2)	(51)	(53)
At 31 October 2021	<u>40</u>	<u>1,112</u>	<u>108</u>	<u>355</u>	<u>1,615</u>
Net book amount					
At 31 October 2021	<u>1,028</u>	<u>885</u>	<u>128</u>	<u>437</u>	<u>2,478</u>
At 31 January 2021	<u>1,018</u>	<u>916</u>	<u>133</u>	<u>435</u>	<u>2,502</u>

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.

SAFeway STORES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 OCTOBER 2021

9 Property, plant and equipment

(Continued)

Impairment

The Company considers each store location as a separate CGU and therefore considers every location for impairment annually. The Company calculates each location'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 locations pre-tax cash flows over the 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 location in the current year, adjusted for COVID-19 one-off costs;
- allocate a proportion of the Group's central costs to each location on an appropriate basis;
- allocate online store pick cash flows to locations where a reliable store pick trading history has been established (included for the first time this year, due to the rapid expansion of online store pick during the year);
- allocate an element of future capital cost, including energy efficiency spend required as part of environmental strategy;
- project cash flows over the next three years by applying forecast sales and cost growth assumptions in line with the Group budget;
- project cash flows beyond year three by applying a long-term growth rate;
- discount the cash flows using a pre-tax rate of 7.5% (31 January 2021: 9.0%). The Group takes into account a number of factors when assessing the discount rate, including the Group's WACC and other wider market factors. A combination of these factors has resulted in the decrease of the discount rate in the financial period ended 31 October 2021; and
- consideration is given to any significant one-off factors impacting the locations during the current year and any strategic, climate-related, Brexit or market factors which may impact future 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 write back of £14m (£31m impairment write back offset by £17m impairment charge) during the year (31 January 2021: net impairment write back of £10m). This movement reflects fluctuations from store level trading performance and local market conditions.

At 31 October 2021, the assumption to which the value in use calculation is most sensitive to is the discount and growth rates. The Company has estimated a change of +1% discount rate or -1% growth rate would result in a c.£5m loss and -1% discount rate or +1% growth rate would result in a c.£2m gain.

SAFeway STORES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE PERIOD ENDED 31 OCTOBER 2021

10 Investment property

	Total Investment Property £m
Cost	
At 1 February 2021 and 31 October 2021	47
	<u> </u>
Accumulated depreciation	
At 1 February 2021	12
Charge for the period	1
	<u> </u>
At 31 October 2021	13
	<u> </u>
Net book amount	
At 31 October 2021	34
	<u> </u>
At 31 January 2021	35
	<u> </u>

Included in other operating income is £2m (31 January 2021: £3m) of rental income generated from investment properties. The fair value of owned investment properties at the end of the period was £11m (31 January 2021: £11m). 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 31 October 2021 is £10m (31 January 2021: £10m).

Included in the table above are leasehold land and buildings with a cost of £30m (31 January 2021: £30m) and accumulated depreciation of £6m (31 January 2021: £5m).

SAFeway STORES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 OCTOBER 2021

11 Right-of-use assets

	Land & buildings	Plant, equipment, fixtures and vehicles	Total
	£m	£m	£m
Cost			
At 1 February 2021	280	33	313
Additions	1	-	1
Transfers to property, plant and equipment	-	(12)	(12)
Fully depreciated assets	(1)	(8)	(9)
At 31 October 2021	280	13	293
Accumulated depreciation and impairment			
At 1 February 2021	78	21	99
Charge for the year	13	3	16
Impairment charge	15	-	15
Impairment write back	(5)	-	(5)
Transfers to property, plant and equipment	-	(7)	(7)
Fully depreciated assets	(1)	(8)	(9)
At 31 October 2021	100	9	109
Carrying amount			
At 31 October 2021	180	4	184

Having applied the methodology and assumptions as set out in note 9, the Company has recognised a net impairment charge of £9m during the year (31 January 2021: net impairment write back of £3m). This movement reflects fluctuations from store level trading performance and local market conditions.

At 31 October 2021, 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

	31 October 2021	31 January 2021
	£m	£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 is presented in note 13.

SAFeway STORES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 OCTOBER 2021

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 31 October 2021 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 Level 1, IFC1, Esplanade, St Helier, Jersey, JE2 3BX.

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

	31 October 2021 £m	31 January 2021 £m
Finished goods	236	224

There is no material difference between the balance sheet value and replacement cost of stock.

SAFeway STORES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 OCTOBER 2021

15 Debtors

	Due within one year		Due after one year	
	31 October 2021 £m	31 January 2021 £m	31 October 2021 £m	31 January 2021 £m
Amounts owed by Group undertakings	521	924	-	-
Prepayments and accrued income	83	45	-	-
Other debtors	57	7	66	62
	<u>661</u>	<u>976</u>	<u>66</u>	<u>62</u>

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 due after one year of £66m (31 January 2021: £62m) comprises deferred consideration due after more than one year in relation to the disposal of the Camden site in December 2019. The amount includes £35m (31 January 2021: £35m) of deferred cash consideration on a discounted basis and £31m (31 January 2021: £27m) 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

	31 October 2021 £m	31 January 2021 £m
Amounts due to Group undertakings	3,091	3,296
Other taxation and social security	-	186
Accruals and deferred income	44	41
Other creditors	28	31
	<u>3,163</u>	<u>3,554</u>

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

SAFEWAY STORES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 OCTOBER 2021

17 Lease liabilities

	31 October 2021 £m	31 January 2021 £m
Amounts owed to Group undertakings: due within one year	27	41
Amounts owed to Group undertakings: due after one year	189	206
	<u>216</u>	<u>247</u>
	31 October 2021 £m	31 January 2021 £m
Total cash outflow for lessee leases	37	61
Interest expense on lease liabilities	7	10
	<u></u>	<u></u>

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 3 February 2020	112	115	(5)	222
Charged to income statement for the period	19	7	1	27
Credited to other comprehensive income	-	(25)	-	(25)
Deferred tax liability/(asset) at 1 February 2021	131	97	(4)	224
Charged/(credited) to income statement for the period	50	11	(1)	60
Charged to other comprehensive income	-	58	-	58
Deferred tax liability/(asset) at 31 October 2021	<u>181</u>	<u>166</u>	<u>(5)</u>	<u>342</u>

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.

SAFEWAY STORES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE PERIOD ENDED 31 OCTOBER 2021

19 Provisions for liabilities

	Total £m
At 1 February 2021	7
Utilised in the period	(1)
Released in the period	(3)
	<hr/>
At 31 October 2021	3
	<hr/>

Provisions includes dilapidations on leased buildings for the cost of restoring assets to their required condition.

20 Pension asset: due after more than one year

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 it 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.

	31 October 2021 £m	31 January 2021 £m
Balance sheet		
Fair value of scheme assets	3,730	3,640
Present value of obligations	(3,062)	(3,134)
	<hr/>	<hr/>
Net pension asset	668	506
	<hr/>	<hr/>

SAFeway STORES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE PERIOD ENDED 31 OCTOBER 2021

20 Pension asset: due after more than one year (continued) a) Defined benefit schemes (continued)

	39 weeks ended 31 October 2021 £m	52 weeks ended 31 January 2021 £m
Income statement:		
Administrative costs paid by schemes	1	1
Curtailment gain	-	(2)
Change in Scottish Limited Partnership asset (note 4)	-	53
Net interest on net pension asset – finance income	(6)	(11)
	<u>(5)</u>	<u>41</u>
Statement of comprehensive income:		
Remeasurements in other comprehensive income - (credit)/charge	<u>(157)</u>	<u>130</u>

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 Company attends Trustee Investment Committee meetings in order to provide the Company's view on investment strategy, but the ultimate power lies with the Trustees. The Deed and Rules of the Scheme gives the Company the power to set contributions, subject to regulatory override.

b) Scheme assets

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 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.

SAFeway STORES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 OCTOBER 2021

20 Pension asset: due after more than one year (continued)

b) Scheme assets (continued)

Annuity policies

During the 39 weeks ended 31 October 2021, the Scheme entered into a new buy-in policy that provides insurance for a proportion of the pensioner population. This policy is in addition to the three buy-in policies previously entered into by the Scheme. 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 policies 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.

	31 October 2021 £m	31 January 2021 £m
Equities (quoted)	198	400
Credit funds (unquoted)	234	268
Corporate bonds (quoted)	643	397
Liability driven investments (unquoted)	1,705	1,776
Cash (quoted)	13	19
Annuity policies (unquoted)	937	780
	<u>3,730</u>	<u>3,640</u>

SAFEWAY STORES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 OCTOBER 2021

20 Pension asset: due after more than one year (continued)

b) Scheme assets (continued)

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

	39 weeks ended 31 October 2021 £m	52 weeks ended 31 January 2021 £m
Fair value of scheme assets at start of period	3,640	3,620
Interest income	40	59
Return on scheme assets excluding interest	106	100
Employer contributions	-	2
Benefits paid	(55)	(87)
Administrative expenses	(1)	(1)
Change in Scottish Limited Partnership asset (note 4)	-	(53)
Fair value of scheme assets at end of period	<u>3,730</u>	<u>3,640</u>

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.

During the 52 weeks ended 31 January 2021, the Company and the Scheme's Trustees agreed to reorganise the limited partnership structure, so that future distributions will be made to the RSP rather than the CARE Scheme. This resulted in a £53m reduction in the total pension assets of the CARE scheme.

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

SAFEWAY STORES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 OCTOBER 2021

20 Pension asset: due after more than one year (continued)

c) Present value of obligations

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

	39 weeks ended 31 October 2021 £m	52 weeks ended 31 January 2021 £m
Defined benefit obligation at start of period	(3,134)	(2,945)
Interest expense	(34)	(48)
Actuarial gain/(loss) - demographic assumptions	100	(1)
Actuarial loss - financial assumptions	(44)	(264)
Actuarial (loss)/gain - experience	(5)	35
Curtailment gain	-	2
Benefits paid	55	87
Defined benefit obligation at end of period	<u>(3,062)</u>	<u>(3,134)</u>

The duration of the defined benefit obligation at 31 October 2021 is 18 years (31 January 2021: 20 years).

d) Significant actuarial assumptions

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

Financial assumptions

	31 October 2021	31 January 2021
Discount rate applied to Scheme liabilities (% p.a.)	1.9%	1.5%
Inflation assumption (RPI) (% p.a.)	3.6%	3.0%

Life expectancies

	31 October 2021	31 January 2021
Longevity in years from age 65 for current pensioners:		
Male	21.0	21.1
Female	22.5	22.5
Longevity in years from age 65 for current members aged 45:		
Male	22.6	22.8
Female	24.4	24.4

SAFeway STORES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 OCTOBER 2021

20 Pension asset: due after more than one year (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 39 weeks ended 31 October 2021 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, with CMI 2020 core projections and a long term rate of improvement of 1.5% pa.

For the 52 weeks ended 31 January 2021, the Company used the same mortality tables, but with the CMI 2019 core projections as opposed to the CMI 2020 core projections.

Related actuarial assumptions (expressed as weighted averages)

	31 October 2021	31 January 2021
Rate of increase of pensions in payment: RPI inflation capped annually at either 2.5% p.a. or 5.0% p.a. (% p.a.)	2.2% / 3.4%	2.0% / 2.9%
Rate of increase of pensions in deferment: CPI inflation capped over the deferment period at either 2.5% p.a. or 5.0% p.a. (% p.a.)	n/a / 3.0%	n/a / 2.3%
CPI inflation (% p.a.)	<u>3.0%</u>	<u>2.3%</u>

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.

		31 October 2021 £m	31 January 2021 £m
Discount rate applied to Scheme obligations	+/- 0.1% pa	-/+ 55	-/+ 60
Inflation assumption (RPI and associated assumptions)	+/- 0.1% pa	+/- 40	+/- 50
Longevity	+ one year	<u>+ 110</u>	<u>+ 110</u>

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 have been used and updated for IAS19 'Employee benefits' purposes for the period to 31 October 2021 by a qualified independent actuary. The Scheme exposes the Group to inflation risk, interest rate risk, market investment risk and longevity risk.

SAFeway STORES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 OCTOBER 2021

20 Pension asset: due after more than one year (continued)

f) Funding (continued)

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 1 November 2021 is £2m (1 February 2021: £2m).

g) Defined contribution scheme

The Company opened a defined contribution pension scheme called the Morrisons Personal Retirement Scheme (MPRS) for colleagues during 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 39 weeks ended 31 October 2021, the Company paid contributions of £24m to the MPRS (31 January 2021: £33m), and expects to contribute £32m for the following period (31 January 2021: £35m).

21 Called up share capital

	31 October 2021 £m	31 January 2021 £m
229,536,776 (31 January 2021: 229,536,776) Ordinary shares of £1 each	<u>230</u>	<u>230</u>

All issued shares are fully paid.

SAFEWAY STORES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 OCTOBER 2021

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:

	31 October 2021 £m	31 January 2021 £m
Within one year	5	5
More than one year and less than five years	7	7
After five years	9	8
	<u>21</u>	<u>20</u>

23 Ultimate holding company

The immediate parent undertaking is Stores Group Limited.

Prior to 27 October 2021, the ultimate parent undertaking and controlling party was Wm Morrison Supermarkets Limited. Wm Morrison Supermarkets Limited is incorporated in the United Kingdom and registered in England and Wales.

As at the reporting date, and following the takeover of Wm Morrison Supermarkets Limited by Market Bidco Limited on 27 October 2021, the ultimate parent undertaking and controlling party is Market Topco Limited. Market Bidco Limited and Market Topco Limited were incorporated by Clayton, Dubilier and Rice's Fund XI for the purposes of acquiring Wm Morrison Supermarkets Limited. The investment into Market Topco Limited was made by a vehicle owned by Clayton, Dubilier & Rice Fund XI, L.P. and certain commonly-managed parallel and related investment vehicles thereof.

The smallest and largest group into which the results of the Company are consolidated for the period ended 31 October 2021 is that headed by Wm Morrison Supermarkets Limited.

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

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

There are currently no consolidated financial statements available for the newly formed group headed by Market Topco Limited given the date of its formation. The first financial statements for the ultimate parent undertaking are expected to be drawn up for the period ending 30 October 2022.

SAFeway STORES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 OCTOBER 2021

24 Post balance sheet events

Guarantees in respect of the Senior Facilities Agreement

Since the year end, the Market Topco Limited Group of companies has entered into new financing arrangements. A condition of the Market Bidco Limited new Senior Facilities Agreement was that 'material entities' needed to become guarantors to those facilities. 'Material entities' are ones which hold 5% or more of the consolidated Group's gross assets or generate 5% or more of the consolidated Group's EBITDA, or those which hold real property of greater than £75m. As such, on 23 March 2022, Wm Morrison Supermarkets Limited (along with its subsidiaries Safeway Limited, Safeway Stores Limited and Optimisation Investments Limited) acceded as a guarantor to each of the new Facilities Agreements. As such, the Company granted a guarantee and indemnity in respect of the obligations of the Obligors under each of the Facilities Agreements and provided security over its assets, pursuant to the Common Transaction Security Agreement. The terms and conditions of Wm Morrison Supermarkets Limited's listed bonds are such that, if Group entities act as guarantors to finance facilities, they must also act as guarantors to the bonds. Wm Morrison Supermarkets Limited and Safeway Limited already guaranteed these bonds, so Safeway Stores Limited and Optimisation Developments Limited were required to accede as guarantors in addition.