Safeway Stores Limited (formerly Safeway Stores plc)

Annual report and accounts
for the period ended 7 March 2004

Registered number: 746956

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DIRECTORS AND ADMINISTRATION

Country of Registration	England
Registered Number	746956
Registered Office	6 Millington Road, Hayes, Middlesex, UB3 4AY.
Directors	M. Ackroyd M.T. Aylwin M. Gunter D. R. Hutchinson M. M. Melnyk R. W. Stott
Company Secretary	J. J. Burke
Solicitors	Gordons
Auditors	KPMG Audit Plc

REPORT OF THE DIRECTORS

FOR THE 49 WEEK PERIOD ENDED 7 MARCH 2004

The directors present their annual report on the affairs of the group and of the Company together with the accounts and auditors' report for the 49 week period ended 7 March 2004. The comparative period presented is the 52 week period ended 29 March 2003.

Principal activity and business review

The principal activity of the group continues to be grocery retailing in the United Kingdom. The Company is the principal operating subsidiary of Safeway Limited.

Background

The acquisition of Safeway plc and all of its subsidiary companies ("Safeway") by Wm Morrison Supermarkets PLC ("Morrisons") was completed on 8 March 2004 for a total consideration of £3.4 billion. The acquisition was completed after a long period of bidding and investigation by the Office of Fair Trading. No detailed due diligence was possible pre-deal.

Immediately following the acquisition Safeway plc was de-listed from the London stock exchange and the whole of the Safeway group of companies became subsidiaries of Morrisons.

Shortly after the acquisition the previous Safeway directors resigned and were replaced by directors appointed from Morrisons. Safeway plc and Safeway Stores plc were re-registered as private companies.

The operational style and financial performance of the two businesses prior to the acquisition were significantly different. The success of Morrisons is based on operating a freehold estate of 125 large stores with turnover of £4.9 billion. By contrast Safeway operated a mixed estate biased toward medium and smaller stores with a high level of leasehold property with a combined turnover of £7.7 billion. Weekly sales per square foot in Safeway were some 32% lower than in Morrisons.

The trading philosophy of the two businesses was also significantly different with Morrisons having traditionally negotiated back end loaded supplier rebates rather than seeking upfront income.

Immediately prior to the acquisition Safeway was experiencing a like for like sales decline of 4.1% and a net profit return of 2.0% on turnover. By way of contrast Morrisons like for like sales were increasing year on year by 9.3% and a net profit return of 4.0% on turnover was being generated.

Disclosed accounting policies were and will remain largely the same, although some limited differences do exist. However, as is the case in trading practice, significant differences existed in the accounting practices of the two businesses. Morrisons had a long established tradition of clearly conservative accounting and a centralised financial management and control style.

All of the above matters were reflected in the stock market rating of both businesses. The PE ratios of Morrisons and Safeway were 20.4 and 9.0 respectively prior to the bid.

Progress since acquisition

As the Morrisons Board had always made clear the rationale for the transaction was principally the acquisition of the stores estate rather than the desire to integrate or enhance the trading and or brand of Safeway.

As indicated in the Morrisons 2 July trading update the Safeway trading position which was inherited on acquisition was much worse than that which Morrisons had anticipated. Similarly the differences in accounting and trading philosophy were more significant and had more impact than was originally anticipated. In addition a significant accounting systems change had been implemented around four weeks before the date of the transaction. Difficulties with the specification and implementation of the new system resulted in significant deficiencies in the availability and reliability of management information.

Following the takeover Morrisons changed the year end of Safeway to 7 March in order to establish a clear opening position and provide an opportunity to closely review the acquired assets and liabilities. The change of year end formed the first step on the route to harmonisation of year ends at the Morrisons accounting reference date of 31 January.

Preparation of 7 March 2004 accounts

The new directors have, bearing in mind their obligations under the Companies Act and to shareholders, considered all the above factors in forming judgements on how to compile and present the Safeway accounts for the period to 7 March 2004. These considerations have meant that the new directors have had to make some significant judgements in presenting these accounts.

Morrisons' conservative approach to accounting has, over a number of years, resulted in a strong balance sheet with a commensurately enhanced rating in the market place. In applying Morrisons style to the Safeway business it is necessary, in the judgement of the new directors, to introduce this same degree of conservatism to the balance sheet of the acquired group.

The Board has carefully considered the appropriateness of the accounting policies they have traditionally employed. Historically these have reflected the attitude and philosophy of the group with bias towards prudent recognition of assets, liabilities, income and expenses. As a consequence of this a close link between the profit and cash generation performance of the Morrisons business has always been evident in its financial reporting.

In order to achieve this same philosophy within the Safeway accounts significant adjustments have been made. The impact of this is summarised below. The Board consider these to be an appropriate and prudent set of estimates and consider that they achieve an appropriate balance between prudent asset valuation and proper reporting of underlying trading performance.

Changes in accounting policy

The Company has fully adopted Financial Reporting Standard 17: Retirement Benefits in the period and consequently the fair value of the assets and liabilities arising from the Company's retirement benefit obligations and related funding have been recorded in the Group Balance Sheet. The adoption of Financial Reporting Standard 17 replaces SSAP 24: Accounting For Pension Costs which was previously applied. This change in accounting policy has been recorded by way of a prior year adjustment. Consequently the comparative figures presented in these financial statements have been restated to show the position had Financial Reporting Standard 17 been applied from 31 March 2002. The change in accounting policy has resulted in an additional liability of £229.6 million (prior to the deduction of deferred tax of £68.9 million) being recorded in the Group Balance sheet. The loss on ordinary activities before taxation for the period has decreased by £73.9 million (prior to the deduction of taxation of £22.2 million) following the adoption of this new standard. Further details are provided in note 21 to the financial statements.

Following the publication and amendment to Financial Reporting Standard 5 on 13 November 2003, the Company changed its accounting policy to account for sales net of staff discounts, coupons and the free element of multi-buy transactions, and to account for the commission element in electronic mobile top-ups (rather than the full cash received). The effect has been to reduce turnover in the period by £455.3m (2003: £269.3m) cost of sales by £394.7m (2003: £204.1m) and distribution costs by £60.6m (2003: £65.2m).

Results and dividends

Group sales for the period, including VAT and its share of the BP joint venture, were £8,522.0 million (2003 - £9,230.7 million). The group's underlying profit on ordinary activities before taxation (i.e. before exceptional costs – see Note 3) amounted to £284.6 million (2003 – profit £366.3 million).

The impact of the exceptional items is as follows:

	£m
Underlying profit before tax	284.6
Changes in estimation techniques	(291.1)
Bid related costs	(56.2)
Pension past service credit	69.6
Property profits	4.7
Profit before tax	11.6

The changes in estimation techniques relate primarily to supplier income adjustments, supplier dispute provisions, stock provisions and the petrol filling station decommissioning provision.

Exceptional operating costs of £56.2 million (2003 - £22.5 million) were incurred in the period in respect of the expression of interest in Safeway from various parties prior to the acquisition of the Group by Wm Morrison Supermarkets PLC on 8 March 2004. The exceptional costs comprised £15.6 million (2003 - £5.5 million) of staff retention and loyalty bonus payments, £10.2 million (2003 - £Nil) of staff redundancy costs, £28.8 million (2003 - £17.0 million) of banking and other professional and advisory fees in connection with the bid activity and £1.6 million of other bid related expenses. In addition, there was a £69.6 million of pension past service credit and £291.1 million of changes to accounting estimates.

The pension past service credit has arisen due to a change in the assumptions relating to enhanced pension benefits.

An interim dividend of £32.0 million (2003 - £32.0 million) and a second interim dividend of £253.2 million (2003 – £66.0 million) were paid during the period. The directors do not recommend the payment of a final dividend for the period ended 7 March 2004 (2003 - £Nil).

REPORT OF THE DIRECTORS (Continued)

Directors

The directors who served during the period were as follows:-

M.T. Aylwin		S.T. Laffin	
F.J. Bailey	- resigned 9 January 2004	J. Maclachlan	- resigned 14 May 2003
K.A. Bray	- resigned 4 June 2003	J.L. Sinclair	
L.R. Christensen		S.J. Webb	
C. Criado-Perez		D.G.C. Webster	
J.O. Davies		J.A. White	
J.P. Durkan		R.G. Williams	
R. Francis		D. Wilson	
F. Garcia-Valencia			

On 8 March 2004 Messrs. D.G.C. Webster, C. Criado-Perez, S.T. Laffin, R.G. Williams and J.L Sinclair resigned as directors of the Company.

On 9 March 2004 Ms. M.M. Melnyk and Messrs M. Ackroyd, M. Gunter, D.R. Hutchinson and R.W. Stott were appointed directors of the Company. On the same date Mr. D. Wilson resigned as a director of the Company.

On 19 March 2004 Messrs R. Francis, F. Garcia-Valencia and S.J. Webb resigned as directors of the Company.

On 5 May 2004 Mr. J.P.Durkan resigned as a director of the Company.

On 11 June 2004 Mr. J.O. Davies resigned as a director of the Company.

On 18 June 2004 Mr. L.R. Christensen resigned as a director of the Company.

On 25 June 2004 Mr. J.A. White resigned as a director of the Company.

On 9 March 2004 Mr J.J. Burke was appointed as secretary of the Company in place of Mr. D. Wilson who resigned on that date.

Directors' interests

The Company is a wholly owned subsidiary of Safeway Limited and consequently none of the directors have any interest in the shares of the Company.

REPORT OF THE DIRECTORS (Continued)

The following directors who were not also directors of the Company's ultimate holding company at 7 March 2004 had the following interests in the ordinary 25p shares of Safeway Limited at the end of the period as indicated below:-

	7 March 2004		29 March 2003	
	Shares	Share options	Shares	Share options
M.T. Aylwin	25,599	64,000	15,985	270,967
J.O. Davies	73,189	129,272	29,287	392,272
J.P. Durkan	2,055	69,000	2,055	272,000
R. Francis	-	60,000	-	145,000
F. Garcia-Valencia	-	-	-	149,000
S.J. Webb	63,564	105,272	22,462	312,272
J.A. White	40,839	113,000	35,027	407,277
D. Wilson	-	60,000	-	148,000

Share options granted to and exercised by directors during the period, together with those lapsing during the period, are set out below:-

	Granted	Exercised		Granted	Exercised	Lapsed
M.T. Aylwin	-	206,967	R. Francis	-	85,000	
J.O. Davies	-	263,000	S.J. Webb	-	207,000	
J.P. Durkan	-	203,000	J.A. White	-	292,543	1,734
F. Garcia-Valencia	-	149,000	D. Wilson	-	88,000	

All outstanding Safeway Executive Share Option Scheme options have lapsed and are no longer exercisable

At the period-end Messrs. D.G.C. Webster, S.T. Laffin, C. Criado-Perez, L.R. Christensen, R.G. Williams and J.L. Sinclair were all directors of Safeway Limited and their interests in the shares of Safeway Limited are disclosed in the accounts of that company.

Details of options currently outstanding under the Safeway Sharesave Scheme are:-

Date of Grant	Subscription price	Last date when options exercisable
23 June 1999	204.00p	28 February 2005
28 June 2000	197.00p	28 February 2006
27 June 2001	296.00p	28 February 2007
26 June 2002	222.00p	29 February 2008

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

Supplier payment policy

A strategic objective of the group is to have mutually beneficial long-term relationships with our suppliers and we seek to settle, in advance, the terms of payment with suppliers and abide by those terms. The average number of days credit taken by the Company and the group for trade purchases at 7 March 2004 was 24 days (2003 - 29 days), whereas the average during the period was 31 days (2003 - 30 days).

Employment policies

We are committed to promoting policies to ensure that employees and those who seek to work for us are treated equally regardless of sex, marital status, age, creed, colour, race, nationality or any other similar factors.

It is the group's policy to give full and fair consideration to applications for employment by people who are disabled, to continue wherever possible the employment of staff who become disabled and to provide equal opportunities for the career development of disabled employees.

The health and safety of the group's employees, customers and members of the general public who may be affected by the group's activities is a matter of primary concern. Accordingly, it is the group's policy to manage its activities so as to avoid causing any unnecessary or unacceptable risk to the health and safety of employees and members of the public.

The number and wide geographic distribution of the group's operating locations make it essential to communicate effectively with employees. Communications and consultation within the group's retail activities are principally through the operational structure of store and area teams, with particular use being made of the Meetings for Everyone, which are held regularly, video conferencing with regional depots and Company magazines. Copies of the Company's Annual and Interim Reports are made available at the group's principal office and operating locations.

Charitable and Political Contributions

During the period, the group donated £129,390 to charities (2003 - £791,155). No political contributions were made during the period (2003 - £Nil).

Auditors

KPMG Audit Plc have indicated their willingness to continue in office and a resolution to re-appoint them as auditors will be proposed at the forthcoming Annual General Meeting.

Safeway Stores Limited,
6 Millington Road,
Hayes,
Middlesex,
UB3 4AY.

BY ORDER OF THE BOARD
J.J. Burke
Secretary
13 December 2004

DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and the group and of the profit for that year. In preparing the accounts the directors are required to:

* select suitable accounting policies and then apply them consistently;

* make judgements and estimates that are reasonable and prudent;

* state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and

* prepare the accounts on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the group and to enable them to ensure that the accounts comply with the Companies Act 1985. They have general responsibility for safeguarding the assets of the Company and the group and to prevent and detect fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF SAFEWAY STORES LIMITED

We have audited the financial statements on pages 10 to 35.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 8, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Company is not disclosed.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the group as at 7 March 2004 and of the group's loss for the 49 week period then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
Leeds.

16 December 2004

GROUP PROFIT AND LOSS ACCOUNT

FOR THE 49 WEEK PERIOD ENDED 7 MARCH 2004

	Notes	Before exceptional items	Exceptional items (Note 3)	49 weeks to 7 March 2004	52 weeks to 29 March 2003 (restated)
		£m	£m	£m	£m
GROUP AND SHARE OF BP JOINT VENTURE SALES	1	8,522.0	-	8,522.0	9,230.7
Less: Value Added Tax		(660.1)	-	(660.1)	(693.5)
GROUP AND SHARE OF BP JOINT VENTURE SALES, excluding Value Added Tax	1	7,861.9	-	7,861.9	8,537.2
Less: Share of BP joint venture sales excluding Value Added Tax		(174.8)	-	(174.8)	(167.8)
GROUP TURNOVER, excluding Value Added Tax		7,687.1	-	7,687.1	8,369.4
Cost of sales		(6,058.0)	(212.0)	(6,270.0)	(6,602.3)
GROSS PROFIT		1,629.1	(212.0)	1,417.1	1,767.1
Administrative expenses*	2	(233.0)	(42.3)	(275.3)	(188.5)
Distribution costs		(1,079.6)	(15.4)	(1,095.0)	(1,246.3)
GROUP OPERATING PROFIT		316.5	(269.7)	46.8	332.3
Share of operating profit of BP joint venture	4	5.7	-	5.7	5.4
TOTAL OPERATING PROFIT:					
Group and share of BP joint venture		322.2	(269.7)	52.5	337.7
Net property profits	3, 5	-	4.7	4.7	2.7
Net interest payable and similar charges	6	(40.0)	(8.0)	(48.0)	(37.6)
Other finance income		2.4	-	2.4	21.7
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	7	284.6	(273.0)	11.6	324.5
Tax on profit on ordinary activities	9	(136.5)	97.7	(38.8)	(111.6)
(LOSS)/PROFIT FOR THE FINANCIAL PERIOD		148.1	(175.3)	(27.2)	212.9
Dividends paid and proposed	10	(285.2)	-	(285.2)	(98.0)
RETAINED (LOSS)/PROFIT FOR THE PERIOD		(137.1)	(175.3)	(312.4)	114.9

* Administration expenses for 2003 include exceptional items of £44.5m (Note 3)

All operations of the group continued throughout both periods and no operations were acquired or discontinued.

The audited profit and loss account for the 52 weeks to 29 March 2003 has been restated following the amendment to FRS 5 (see Statement of Accounting Policies), the adoption of FRS 17 (see Note 21) and to re-categorise certain non-operating exceptional items as operating exceptional items.

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

FOR THE 49 WEEK PERIOD ENDED 7 MARCH 2004

	Notes	2004	2003 (restated)
		£m	£m
(LOSS)/PROFIT FOR THE FINANCIAL PERIOD		(27.2)	212.9
Actuarial loss recognised in the pension scheme	21	(86.5)	(272.4)
Current tax thereon		22.2	0.4
Deferred tax thereon		3.8	81.3
TOTAL RECOGNISED GAINS AND LOSSES RELATING TO THE FINANCIAL PERIOD		(87.7)	22.2
Prior year adjustment	21	(151.9)	
TOTAL LOSSES SINCE LAST ANNUAL REPORT		(239.6)	

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

FOR THE 49 WEEK PERIOD ENDED 7 MARCH 2004

	GROUP		COMPANY	
	2004	2003 (restated)	2004	2003 (restated)
	£m	£m	£m	£m
(Loss)/Profit for the financial period	(27.2)	212.9	(111.6)	155.9
Dividends paid and proposed	(285.2)	(98.0)	(285.2)	(98.0)
Retained (loss)/profit for the period	(312.4)	114.9	(396.8)	57.9
Other recognised gains and losses	(60.5)	(190.7)	(60.5)	(190.7)
Net reduction in shareholders' funds	(372.9)	(75.8)	(457.3)	(132.8)
Original equity shareholders' funds, beginning of period	1,564.3	1,450.4	1,440.7	1,383.8
Prior year adjustment	(151.9)	37.8	(151.9)	37.8
Revised equity shareholders' funds, beginning of period	1,412.4	1,488.2	1,288.8	1,421.6
Equity shareholders' funds, end of period	1,039.5	1,412.4	831.5	1,288.8

BALANCE SHEETS AT 7 MARCH 2004

		GROUP		COMPANY	
		2004	2003 (restated)	2004	2003 (restated)
	Notes	£m	£m	£m	£m
FIXED ASSETS					
Tangible fixed assets	11	3,968.9	4,077.8	3,764.0	3,879.5
Investment in BP joint venture	12				
Share of gross assets		83.3	77.8	77.6	77.8
Less: Share of gross liabilities		(8.5)	(11.1)	(8.5)	(11.1)
		74.8	66.7	69.1	66.7
Other investments	12	-	-	458.0	458.2
		4,043.7	4,144.5	4,291.1	4,404.4
CURRENT ASSETS					
Stocks	13	312.6	426.5	302.8	416.4
Debtors	14	117.5	216.9	238.1	327.7
Cash at bank and in hand		1.1	-	-	-
		431.2	643.4	540.9	744.1
CREDITORS (due within one year)					
Bank overdrafts	16	(957.3)	(649.8)	(1,239.3)	(882.6)
Loans	16	(3.5)	(3.0)	(3.5)	(3.0)
Other creditors	15	(917.4)	(1,156.4)	(1,193.3)	(1,412.3)
		(1,878.2)	(1,809.2)	(2,436.1)	(2,297.9)
NET CURRENT LIABILITIES		(1,447.0)	(1,165.8)	1,895.2	(1,553.8)
TOTAL ASSETS LESS CURRENT LIABILITIES		2,596.7	2,978.7	2,395.9	2,850.6
CREDITORS (due after one year)					
Loans	16	(1,164.3)	(1,166.9)	(1,164.3)	(1,166.9)
PROVISIONS FOR LIABILITIES AND CHARGES	17	(232.2)	(247.5)	(239.4)	(243.0)
NET ASSETS – excl. pension liability		1,200.2	1,564.3	992.2	1,440.7
Net Pension liability	21	(160.7)	(151.9)	(160.7)	(151.9)
NET ASSETS – incl. pension liability		1,039.5	1,412.4	831.5	1,288.8
CAPITAL AND RESERVES					
Called-up share capital	18	229.5	229.5	229.5	229.5
Profit and loss account	19	810.0	1,182.9	602.0	1,059.3
EQUITY SHAREHOLDERS'FUNDS		1,039.5	1,412.4	831.5	1,288.8

The balance sheet as at 29 March 2003 has been restated following the adoption of FRS 17 resulting in an additional liability of £151.9 million with an equal reduction in reserves (see Note 21).

Approved by the Board of Directors on 13 December 2004 and signed on its behalf by:

R W Stott DIRECTORS
M Ackroyd

STATEMENT OF ACCOUNTING POLICIES

7 MARCH 2004

The following principal accounting policies have been applied consistently in dealing with items which are considered material in relation to the group's financial statements throughout the period and the preceding period, except for the restatement of sales following the amendment to FRS 5 as discussed below, and the adoption of FRS 17 (see Note 21).

Basis of accounting

The following accounts have been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards. They are prepared to 7 March 2004, the last day of trading prior to Safeway plc's acquisition by Wm Morrison Supermarkets PLC on 8 March 2004. Accordingly, these accounts are for the 49 week period to 7 March 2004 compared with the 52 week period to 29 March 2003. The accounting reference date will be harmonised with Wm Morrison Supermarkets PLC from 30 January 2005. Under the provisions of Financial Reporting Standard No.1 (Revised), the Company has not presented a cash flow statement because its ultimate holding company has prepared consolidated accounts which include the Company and which contain a cash flow statement.

Principles of consolidation

The group accounts comprise the accounts of the Company, its subsidiary undertakings and its share of the profits or losses from joint ventures. The results of subsidiaries acquired or disposed of in the year are included in the group profit and loss account as from or up to their effective date of acquisition or disposal.

Goodwill arising on the acquisition of businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight line basis over its useful economic life. Provision is made for any impairment.

Goodwill arising in connection with the acquisition of subsidiaries and businesses prior to 3 April 1999 has been written off against reserves and has not been re-instated on the balance sheet. When a business is disposed of, the applicable goodwill is charged to the profit and loss account in the year of disposal.

Goodwill arising in the future will be capitalised and amortised in accordance with FRS10.

No profit and loss account is presented for the Company, as permitted by Section 230 of the Companies Act 1985.

Investments in subsidiaries and joint ventures

In the Company's accounts, investments in subsidiaries and joint ventures are stated at cost, less provision for impairment. Only dividends received and receivable are credited to the Company's profit and loss account.

Tangible fixed assets

Tangible fixed assets are stated at cost net of accumulated depreciation and any provision for impairment. Interest costs relating to the financing of freehold and long leasehold developments are capitalised at the weighted average cost of the related borrowings up to the date of completion of the project.

Freehold land is not depreciated unless, in the opinion of the directors, an impairment has occurred.

Depreciation is provided to write off the cost of other tangible fixed assets over their estimated economic lives on a straight-line basis as follows:-

Freehold and long leasehold buildings	- 2.5% per annum
Short leasehold buildings	- 2.5% per annum or term of lease if less
Plant, equipment and motor vehicles	- rates between 15% and 33%

The above depreciation rates take into account the results of a review of the useful economic lives of fixed assets undertaken by the Directors. The useful economic lives of certain items of plant, equipment and motor vehicles was revised, effective from the start of the financial period. The impact on the depreciation charge in the period is not significant. The previous rates applied to these fixed assets is summarised below:-

Plant and equipment	- 4 years to a maximum of 8 years
Motor cars and commercial vehicles	- 4 years to a maximum of 6 years
Computer hardware	- 4 years to a maximum of 6 years

In the case of poor performing or proposed replacement stores, provisions for impairment are made in accordance with FRS11 - Impairment of Fixed Assets and Goodwill.

No depreciation is provided on assets in the course of construction.

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

Operating leases

Rentals under operating leases of land and buildings and other assets are charged on a straight line basis over the lease term to the profit and loss account.

Finance leases

Plant, equipment and vehicles which are leased but provide the group with substantially all the benefits and risks of ownership are capitalised as fixed assets at the original cost to the lessor.

Stocks

Stocks for the group comprise finished goods for resale and are stated at the lower of cost and net realisable value.

STATEMENT OF ACCOUNTING POLICIES (Continued)

Foreign currency

Transactions in foreign currencies are translated into sterling at the rates of exchange current at the dates of the transactions. Foreign currency monetary assets and liabilities in the balance sheet are translated into sterling at the rates of exchange ruling at the end of the year. Resulting exchange gains and losses are taken to the profit and loss account.

Pension scheme contributions

Retirement benefits to eligible employees are provided by a defined benefit scheme which is funded by contributions from the group and employees and its assets are held in a separate trustee administered fund. Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. The pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full. The movement in the surplus or deficit is split between operating charges, finance items and, in the statement of total recognised gains and losses, actuarial gains and losses.

Contributions in respect of money purchase schemes are charged to the profit and loss account as they arise.

Sales

Sales represent proceeds from external customers, and are inclusive of excise duty and VAT.

Following the publication of the amendments to Financial Reporting Standard 5 on 13 November 2003, the company changed its accounting policy to account for sales net of staff discounts, coupons and the free elements of multi-buy transactions, and to account for the commission element in electronic mobile phone top-ups (rather than the full cash received). The prior year comparatives have been restated accordingly, with group turnover reducing by £269.3m cost of sales reducing by £204.1m and distribution costs reducing by £65.2m.

Cost of sales and distribution costs

Cost of sales represents the purchase cost of goods for resale and includes the cost of transfer to the point of sale. In the normal course of business, Safeway receives payments from suppliers in accordance with negotiated trading terms. Such payments are recognised as a deduction against cost of sales to the extent that they are earned.

Distribution costs represent the cost of holding goods at the point of sale, selling costs and the costs of transferring goods to the customer. They include store operating expenses.

STATEMENT OF ACCOUNTING POLICIES (Continued)

Taxation

UK corporation tax is provided at amounts expected to be paid (or recovered) using tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

In accordance with FRS19, deferred tax is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at rates expected to apply when they crystallise, based on tax and laws enacted or substantially enacted at the balance sheet date. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements.

Deferred tax assets are only recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

NOTES TO THE ACCOUNTS

1. TRADING INFORMATION

The group's sole trading activity is grocery retailing which is carried out almost entirely in the United Kingdom.

2. NET OPERATING EXPENSES

Included in administrative expenses is a management fee on £5.3 million (2003-£10.2million) payable to the ultimate holding company for services provided.

3. EXCEPTIONAL ITEMS

	2004	2003
	£m	£m
Acquisition of Fitzwilton shareholding		
- write down of investment	-	(22.0)
Pension past service credit	69.6	-
Staff retention and loyalty bonus payments in connection with bid activity	(15.6)	(5.5)
Staff redundancy costs	(10.2)	-
Advisory fees in connection with bid activity	(28.8)	(17.0)
Other bid-related expenses	(1.6)	-
Changes in estimations	(291.1)	-
	(277.7)	(44.5)
Net property profits	4.7	2.7
	(273.0)	(41.8)
Tax relief on above	97.7	1.7
Total exceptional items after tax	(175.3)	(40.1)

Exceptional operating costs of £56.2 million (2003 - £22.5 million) were incurred in the period relating to the prolonged bid process, which began in January 2003 with the announcement of the proposed merger with Morrisons and the subsequent expressions of interest in Safeway from other parties, continued to run its course. Following a lengthy process of regulatory scrutiny, the group was finally acquired by Wm Morrison Supermarkets PLC on 8 March 2004. The exceptional costs comprised £15.6 million (2003 - £5.5 million) of staff retention and loyalty bonus payments, £10.2 million of staff redundancy costs (2003 – £Nil), £28.8 million (2003 - £17.0 million) of banking and other professional and advisory fees in connection with the bid activity, and £1.6 million (2003 - £Nil) of other bid-related expenses.

On 5 July 2002 Safeway acquired the 50% share of Safeway Stores (Ireland) Limited which it did not already own. Safeway paid Fitzwilton £13.7 million for its shareholding in Safeway Stores (Ireland) Limited and, under the terms of the joint venture agreement, a further £8.3 million as a termination payment.

The changes in estimation techniques are discussed in more detail in the Director's Report and relate primarily to supplier income adjustments, stock provisions, supplier dispute provisions, and the petrol filling station decommissioning provision. The pension past service credit has arisen due to a change in the assumptions relating to enhanced pension benefits

The cash outflow during the period in respect of these items was £75.4 million (2003 - £24.5 million).

4. SHARE OF BP JOINT VENTURE OPERATING PROFIT

The group has a joint venture partnership with BP Oil UK Limited to develop, on certain sites, a joint retailing business in the convenience store market linked to petrol filling stations (Note 12 below). Total sales of £400.8 million (2003 - £385.4 million) were generated during the year from 60 sites trading at the end of the period. The group's share of these sales was 50%, i.e. £200.4 million (2003 - £192.7 million).

The joint venture made an operating profit in the period of £11.4 million (2003 - £10.8 million). The group's share of this profit was 50% i.e. £5.7 million (2003 - £5.4 million).

During the period, the group purchased products on behalf of the partnership totalling £91.9 million (2003 - £88.0 million) and provided distribution services for a fee of £5.3 million (2003 - £5.1 million).

5. NET PROPERTY PROFITS/(LOSSES)

	2004	2003
	£m	£m
Profits on property disposals	5.2	3.6
Losses on property disposals	(0.5)	(0.9)
	4.7	2.7

6. NET INTEREST PAYABLE AND SIMILAR CHARGES

	2004	2003
	£m	£m
Interest payable:		
Short term bank loans and overdrafts repayable within five years	(25.2)	(25.7)
Finance charges payable on finance leases	(0.7)	(0.8)
Loans from ultimate holding company	(23.0)	(24.5)
	(48.9)	(51.0)
Interest capitalised on freehold and long leasehold developments	0.7	4.1
	(48.2)	(46.9)
Other	0.2	9.3
	(48.0)	(37.6)

Interest costs relating to the financing of freehold and long leasehold developments are capitalised at the weighted average cost of the related borrowings up to the date of completion of the project.

7. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Profit on ordinary activities before taxation is stated after charging:-

	2004	2003 (restated)
	£m	£m
Depreciation of tangible fixed assets	181.7	195.7
Hire charges under operating leases		
- Plant and equipment	31.2	31.7
- Property	53.4	56.1
Auditors' remuneration	1.0	0.3
Staff costs (Note 8 below)	899.0	1,018.2

Other fees paid to the auditors during the year totalled £1,900,000 (2003 - £540,000). The fees related mainly to accounting advice and assistance in connection with Safeway's proposed acquisition by Morrisons and the subsequent expressions of interest in Safeway from other parties.

8. STAFF COSTS AND DIRECTORS' REMUNERATION

(a) The average monthly number of persons employed by the group was as follows:-

	2004	2003
	Number	Number
Total employed	82,926	89,745
Full-time equivalent	53,862	57,417

At 7 March 2004, the total number of employees was 81,232 (2003 – 85,316) and the full-time equivalent number was 52,963 (2003 – 55,285).

(b) Staff costs during the period amounted to:-

	2004	2003 (restated)
	£m	£m
Wages and salaries	875.1	917.6
Social security costs	60.3	56.2
Other pension costs (see Note 21)	(36.4)	44.4
	899.0	1,018.2

(c) Long-term incentive plan

The ultimate holding company operated a long-term incentive plan for directors and senior executives of the Company and executive directors of the ultimate holding company.

The plan was a performance share plan. Under the terms of the plan, executives received a conditional award of shares at the beginning of a three year cycle. The actual number of shares over which executives obtained vested rights depended on the ultimate holding company's performance over that same period. Executives had no rights or entitlements to an award of shares and no awards were made if a participant left the Company's employment prior to the end of the performance period.

Cycles had been initiated for 2000, 2001 and 2002. These cycles covered the financial years ending in 2003, 2004 and 2005 respectively. Awards were determined by reference to both the ultimate holding company's total shareholder return compared to that of a basket of competitor companies and the increase in earnings per share. Both measures were determined independently and each may have provided up to 50% of an individual's personal maximum award.

The performance of the 2000 cycle covered the three financial years ended 29 March 2003. Over the three year period from April 2000 to March 2003, the ultimate holding company's compound EPS performance was 21.2% per annum which resulted in a maximum award. The ultimate holding company's TSR increased on average by 18.5% per annum compared to the basket of competitor companies which increased on average by 3.0% per annum. Accordingly, the ultimate holding company outperformed the index of comparator companies by 15.5% per annum which resulted in a maximum award. Together the EPS and TSR performance resulted in an award of 100% under the 2000 cycle.

The performance of the 2001 cycle covered the period from April 2001 to March 2004. The ultimate holding company's compound EPS performance was 2.6% per annum which resulted in a nil award. The ultimate holding company's TSR increased on average by 4.6% per annum compared to the basket of competitor companies which increased on average by 6.6% per annum. Accordingly, the ultimate holding company performed against the index of comparator companies by –1.9% per annum which resulted in a 12.6% award. Together the EPS and TSR performance resulted in an award of 12.6% under the 2001 cycle.

The performance of the 2002 cycle covered the period from April 2002 to March 2004. The ultimate holding company's compound EPS performance was –6.1% per annum which resulted in a nil award. The ultimate holding company's TSR increased on average by 4.2% per annum compared to the basket of competitor companies which increased on average by 4.1% per annum. Accordingly, the ultimate holding company performed against the index of comparator companies by 0.1% per annum which resulted in a 20.2% award. Together the EPS and TSR performance resulted in an award of 20.2% under the 2002 cycle.

The 2000, 2001 and 2002 cycle awards vested to participants on 2 March 2004.

(d) Directors' remuneration:-

The total amounts for directors' remuneration and other benefits were as follows:-

	2004 £'000	2003 £'000
Emoluments	4,964	2,714
Company contributions to money purchase scheme	143	154
Long term incentive plan	740	116
	5,847	2,984

The seventeen directors (2003 - seventeen directors) who served during the period were all members of the Safeway Pension Scheme, a defined benefit scheme. Eleven of these directors (2003 – twelve directors) were remunerated by Safeway Stores Limited. Seven of the directors remunerated by Safeway Stores Limited (2003 – eight directors) were also members of the money purchase scheme.

The total gains made by directors exercising share options in the period was £2,775,008 (2003 - £5,579).

Eight directors received an award under the long-term incentive plan (2003 – seven).

The directors' remuneration shown above included the following in respect of the highest paid director:-

	2004	2003
	£'000	£'000
Emoluments	345	293
Company contributions to money purchase scheme	-	-
Long-term incentive plan	111	32
	456	325

The accrued pension entitlement under the Company's defined benefit scheme of the highest paid director at 7 March 2004 was £18,294 (2003 - £105,676).

Certain of the directors are remunerated by and as directors or officers of the ultimate holding company.

9. TAX ON PROFIT ON ORDINARY ACTIVITIES

(a) The tax charge comprises:-

	2004	2003 (restated)
	£m	£m
United Kingdom corporation tax at 30% (2003 - 30%)	64.0	98.2
Overseas taxes	2.8	2.0
Adjustments in respect of prior years	2.2	(3.1)
Total current tax	69.0	97.1
Deferred tax	(16.2)	13.7
Adjustments in respect of prior years	(14.0)	0.8
	38.8	111.6

(b) Reconciliation of the current tax charge:-

	2004	2003 (restated)
	£m	£m
Profit on ordinary activities before taxation	11.6	324.5
Tax at standard rate of 30%	3.4	97.3
Effect of:		
Expenses not allowable for tax purposes		
Non allowable depreciation	11.3	11.5
Other expenses	13.7	12.0
Tax losses utilised but not previously recognised	-	(2.9)
Effect of overseas tax rates	-	(3.6)
Accelerated capital allowances	1.7	(13.7)
Short term timing differences	14.5	-
Current tax on pension scheme	22.2	(0.4)
Prior year items	2.2	(3.1)
Tax charge for year	69.0	97.1

10. DIVIDENDS PAID AND PROPOSED

	2004	2003
	£m	£m
Interim dividends paid (13.94p (2003 - 13.94p) per ordinary share)	32.0	32.0
Interim dividends paid/proposed (110.32p (2003 – 28.75p) per ordinary share)	253.2	66.0
	285.2	98.0

11. TANGIBLE FIXED ASSETS
GROUP

	Land and buildings			Plant, Equipment And Vehicles	
	Freehold	Long leasehold	Short Leasehold		Total
	£m	£m	£m	£m	£m
Cost:-					
Beginning of period	3,452.7	355.3	237.9	1,460.3	5,506.2
Additions	35.7	6.9	1.1	56.6	100.3
Disposals	(19.0)	(3.0)	(0.2)	(24.3)	(46.5)
Reclassification	(2.3)	0.2	(0.2)	2.3	-
End of period	3,467.1	359.4	238.6	1,494.9	5,560.0
Depreciation:-					
Beginning of period	393.9	59.0	87.3	888.2	1,428.4
Charged during the period	40.6	17.1	6.1	117.9	181.7
Disposals	(3.7)	(1.1)	(2.0)	(12.2)	(19.0)
Reclassification	(1.2)	1.2	-	-	-
End of period	429.6	76.2	91.4	993.9	1,591.1
Net book value:-					
Beginning of period	3,058.8	296.3	150.6	572.1	4,077.8
End of period	3,037.5	283.2	147.2	501.0	3,968.9

Assets in course of construction included in cost above:-

Beginning of period	147.8	2.8	-	6.9	157.5
End of period	163.8	-	2.0	9.8	175.6

Freehold land included in the total cost above amounts to £1,473.8 million (2003 - £1,438.8 million).

At 7 March 2004, the net book value of tangible fixed assets included £10.7 million of leased plant, equipment and vehicles (2003 - £16.2 million). The depreciation charged in respect of leased plant, equipment and vehicles during the period amounted to £2.1 million (2003 - £2.2 million).

Interest capitalised on freehold and long leasehold developments included in additions during the period amounted to £0.7 million (2003 - £4.1 million). The cumulative amount of interest capitalised in the total cost above amounts to £148.4 million (2003 - £147.7 million).

11. TANGIBLE FIXED ASSETS (Continued)

COMPANY

	Land and buildings			Plant, Equipment And Vehicles	Total
	Freehold	Long leasehold	Short leasehold		
	£m	£m	£m	£m	£m
Cost:-					
Beginning of period	3,295.2	314.5	233.6	1,416.0	5,259.3
Additions	22.7	6.6	1.2	55.3	85.8
Disposals	(18.6)	(3.0)	(0.2)	(23.8)	(45.6)
Reclassification	(2.3)	0.2	(0.2)	2.3	-
End of period	3,297.0	318.3	234.4	1,447.5	5,299.5
Depreciation:-					
Beginning of period	380.8	51.5	85.8	861.7	1,379.8
Charged during the period	38.4	15.6	6.0	114.5	174.5
Disposals	(3.7)	(1.1)	(1.9)	(12.1)	(18.8)
Reclassification	(1.2)	1.2	-	-	-
End of period	414.3	67.2	89.9	964.1	1,535.5
Net book value:-					
Beginning of period	2,914.4	263.0	147.8	554.3	3,879.5
End of period	2,882.7	251.1	144.5	485.7	3,764.0

Assets in course of construction included in cost above:-

Beginning of period	136.6	2.8	-	6.9	146.3
End of period	152.3	-	2.0	9.8	164.1

Freehold land included in the total cost above amounts to £1,407.5 million (2003 - £1,383.1 million restated).

At 7 March 2004, the net book value of tangible fixed assets included £10.7 million of leased plant, equipment and vehicles (2003 - £16.2 million). The depreciation charged in respect of leased plant, equipment and vehicles during the period amounted to £2.1 million (2003 - £2.2 million).

Interest capitalised on freehold and long leasehold developments included in additions during the period amounted to £0.2 million (2003 - £3.6 million). The cumulative amount of interest capitalised in the total cost above amounts to £144.6 million (2002 - £144.4 million).

12. INVESTMENTS

(a) Fixed asset investments comprise:-

	GROUP		COMPANY	
	2004 £m	2003 £m	2004 £m	2003 £m
Investment in BP joint venture	74.8	66.7	69.1	66.7
Subsidiaries	-	-	458.0	458.2
	74.8	66.7	527.1	524.9

(b) Investment in joint venture with BP

The group has a joint venture partnership with BP Oil UK Limited to develop, on certain sites, a joint retailing business in the convenience store market linked to petrol filling stations (Note 4 above). The investment of £74.8 million (2003 - £66.7 million) reflects the group's share of the cost of developing and fitting out these sites and our share of the profits or losses.

During the period, the increase in the investment of £8.1 million is explained by the group's share of the cost of developing and fitting out sites (£2.4 million) and its share of the profit (£5.7 million).

At 7 March 2004, the group's share of the gross assets and the gross liabilities of the partnership are considered to be material to the group and are disclosed on the face of the balance sheet. They totalled £83.3 million (2003 - £77.8 million) and £8.5 million (2003 - £11.1 million) respectively.

(c) Investments in Subsidiaries

The movement on this account during the period was:-

	2004 £m	2003 £m
Beginning of period	458.2	291.5
Additions during the period	-	166.7
Impairments during the period	(0.2)	-
End of period	458.0	458.2

Set out below are the Company's principal subsidiaries:

Company	% holding	Principal area of operation	Country of Registration	Business
Safeway Stores (Card Services) Ltd	100.00	United Kingdom	England	Financial Services
Safeway Stores (Ireland) Limited	100.00	Northern Ireland	England	Grocery retailer
Safeway (Overseas) Limited	100.00	Channel Islands, Gibraltar and Isle of Man	England	Grocery retailer

In addition to the above, the Company has a number of other subsidiary companies, particulars of which will be annexed to the next annual return of the Company.

13. STOCKS

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

14. DEBTORS

	GROUP		COMPANY	
	2004	2003	2004	2003
	£m	£m	£m	£m
Amounts falling due within one year:-				
Trading debtors	67.4	146.8	66.9	146.8
Amounts owed by ultimate holding company	-	24.5	-	24.5
Amounts owed by group undertakings	-	-	93.8	114.4
Taxation recoverable	2.3	-	30.2	-
Interest receivable	-	2.1	-	-
Tangible fixed asset disposals	-	4.6	-	4.6
Other debtors	28.6	15.6	28.3	14.1
Prepayments and accrued income	19.2	23.3	18.9	23.3
	117.5	216.9	238.1	327.7

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

15. OTHER CREDITORS

	GROUP		COMPANY	
	2004	2003 (restated)	2004	2003 (restated)
	£m	£m	£m	£m
Amounts falling due within one year:-				
Trade creditors	549.9	613.9	549.9	613.9
Amounts due to ultimate holding company	59.2	-	52.7	-
Amounts due to group undertakings	-	-	286.5	284.4
Amounts due to other group companies	-	113.7	-	113.7
Amounts due to BP joint venture	19.4	6.4	19.4	6.4
Current taxation	-	43.9	-	17.2
Interest payable	0.3	0.5	0.2	0.5
Social Security and PAYE	24.7	16.7	24.4	16.7
VAT	4.0	10.8	4.3	10.8
Other creditors	128.1	141.2	126.7	141.2
Accruals and deferred income	126.5	141.5	124.1	139.7
Accrued pension contributions	5.3	1.8	5.3	1.8
Proposed dividends	-	66.0	-	66.0
	917.4	1,156.4	1,193.3	1,412.3

The amounts due to the ultimate holding company, group undertakings and other group companies are all non-interest bearing.

The 2003 Group figures have been restated to separately disclose the onerous lease provision within Provisions (Note 17) and to combine Capital expenditure and Accruals and deferred income, in order to be consistent with the current period presentation.

16. FINANCIAL LIABILITIES

	Interest Rate	GROUP 2004 £m	GROUP 2003 £m	COMPANY 2004 £m	COMPANY 2003 £m
Due to ultimate holding company	Various	1,150.0	1,150.0	1,150.0	1,150.0
Unsecured overdrafts	Floating	957.3	649.8	1,239.3	882.6
Lease loan capital	Fixed	14.1	16.2	14.1	16.2
Other loan notes	Floating	3.7	3.7	3.7	3.7
		2,125.1	1,819.7	2,407.1	2,052.5
Less: Amount repayable Within one year		(960.8)	(652.8)	(1,242.8)	(885.6)
Amounts payable after one year		1,164.3	1,166.9	1,164.3	1,166.9

Financial liabilities are repayable as follows:-

	GROUP 2004 £m	GROUP 2003 £m	COMPANY 2004 £m	COMPANY 2003 £m
Due within one year:				
Bank	957.3	649.8	1,239.3	882.6
Lease	3.5	3.0	3.5	3.0
Due within one to two years:				
Lease	2.7	3.1	2.7	3.1
Due within two to five years:				
Lease	6.5	7.2	6.5	7.2
Other	3.7	-	3.7	-
Due after five years:				
Lease	1.4	2.9	1.4	2.9
Other	-	3.7	-	3.7
	975.1	669.7	1,257.1	902.5
No fixed repayment date	1,150.0	1,150.0	1,150.0	1,150.0
	2,125.1	1,819.7	2,407.1	2,052.5

The amount due to the ultimate holding company includes £300.0 million (2003 - £300.0 million) bearing interest at current market rates and repayable at one month's notice. The balancing items due to the ultimate holding company are non-interest bearing and are repayable at twelve months' notice.

17. PROVISIONS FOR LIABILITIES AND CHARGES

GROUP

	At 29 March 2003 (restated) £m	Charge/(credit) for the period £m	At 7 March 2004 £m
Deferred taxation	244.3	(30.3)	214.0
Onerous contracts re. leases	3.2	(0.4)	2.8
Petrol filling station decommissioning reserve	-	15.4	15.4
	247.5	(15.3)	232.2

The deferred tax liability can be analysed as follows:

	2004 £m	2003 £m
Accelerated capital allowances	238.0	244.3
Other timing differences	(30.3)	-
	244.3	244.3

COMPANY

	At 29 March 2003 (restated) £m	Charge/(credit) for the period £m	At 7 March 2004 £m
Deferred taxation	239.8	(18.6)	221.2
Onerous contracts re. leases	3.2	(0.4)	2.8
Petrol filling station decommissioning reserve	-	15.4	15.4
	243.0	(3.6)	239.4

The deferred tax liability can be analysed as follows:

	2004 £m	2003 £m
Accelerated capital allowances	234.9	239.8
Other timing differences	(13.7)	-
	221.2	239.8

18. CALLED-UP SHARE CAPITAL

	2004 £m	2003 £m
Authorised:-		
250,000,000 Ordinary shares of £1 each	250.0	250.0
Allotted, called-up and fully paid:-		
229,536,776 Ordinary shares of £1 each	229.5	229.5

19. PROFIT AND LOSS ACCOUNT

	GROUP		COMPANY	
	2004	2003 (restated)	2004	2003 (restated)
	£m	£m	£m	£m
Beginning of period				
As previously reported	1,334.8	1,220.9	1,211.2	1,154.3
Prior year adjustment	(151.9)	37.8	(151.9)	37.8
Restated	1,182.9	1,258.7	1,059.3	1,192.1
(Loss)/Profit for the financial period	(27.2)	212.9	(111.6)	155.9
Dividends paid and proposed	(285.2)	(98.0)	(285.2)	(98.0)
Other recognised gains and losses	(86.5)	(272.4)	(86.5)	(272.4)
Tax arising on actuarial loss	26.0	81.7	26.0	81.7
End of period	810.0	1,182.9	602.0	1,059.3

The cumulative amount of goodwill resulting from acquisitions in earlier financial years which has been written off against the group's reserves is £581.3 million (2003 - £581.3 million) and £39.2 million (2003 - £39.2 million) of negative goodwill has been credited direct to reserves.

20. COMMITMENTS AND CONTINGENCIES

(a) Capital commitments authorised and contracted for at the period-end totalled £43.3 million (2003 - £26.1 million).

(b) Lease commitments

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

	PROPERTY		PLANT AND EQUIPMENT	
	2004	2003	2004	2003
	£m	£m	£m	£m
Operating leases which expire:-				
Within one year	0.4	1.1	3.0	8.8
Within two to five years	4.5	5.0	25.4	23.2
After five years	49.1	50.0	-	-
	54.0	56.1	28.4	32.0

21. PENSIONS

The adoption of FRS 17 "Retirement Benefits" has required a change to the accounting treatment of pensions and the prior year results have been restated as follows:

Consolidated and company balance sheet

	Deferred tax asset £m	Pension liability £m	Consolidated profit and loss account reserves £m	Company profit and loss account reserves £m
29 March as previously reported	-	-	1,334.8	1,211.2
Adoption of FRS 17	65.1	(217.0)	(151.9)	(151.9)
29 March 2003 restated	65.1	(217.0)	1,182.9	1,059.3

Consolidated profit and loss account:

	Staff costs £m	Other finance income £m	Taxation £m	Profit for the financial period £m
29 March as previously reported	(997.9)	-	(111.2)	211.9
Adoption of FRS 17	(20.3)	21.7	(0.4)	1.0
29 March 2003 restated	(1,018.2)	21.7	(111.6)	212.9

If FRS 17 had not been adopted in 2004, profit before taxation would have moved to a loss of £27.1 million and the loss after taxation would have increased to £69.6 million.

The group operates a pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held in a separate trustee administered fund. The latest full actuarial valuation was carried out at 1 April 2001 and was updated for FRS 17 purposes to 7 March 2004 and 29 March 2003 by a qualified independent actuary.

The major assumptions used in this valuation were:

	2004	2003
Rate of increase in salaries	4.25%	4.10%
Rate of increase in pensions in payment	3.00%	2.50%
Rate of increase in pensions in deferred pensions	3.00%	2.60%
Discount rate applied to scheme liabilities	5.50%	5.60%
Inflation assumption	3.00%	2.60%

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

	2004	2003
Scheme assets		
Long term rate of return		
Equities	7.00%	8.60%
Bonds	5.25%	4.90%
Property	7.00%	5.60%
Cash	4.00%	3.50%

The fair value of the scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were:

	2004 £m	2003 £m
Equities	658.6	521.0
Bonds	142.2	139.0
Property	0.4	10.0
Cash	56.2	53.0
Total market value of assets	857.4	723.0
Present value of scheme liabilities	(1,087.0)	(940.0)
Deficit in the scheme - pension liability	(229.6)	(217.0)
Related deferred tax asset	68.9	65.1
Net pension liability	(160.7)	(151.9)

	2004 £m	2003 £m
Movement in (deficit)/surplus during the period:		
(Deficit)/surplus in the scheme at beginning of period	(217.0)	54.0
Current service cost	(33.2)	(44.4)
Contributions	35.1	24.1
Past service costs	69.6	-
Other finance income	2.4	21.7
Actuarial loss	(86.5)	(272.4)
Deficit in the scheme at the end of the period	(229.6)	(217.0)

	2004 £m	2003 £m
Analysis of other pension costs credited/(charged) in arriving at operating profit:		
Current service cost	(33.2)	(44.4)
Past service cost	69.6	-
	36.4	(44.4)

	2004 £m	2003 £m
Analysis of amounts included in other finance income:		
Expected return on pension scheme assets	50.7	72.5
Interest on pension scheme liabilities	(48.3)	(50.8)
	2.4	21.7

	2004 £m	2003 £m
Analysis of amounts recognised in the Statement of Total Recognised Gains and Losses		
Actual return less expected return on scheme assets	59.8	(258.3)
Experience gains and losses arising on scheme liabilities	-	(0.6)
Changes in assumptions underlying the present value of scheme liabilities	(146.3)	(13.5)
Actuarial loss recognised in statement of total recognised gains and losses	(86.5)	(272.4)

The history of experience gains and losses is as follows:	2004 £m	2003 £m
Difference between the expected and actual return on scheme assets		
- Amount	59.8	(258.3)
- Percentage of scheme assets	7.0%	35.7%
Experience gains and losses on scheme liabilities		
- Amount	-	(0.6)
- Percentage of present value of scheme liabilities	-	0.1%
Effects to changes in the demographic and financial assumptions underlying the present value of the scheme liabilities		
- Amount	(146.3)	(13.5)
- Percentage of present value of scheme liabilities	13.5%	1.4%
Total amount recognised in Statement of Total Recognised Gains and Losses		
- Amount	(86.5)	(272.4)
- Percentage of present value of scheme liabilities	8.0%	29.0%

22. CASH FLOW AND RELATED PARTY TRANSACTIONS

Under the provisions of Financial Reporting Standard No.1 (Revised), the Company has not presented a cash flow statement because its ultimate holding company has prepared consolidated accounts which include the Company and which contain a cash flow statement.

Under the provisions of Financial Reporting Standard No.8, the Company has not disclosed details of inter-group transactions because its ultimate holding company has prepared consolidated accounts which include the Company and are available to the public.

23. ULTIMATE HOLDING COMPANY

At 7 March the Company's ultimate holding company was Safeway plc, which headed the smallest and largest group in which the accounts were consolidated. These consolidated accounts are available to the public and may be obtained from their registered office at 6 Millington Road, Hayes, Middlesex, UB3 4AY. On 8 March 2004 the entire issued share capital of Safeway plc was acquired by Wm Morrison Supermarkets PLC. On 18 May 2004 Safeway plc and Safeway Stores plc were re-registered as private companies.