Safeway Limited

Directors' report and financial statements

Registered number 01299733

52 weeks ended 29 January 2012

Safeway Limited

52 weeks ended 29 January 2012

Contents

Directors' report

The Directors have pleasure in presenting their report and the Group's audited financial statements for the 52 weeks ended 29 January 2012

Result and dividend

The profit for the period after taxation amounted to £403m (2011 £350m) The Directors did not authorise a dividend during the year (2011 £nil) and do not propose a final dividend (2011 £nil)

Principal activity

The principal activity of the Group is the operation of retail supermarket stores.

The Group's ultimate parent company is Wm Morrison Supermarkets PLC.

Business review

The 'Group' refers to Safeway Limited and its subsidiary undertakings and the 'Morrisons Group' refers to Wm Morrison Supermarkets PLC and its subsidiary undertakings

2011/12 was another good year for the Group Against the backdrop of a difficult environment for the consumer, our unique fresh, quality and value offer made our stores a natural destination and more customers visited our stores than before We continued to improve our financial performance whilst investing for future growth

Total turnover was £9,471m, an increase of £520m (6%) Like-for-like sales rose compared to the prior period, along with customer numbers and average basket spend.

For the second year in a row, consumers were faced with increases in the price of oil, exacerbated by ongoing Sterling weaknesses With unleaded prices at the pump up by 15 4p per litre and diesel increasing by 18 5p, motorists were paying on average 15% more per litre at the pump than they did last year The demand for fuel is relatively inelastic and, whilst motorists continue to use their cars in times of austerity, they take time to shop around for the best deals, such as our 'Fuel Britannia' programmes

Inflationary effects took their toll on disposable incomes during the year, with the unwelcome impact of high oil prices feeding through, not just at the petrol pumps, but also throughout the supply chain Other core commodities increased in price too, adding to the pressure Market prices for beef and lamb rose by 15% and 11% respectively over the year, and average wheat prices were up by 32% (source ONS/Economic & Fiscal Outlook, OBD, November 2011). The increase in fuel prices alone reduced our customers' disposable income by some £600m, income that could otherwise have been spent in our stores. In this environment, consumers looked around for value and found it at Morrisons, where our sharp pricing, supported by innovative promotions, was welcomed by customers

Throughout the year, we noted the rise of the 'professional shopper', with customers taking time to shop around and look very carefully at pricing and offers in order to search out value This trend played to Morrisons strengths Our value proposition of everyday low prices, coupled with industry leading offers, and the flexibility of our vertical integration enabled us to meet our customers' need for great fresh food at affordable prices Offers such as our 49p produce deal and our two loaves of bread for £1 promotion helped our customers manage on tight budgets The market remained highly promotional, and our innovative promotions such as 'Pay Day Price Crunch' and 'Morrisons Millions' really caught the mood of the nation

Directors' report (continued)

Business review (continued)

Market overview

The UK grocery market continues to operate in a very tough economic climate, with consumer confidence close to record lows during the year In 2011, the market was worth £97bn, up by 4 2% on the previous year (source Kantar Worldpanel). Whilst this appears to be solid growth, it should be noted that space growth was approximately 4%, a historically high figure Within these figures, online grocery grew disproportionately, with 17% of UK adults buying food or groceries online, up from 10% three years ago The convenience market, which is measured separately, grew 4 6% to £34bn in 2011, and is expected to continue growing at a faster rate than the traditional grocery market for some time to come (source IGD).

Retail grocery volumes were flat in the year and it was inflation, averaging 5 5% through the year, which drove growth. CPI food inflation, as measured by the Office of National Statistics, was above 6% for much of the year but started to come down through the last quarter, reaching 3 4% in January 2012. Categories that saw particularly high inflation include oils and fats (10%), coffee and tea (10%), and meat (6%) (source: ONS/Economic & Fiscal Outlook)

Operating results

The Group's gross profit grew by 11% to £556m during the year The gross profit margin was 6% After cost of goods sold, the Group's two largest cost areas are store wages and distribution costs We continued to manage costs and improve efficiency in both areas whilst maintaining excellent standards and customer service levels

Value at the forefront of shoppers' minds

Household incomes were squeezed throughout 2011, due to the previously mentioned commodity and energy price pressures, and also as a result of the Government's fiscal measures, particularly the rise in VAT to 20% Cost pressures ran well ahead of wage settlements, with the result that disposable incomes overall fell 2.3% in 2011 A general unease about current and future expectations for the economy and for personal finances also saw shoppers managing more closely to a budget

As a result, pricing and overall value have become increasingly important factors in purchasing decisions More shoppers now regard price as their first consideration when choosing between products, compared with a year ago, with almost seven out of ten now saying they make the majority of their grocery shopping decisions before they get to store This is an increase of 40% since 2008 Promotions are increasingly important when shoppers are deciding which stores to shop at and what products to buy 70% of shoppers say promotions play a very important role in determining which stores they shop in, compared to 64% of shoppers in December 2010 (source: IGD ShopperVista) The grocery retail market has responded to these customer needs through an increased weight of promotional activity on branded goods Additionally, retailer own brand sales, which carry a lower average unit price, have been performing more strongly than branded products as shoppers look for ways to manage their expenditure

Strategy

In 2010, we outlined our vision to make Morrisons Group 'Different and Better than Ever' We are proud of what makes us different – a distinctive offer to customers centred around fresh food, craft skills and vertical integration through our manufacturing business; the way we lead and support our colleagues, and our unique heritage Being 'different' means building on these advantages, which set us apart from all our competitors and position us to win. Being 'better than ever' is about improving the way we do business – doing more of the things that matter for our customers – making great food, offering outstanding service and being more efficient so we can pass on the best savings possible It also means seizing opportunities to grow the business profitably through new formats, channels and categories, to meet more of our existing customers' needs and to reach new customers

Directors' report (continued)

Business review (continued)

Financial strategy

The underlying principles behind this strategy are
- growing sales ahead of market,
- delivering earnings that meet the expectations of shareholders, and
- maintaining a strong investment grade balance sheet

We are meeting these principles by
- increasing our customer appeal and growing sales organically and opening new stores,
- converting sales growth into profitable growth, and
- investing to yield an appropriate rate of return

Cash generated from operations

Cash from operating activities decreased by £198m to £163m as a result of an increase in working capital

Pensions

The Group's defined benefit pension arrangement is managed externally to, and independently of, the Group's operations Our approach to valuing our defined benefit pension obligations remains prudent At 29 January 2012, the scheme had a surplus of £9m (2011: £42m) The movement is summarised in the table below

Pension deficit bridge	**£m**
Net pension surplus at 30 January 2011	42
Actual v expected return on scheme assets	112
Actuarial loss due to changes in financial assumptions	(157)
Funding above annual service cost	1
Net pension interest	11
Net pension surplus at 29 January 2012	9

IAS19 'Employee benefits' requires the Group to assess the liabilities with reference to the market conditions at the balance sheet date and the Directors' best estimate of the experience expected from the schemes The movement in the year has been influenced by changes in assumptions due to changes in market conditions

Scheme assets performed better than assumed returns, however, the scheme liabilities increased to a greater extent due to a combination of financial and demographic changes in assumptions Over the year, market conditions fluctuated significantly, with corporate bond yield returns and inflationary expectations decreasing There has been no further update to the scheme's longevity assumptions this year, following the triennial valuation completed in April 2010

Key judgements and assumptions

Judgements and assumptions made in these financial statements are reviewed each reporting period Whilst some outcomes have been affected by the volatility in the financial markets, all judgements and assumptions in the accounting policies remain consistent with previous years 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 are supportable either by value in use or by market values. The impact of the current economic conditions on the assessment of going concern has been considered in the general information section of the Directors' report

Directors' report (continued)

Principal risks and uncertainties

As with all businesses, we face risk and uncertainty, which could impact the delivery of our strategy The Board has overall accountability for ensuring that risks are effectively managed across the Group, and that there is a system for internal control The Morrisons Group Management Board is responsible for implementing and maintaining the system of controls

Managing the risk management process

The Board believes a successful risk management framework balances risk and reward, and applies reasoned judgement and consideration of likelihood and impact in determining the Group's principal risks.

The list below sets out the most significant risks to the achievement of the Group's business goals The list does not include all risks that the Group faces and is not ranked in order of priority

Business interruption

Our distribution and systems infrastructure is fundamental to ensuring the normal continuity of trading in our stores If a major incident occurred to this infrastructure or another key facility this could have a detrimental impact on the business's ability to operate effectively

To reduce the chances of this happening and also to reduce the impact of such an event if it were to happen, we have developed recovery plans and invested in the creation of a remote IT disaster recovery site

Business strategy

In the long term, effectively managing the strategic risks that the Group faces will deliver benefits to all our stakeholders The Board understands that if the strategy and vision are not properly formulated or communicated then the long term aims of the Group will not be met and the business may suffer Recognising the importance of formulating and implementing a successful strategy, the strategy is developed by the Chief Executive of the Morrisons Group and senior executives It is considered and approved by the Board, which takes time each year to review and monitor its delivery through formal time set aside for this purpose

To ensure that our strategy is communicated and understood, the Morrisons Group engages with a wide range of stakeholders including shareholders, colleagues, suppliers and other groups. This continual process helps to ensure that the strategy remains relevant and improves the likelihood of success.

Colleague engagement and retention

The continued success of the Group relies heavily on the investment in the training and development of our colleagues. This is a critical element of the quality of service we offer to our customers.

The Group's employment policies, remuneration and benefits packages are designed to be competitive with other companies, as well as providing colleagues with fulfilling career opportunities. The Group continually engages with colleagues across the business to ensure that we keep strengthening our team at every level

Corporate citizenship

The Morrisons Group is committed to taking good care and, if we fail to act as a responsible corporate citizen or misjudge the 'mood of the nation', this could damage our reputation and, therefore, potentially lose the trust of our stakeholders and increase costs

The appropriate management evaluation and verification systems are integrated into operational management activities and these are overseen by Executive Management and the Morrisons Group's Corporate Compliance and Responsibility committee Delivery against targets and key performance indicators is regularly monitored and reported

Directors' report (continued)

Principal risks and uncertainties (continued)

Customer proposition

We operate in a very competitive industry Also, our customers' shopping habits are influenced by broader economic factors that our business does not control If we fail to keep our proposition aligned with customers' expectations, then they may choose not to shop with us and sales will suffer

The business uses data and analysis to provide insights that help explain what customer needs and wants are This informs product ranging, marketing, advertising and also the location of stores. The importance of getting this right is the reason that we invest in the development of our colleagues in order to make the right choices for our customers

Financial and treasury

The Group's financial results may be subject to volatility arising from movements in commodity prices, foreign currencies, interest rates and the availability of sources of funding. See note 13

Food and product safety

We are aware that, if we fail to deliver excellent standards of hygiene and safety in our products, there is a potential to harm our customers and damage our business reputation Our business focuses on fresh food and we have a vertically integrated business model, therefore, food safety is of paramount importance

We have established strict standards and monitoring processes to manage the risks associated with food safety throughout our Group and its supply chain Food hygiene practices are taken very seriously throughout our Group, and are monitored both through internal audit procedures and external bodies such as environmental health departments. We also maintain regular supplier assessments for food and general merchandise categories Our stock withdrawal procedures operate throughout our supply chain to minimise the impact to customers of any supplier recalls

Regulation

The Group operates in an environment governed by strict regulations to ensure the safety and protection of customers, shareholders, staff and other stakeholders and the operation of an open and competitive market These regulations include alcohol licencing, health and safety, the handling of hazardous materials, data protection, the rules of the stock exchange and competition law

In all cases, the Board takes its responsibilities very seriously, and recognises that breach of regulation can lead to reputational and financial damage to the Group There is clear, ultimate accountability with Directors for compliance with all areas of regulation In 2009, the Morrisons Group announced the creation of the Corporate Compliance and Responsibility Committee of the Board to provide greater oversight over many of these areas The business designs its policies and procedures to accord with relevant laws and regulations In respect of Competition Law and the Grocery Supply Code of Practice, these are monitored and reported on by the Company Secretary and Head of Legal Services for the Morrisons Group

Environment

The Morrisons Group recognises the importance of its environmental responsibilities, monitors its impact on the environment and designs and implements policies to reduce any damage that might be caused by the Morrisons Group's activities The Group operates in accordance with these policies, which are described in the Morrison Group's Annual report and financial statements which do not form part of this Report Initiatives designed to minimise the Group's impact on the environment include safe disposal of manufacturing waste, recycling and reducing energy consumption

Directors' report (continued)

Employment policy

The Group's comprehensive employment policies cover recruitment, selection, retention, remuneration, education, development and equality

Employee involvement

Employees are kept as fully informed as possible about the activities of the business This is achieved through internal publications, communications programmes, notice boards, briefings and local, regional and national consultative committees.

The Group recognises a number of trade unions and has a partnership agreement with USDAW

The Group encourages employee involvement in the financial performance of the business through participation in either the Group profit share scheme or management bonus plan or the Morrisons Group long term incentive plan and savings related share option schemes.

Employee relations

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

The Group gives full and fair consideration to applications for employment made by people with disabilities. The policy is to offer equal opportunity to all disabled candidates and employees who have a disability or become disabled in any way during the course of their employment A full assessment of the individual's needs is undertaken and reasonable adjustments are made to the work environment or practices in order to assist those with disabilities

All candidates and employees are treated equally in respect of recruitment, promotion, training, pay and other employment policies and conditions. All decisions are based on relevant merits and abilities.

Internal control

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

Payment to creditors

Supplier credit is an important factor in the success of the business. It is Group policy to ensure all payments are made within mutually agreed credit terms. Where disputes arise the Group attempts to sort these out promptly and amicably to ensure delays in payment are kept to a minimum Creditors are paid by Wm Morrison Supermarkets PLC and recharged to the Group

Going concern

The Directors' assessment of the Group's and 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

The Group is wholly owned by Wm Morrison Supermarkets PLC and the assessment of going concern of the Group is considered in the Wm Morrison Supermarkets PLC Annual report and financial statements.

The Morrisons Group's ability to borrow cash has not been adversely affected by the continuing lack of liquidity in the financial markets and the Morrisons Group has negotiated, and has available to it, committed, competitive facilities that will meet the Group's needs in the short and medium term

The principal risks that the Group is challenged with have been set out on pages 4 to 6 along with how the Directors mitigate these risks in the current economic climate

Directors' report (continued)

Going concern (continued)

The going concern basis has continued to be adopted in the preparation of the financial statements.

Directors and their interests

The Directors who served during the period and up to the date of signing the financial statements were

M Gunter (resigned 17 June 2011)
R Pennycook
G McMahon (appointed 17 June 2011)

The Company is wholly owned by Wm Morrison Supermarkets PLC and consequently none of the Directors who held office at the period end held any interest in the shares of the Company or any of its subsidiaries Their interest in the shares of the parent company is disclosed in the Wm Morrison Supermarkets PLC Annual report and financial statements.

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.

Disclosure of information to auditor

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Group's auditor is unaware, and each Director has taken all steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Group's auditor is aware of that information

Directors' emoluments

During the period no emoluments of the Directors have been paid by Safeway Limited Details of the emoluments and accrued benefits under defined benefit pension schemes that the Directors received for the period from Wm Morrison Supermarkets PLC are disclosed in the Wm Morrison Supermarkets PLC Annual report and financial statements

Corporate governance statement

All matters relating to corporate governance are considered by the Board of Wm Morrison Supermarkets PLC The full Corporate governance report of Wm Morrison Supermarkets PLC can be found in its Annual report and financial statements 2011/12

Political and charitable donations

During the period the Morrisons Group made charitable donations amounting to £0 1m (2011 £0 1m) In addition the Morrisons Group sponsored various charities and in the period over £2 3m (2011 £1 3m) was raised by customers and staff No political donations were made, which is Group policy

Auditor

Pursuant to section 487(2) of the Companies Act 2006, the auditor is deemed to be reappointed and KPMG Audit Plc will therefore continue in office

By order of the Board

Gregory J. McMahon

G McMahon

Company Secretary

Registered office
Hilmore House
Gain Lane
Bradford
BD3 7DL
12 July 2012

Statement of Directors' responsibilities in respect of the Directors' report and financial statements

The Directors are responsible for preparing the Directors' report and the Group and Company financial statements in accordance with applicable law and regulations

Company law requires the Directors to prepare Group and Company financial statements for each financial year Under that law they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the Parent Company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of their profit or loss for that period In preparing each of the Group and Company financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU,
- for the Company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Company financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' report and Corporate governance statement that complies with that law and those regulations

Responsibility statement

We confirm that to the best of our knowledge

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and its subsidiaries included in the consolidation as a whole, and
- the Director's report includes a fair review of the development of the business and the position of the Company and its subsidiaries included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face

By order of the Board

12 July 2012

Independent auditor's report to the members of Safeway Limited

We have audited the financial statements of Safeway Limited for the 52 weeks ended 29 January 2012 set out on pages 11 to 51 The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU The financial reporting framework that has been applied in the preparation of the Company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice)

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 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 auditor

As explained more fully in the Statement of Directors' responsibilities set out on page 8, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www frc org uk/apb/scope/private cfm

Opinion on financial statements

In our opinion

- the financial statements give a true and fair view of the state of the Group's and of the Company's affairs as at 29 January 2012 and of the Group's profit for the 52 weeks then ended,
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU,
- the Company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice,
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the Group financial statements, Article 4 of the IAS Regulation

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' report for the 52 week period for which the financial statements are prepared is consistent with the financial statements

Independent auditor's report to the members of Safeway Limited (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following

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

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

Under the Listing Rules we are required to review the Directors' statement, set out on page 6, in relation to going concern

A J Stone (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
1 The Embankment
Neville Street
Leeds
LS1 4DW

12 July 2012

Consolidated statement of comprehensive income

	Note	52 weeks to 29 January 2012 £m	52 weeks to 30 January 2011 £m
Turnover	1	9,471	8,951
Cost of sales		(8,915)	(8,449)
Gross profit		556	502
Other operating income		18	19
Administrative expenses		(30)	(26)
Loss arising on property transactions		(1)	(1)
Operating profit	4	543	494
Net finance costs	5	(28)	(38)
Other income	4	34	36
Profit before taxation		549	492
Taxation	6	(146)	(142)
Profit for the period attributable to owners of the Company		403	350
Other comprehensive (expense)/income:			
Actuarial (loss)/gain arising in the pension scheme	14	(45)	48
Cash flow hedging movement		-	(21)
Tax in relation to components of other comprehensive income	6	10	(7)
Other comprehensive (expense)/income for the period, net of tax		(35)	20
Total comprehensive income for the period attributable to the owners of the Company		368	370

Consolidated balance sheet

	Note	2012 £m	2011 £m
Assets			
Non-current assets			
Property, plant and equipment	7	**2,944**	2,948
Investment property	8	**36**	39
Net pension asset	14	**9**	42
		2,989	3,029
Current assets			
Stocks		**237**	211
Debtors	9	**1,114**	678
Cash and cash equivalents	10	**4**	5
		1,355	781
Liabilities			
Current liabilities			
Creditors	11	**(236)**	(144)
Current tax liabilities		**(153)**	(154)
		(389)	(298)
Non-current liabilities			
Other financial liabilities	12	**(550)**	(561)
Deferred tax liabilities	15	**(173)**	(191)
Provisions	16	**(69)**	(78)
		(792)	(830)
Net assets		**3,163**	2,795
Shareholders' equity			
Called-up share capital	17	**270**	270
Share premium	17	**742**	742
Other reserves	18	**31**	31
Retained earnings	18	**2,120**	1,752
Total equity		**3,163**	2,795

The financial statements on pages 11 to 45 were approved by the Board of Directors on 12 July 2012 and were signed on its behalf by

R Pennycook
Director

Consolidated cash flow statement

	Note	2012 £m	2011 £m
Cash flow from operating activities			
Cash generated from operations	19	**164**	361
Interest paid		**(39)**	(44)
Taxation paid		**(4)**	(2)
Net cash inflow from operating activities		**121**	315
Cash flows from investing activities			
Proceeds from property, plant and equipment transactions		**3**	5
Purchase of property, plant and equipment and investment property		**(141)**	(138)
Net cash outflow from investing activities		**(138)**	(133)
Cash flows from financing activities			
Repayment of borrowings		**(11)**	(147)
Net cash outflow from financing activities		**(11)**	(147)
Net (decrease)/ increase in cash and cash equivalents		**(28)**	35
Cash and cash equivalents at start of period		**5**	(30)
Cash and cash equivalents at end of period	10	**(23)**	5

Reconciliation of net cash flow to movement in net debt in the period

	Note	2012 £m	2011 £m
Net (decrease)/ increase in cash and cash equivalents		**(28)**	35
Cash outflow from decrease in debt and lease financing		**11**	147
Opening net debt		**(556)**	(738)
Closing net debt	20	**(573)**	(556)

Consolidated statement of changes in equity

		Attributable to the owners of the Company				
		Share capital	Share premium	Capital redemption reserve	Retained earnings	Total equity
Current period	Note	£m	£m	£m	£m	£m
At 30 January 2011		270	742	31	1,752	2,795
Profit for the period		-	-	-	403	403
Other comprehensive income						
Actuarial loss arising in the pension scheme	14	-	-	-	(45)	(45)
Tax in relation to components of other comprehensive income	6	-	-	-	10	10
Total comprehensive income for the period		-	-	-	368	668
Total transactions with owners		-	-	-	368	668
At 29 January 2012		270	742	31	2,120	3,163

		Attributable to the owners of the Company					
		Share capital	Share premium	Capital redemption reserve	Hedging reserve	Retained earnings	Total equity
Prior period	Note	£m	£m	£m	£m	£m	£m
At 31 January 2010		270	742	31	15	1,367	2,425
Profit for the period		-	-	-	-	350	350
Other comprehensive income							
Actuarial loss arising in the pension scheme	14	-	-	-	-	48	48
Cash flow hedging movement		-	-	-	(21)	-	(21)
Tax in relation to components of other comprehensive income	6	-	-	-	6	(13)	7
Total comprehensive income for the period		-	-	-	(15)	385	370
Total transactions with owners					(15)	385	370
At 30 January 2011		270	742	31	-	1,752	2,795

Group accounting policies

These financial statements on pages 11 to 45 are for the consolidated Safeway Limited Group

General information

Safeway Limited is a limited company incorporated in the United Kingdon under Companies Act 2006 (Registration number 01299733) The Company is domiciled in the United Kingdom and its registered address is Hilmore House, Gain Lane, Bradford, BD3 7DL, United Kingdom

Basis of preparation

The financial statements have been prepared for the 52 weeks ended 29 January 2012 (2011 30 January 2011) in accordance with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretation Committee (IFRIC) interpretations as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS IFRS and IFRIC are issued by the International Accounting Standards Board (IASB) and must be adopted into European Union law, referred to as endorsement, before they become mandatory under the IAS Regulation.

The financial statements have been prepared on a going concern basis. The Directors' assessment of going concern has been considered within the Directors' report

The financial statements are presented in Pounds Sterling, rounded to the nearest million, except in some instances, where it is deemed relevant to disclose the amounts up to two decimal places. They are drawn up on the historical cost basis of accounting, except as disclosed in the accounting policies set out below

The Group's accounting policies are set out below and have, unless otherwise stated, been applied consistently to all periods presented in these consolidated financial statements

Accounting reference date

The accounting period of the Group ends on the Sunday falling between 29 January and 4 February each year

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries (together the 'Group'), being those undertakings that it controls Control is achieved where the Company has the power to govern the financial and operating policy of an investee entity so as to obtain benefits from its activities The financial statements of subsidiaries used in the production of the consolidated financial statements are prepared for the same reporting period as the Parent Company and are based on consistent accounting policies The results of subsidiaries acquired or disposed of during the period are included in the consolidated financial statements from the effective date of acquisition up to the effective date of disposal, as appropriate

Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements

New IFRS and amendments to IAS and interpretations

There are no IFRS or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 31 January 2011 that would have a material impact on the Group The Group has adopted all amendments published in 'Improvements to IFRSs 2010' The adoption of these amendments has not had any significant impact on the amounts reported in these financial statements

There are a number of standards and interpretations issued by the International Accounting Standards Board that are effective for financial statements after this reporting period. The following have not been adopted by the Group:

Group accounting policies (continued)

New IFRS and amendments to IAS and interpretations (continued)

International Financial Reporting Standards		Effective for accounting periods starting on or after
IFRS 7*	Amendment to Financial instruments: Disclosures on derecognition	1 July 2011
IAS 12	Amendment to Income taxes on deferred tax	1 January 2012
IAS 1	Amendment to Financial statement presentation	1 July 2012
IAS 19	Amendment to Employee benefits	1 January 2013
IFRS 9	Financial instruments	1 January 2015
IFRS 10	Consolidated financial statements	1 January 2013
IFRS 11	Joint arrangements	1 January 2013
IFRS 12	Disclosures of interests in other entities	1 January 2013
IFRS 13	Fair value measurement	1 January 2013
IAS 27	Separate financial statements (revised)	1 January 2013
IAS 28	Associates and joint ventures (revised)	1 January 2013

* These standards and interpretations have been endorsed by the European Union

IAS 19 'Employee benefits' was amended in June 2011. The impact on the Group will be to immediately recognise all past service costs, and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit asset/ liability

The application of these standards and interpretations is not anticipated to have a material effect on the Group's financial statements

Significant accounting policies

The Directors consider the following to be significant accounting policies in the context of the Group's operations.

Segmental reporting

The Group is required to determine and present its operating segments based on the way in which financial information is organised and reported to the chief operating decision-maker (CODM) The CODM has been identified as the Wm Morrison Supermarkets PLC ('Morrisons', the ultimate parent company) Group Management Board as it is this Board that makes the key operating decisions of the Group, are responsible for allocating resources and assessing performance of the operating segments.

The Directors consider, based on the Group's internal reporting framework and management and operating structure, that it has one operating segment, that of retailing The level of disclosure of segmental and other information is driven by such assessment Further details of the considerations made and the resulting disclosures are provided in note 2 to the financial statements

Group accounting policies (continued)

Revenue recognition

Revenue comprises the fair value of consideration received or receivable for the sale of goods in the ordinary course of the Group's activites It is recognised when the significant risks and rewards of ownership have been transferred to the buyer, there is reasonable certainty of recovery of the consideration and the amount of revenue, associated costs and possible return of goods can be estimated reliably

a) Sale of goods in-store and fuel Sale of goods in-store is recorded net of value added tax, intra-Group transactions, returns, staff discounts, coupons, vouchers and the free element of multi-save transactions Revenue is recognised when transactions are completed in-store Sale of fuel is recognised net of value added tax and Morrisons Miles award points

b) Other sales· Other revenue primarily comprises income from concessions and commissions based on the terms of the contract Revenue collected on behalf of others is not recognised as turnover, other than the related commission Sales are recorded net of value added tax and intra-group transactions

Cost of sales

Cost of sales consists of all costs to the point of sale including warehouse and transportation costs Store depreciation, store overheads and store-based employee costs are also allocated to cost of sales

Supplier income

Supplier incentives, rebates and discounts are collectively referred to as supplier income in the retail industry Supplier income is recognised as a deduction from cost of sales on an accruals basis based upon the expected entitlement which has been earned up to balance sheet date for each relevant supplier contract The accrued incentives, rebates and discounts receivable at year end are included within prepayments and accrued income Where amounts received are in the expectation of future business, these are recognised in the income statement in line with that future business

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 to the date of the next rent review Details of rental income from Investment property are provided in note 8

Property transactions

Property includes the balance sheet headings of property, plant and equipment, investment property and lease prepayments The results of transactions relating to property are reported in the income statement under 'Profit arising on property transactions' Depreciation and any impairment charges or reversals are recognised in cost of sales or administrative expenses as appropriate

Administrative expenses

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

Borrowing costs

All borrowing costs are recognised in the Group'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 of interest ceases when the property is ready for use

Group accounting policies (continued)

Deferred and 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 equity in which case the current tax is reflected in equity.

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 is 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

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 and are offset where amounts will be settled on a net basis as there is a legally enforceable right to offset

Accruals for tax contingencies require management to make judgements and estimates of ultimate exposures in relation to tax compliance issues All accruals are included in current liabilities

Property, plant and equipment

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

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

Freehold land	0%
Freehold buildings	2 5%
Leasehold land	Over the lease period
Leasehold buildings	Over the shorter of lease period and 2 5%
Plant, equipment, fixtures and vehicles	10 - 33%
Assets under construction	0%

Investment property

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 those described for property, plant and equipment

Impairment of non-financial assets

Property, plant and equipment and investment property are annually reviewed for indications of impairment, or when events or changes in circumstances indicate that the carrying amount may not be recoverable. This is performed for each cash generating unit, which in the case of a supermarket is an individual retail outlet If there are indications of possible impairment then a test is performed on the asset affected to assess its recoverable amount against carrying value An impaired asset is written down to its recoverable amount which is the higher of value in use or its fair value less costs to sell In assessing value in use, the estimated future cash flows are

Group accounting policies (continued)

Impairment of non-financial assets (continued)

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.

If there is indication of an increase in fair value of an asset that had been previously impaired, then this is recognised by reversing the impairment, 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 for the asset Impairment losses previously recognised relating to goodwill cannot be reversed

Stocks

Stocks are measured at the lower of cost and net realisable value Provision is made for obsolete and slow moving items Cost is calculated on a weighted average basis and comprises purchase price, import duties, and other non-recoverable taxes less rebates. Stocks represent goods for resale

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale

Leases

Leases in which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases, all other leases are classified as finance leases

Lessor accounting - operating leases: Assets acquired and made available to third parties under operating leases are recorded as Property, plant and equipment and Investment property and are depreciated on a straight line basis to their estimated residual values over their estimated useful lives Operating lease income is credited on a straight line basis to the date of the next rent review.

Lessee accounting - operating leases: Rental payments are taken to profit for the period on a straight line basis over the life of the lease Property leases are analysed into separate components for land and buildings and tested to establish whether the components are operating leases or finance leases

Lessee accounting – finance leases: The present value, calculated using the interest rate implicit in the lease, of the future minimum lease payments is included within Property, plant and equipment and financial liabilities as an obligation to pay future rentals Depreciation is provided at the same rates as for owned assets, or over the lease period, if shorter

Rental payments are apportioned between the finance charge and the outstanding obligation so as to produce a constant rate of finance charge on the remaining balance

Provisions

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

Provisions are made in respect of individual properties where there are obligations for onerous contracts, dilapidations and certain decommissioning obligations for petrol filling stations The amounts provided are based on the Group's best estimate of the likely committed outflow to the Group Where material these estimated outflows are discounted to net present value

Foreign currencies

Transactions in foreign currencies are recorded at the rates of exchange at the dates of the transactions At each balance sheet date, monetary assets and liabilities that are denominated in foreign currency are retranslated at the rates of exchange at the balance sheet date Gains and losses arising on retranslation are included in the income statement for the period except when they deferred in other comprehensive income as qualifying cash flow hedges

Group accounting policies (continued)

Retirement benefits

The Group operates defined benefit and defined contribution schemes A defined contribution scheme is a pension scheme under which the Group pays fixed contributions into a separate entity A defined benefit scheme is one that is not a defined contribution scheme Pension benefits under defined benefit schemes are defined on retirement based on age at date of retirement, years of service and a formula using either the employees' compensation package or career average revalued earnings

The Group operates a defined benefit retirement scheme which is funded by contributions from the Group and members The defined benefit scheme is not open to new members Pension scheme assets, which are held in trustee administered funds, are valued at market rates Pension scheme obligations are measured on a discounted present value basis using assumptions as shown in note 14 The operating and financing costs of the scheme are recognised separately in profit for the period when they arise. Death-in-service costs are recognised on a straight line basis over their vesting period. Actuarial gains and losses are recognised immediately in Other comprehensive income

The Group has a right to recognise an asset, should one arise, in respect of the Group's net obligation to the pension scheme Therefore either an asset or a liability is recognised in the balance sheet.

Payments by the Group to the defined contribution scheme are charged to profit for the period as they arise

Share-based payments

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

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

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

Financial instruments

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

a) Financial assets

i) Trade and other debtors: Trade and other debtors are initially recognised at fair value Provision is made when there is objective evidence that the Group will not be able to recover balances in full, with the charge being recognised in 'Administrative expenses' in profit for the period Balances are written off when the probability of recovery is assessed as being remote

ii) Cash and cash equivalents: Cash and cash equivalents for cash flow purposes include cash-in-hand, cash-at-bank and bank overdrafts together with short term, highly liquid investments that are readily convertible into known amounts of cash, with an insignificant risk of a change in value, within three months from the date of acquisition In the balance sheet bank overdrafts are presented within current liabilities

Group accounting policies (continued)

Financial instruments (continued)

b) Financial liabilities

i) Trade and other creditors: Trade and other creditors are stated at fair value

ii) Borrowings: Interest-bearing bank loans and overdrafts are initially recorded at fair value, net of attributable transaction costs Subsequent to initial recognition, any difference between the redemption value and the initial carrying amount is recognised in profit for the period over the period of the borrowings on an effective interest rate basis.

Net debt

Net debt is cash and cash equivalents, bank and other current loans and bonds

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

Use of critical accounting assumptions and estimates
Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances

The Group makes estimates and assumptions concerning the future The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have significant risk of causing a material adjustment to the carrying value of assets and liabilities are discussed below

a) Property provisions

Provisions have been made for onerous leases, dilapidations and decommissioning costs These provisions are estimates based on the condition of each property and market conditions in the relevant location The actual costs and timing of future cash flows are dependent on future events. Any difference between expectations and the actual future liability will be accounted for in the period when such determination is made.

b) Pension scheme assumptions and mortality table

The carrying value of defined benefit pension scheme is valued using actuarial valuations. These valuations are based on assumptions including the selection of the correct mortality tables for the profile of members in the scheme All these are estimates of future events. The mortality experience study conducted as part of the scheme triennial valuation is statistically significant and the longevity assumption is adjusted to reflect its results The mortality assumptions, financial assumptions and mortality experience study are based on advice received from the scheme's actuaries Where appropriate these are corroborated from time-to-time with benchmark surveys and ad-hoc analysis

c) Determination of useful lives, residual values and carrying values of property, plant and equipment and investment property

Depreciation is provided so as to write down the assets to their residual values over their estimated useful lives as set out in the accounting policies for property, plant and equipment, and investment property The selection of these residual values and estimated lives, particularly in respect of plant and equipment, requires the exercise of judgement

The Group is required to assess whether there is indication of impairment to the carrying values of assets In making that assessment, judgements are made in estimating value in use in relation to future cash flows and discount rates as disclosed in note 14

The Directors consider that the individual carrying values of stores and other operating assets are supportable either by value in use or market values

Notes to the financial statements

1. Sales analysis

	52 weeks ended 29 January 2012 £m	52 weeks ended 30 January 2011 £m
Sale of goods in-stores	**7,392**	7,069
Fuel	**2,051**	1,858
Total store-based sales	**9,443**	8,927
Other sales	**28**	24
Turnover	**9,471**	8,951

2. Segmental reporting

The Group's principal activity is that of retailing, derived mainly from the UK The Group is not reliant on any major customer for 1% or more of revenues

Consideration of IFRS 8 Operating Segments

The Group has made the following considerations in arriving at conclusions and the corresponding disclosure in these financial statements·

IFRS 8 requires consideration of the chief operating decision maker (CODM) within the Group. In line with the Group's internal reporting framework and management structure, the key operating decisions and resource allocations are made by the Management Board. The Directors therefore consider the Management Board is the CODM.

Consideration in particular was given to retail outlets and the fuel resale operation

Key internal reports received by the CODM, primarily the Board Management Accounts, focus on the performance of the Wm Morrison Supermarkets PLC Group as a whole The operations of all elements of the business are driven by the retail sales environment and hence have fundamentally the same economic characteristics All operational decisions made are focused on the performance and growth of the retail outlets and the ability of the business to meet the supply demands of the stores. Given this, the Group has considered the overriding core principles of IFRS 8 and has determined that it has one operating segment.

Performance is measured by the CODM based on profit as reported in the Board Management Accounts This report presents the financial position before (a) income tax, (b) pension interest income volatility, and (c) profit arising from property related transactions This underlying profit figure is used to measure performance as management believes that this is the most relevant in evaluating the results of the Group relative to other entities that operate within the retail industry

Notes to the financial statements (continued)

3. Employees and Directors

Employee benefit expense for the Group during the period	52 weeks ended 29 January 2012 £m	52 weeks ended 30 January 2011 £m
Wages and salaries	745	749
Social security costs	45	48
Pension costs (note 14)	14	13
Share-based payments	9	7
	813	817

Average monthly number of people employed	2012 No.	2011 No
Stores	62,702	64,454

Share-based payments

The share-based payments cost has been recharged from Wm Morrison Supermarkets PLC in respect of shares it has granted to employees of the Group The fair value assumptions, method of accounting and financial models used in determining the share-based payment charge are consistent with those adopted in the Wm Morrison Supermarkets PLC Annual report and financial statements The charge in the period in respect of the Group was £9m (2011 £7m)

Directors' emoluments

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

Where the Directors are also Directors of the ultimate parent company, Wm Morrison Supermarkets PLC, details of the emoluments and accrued benefits under the defined benefit pension schemes that the Directors received for the period ending 29 January 2012 are disclosed in the Annual report and financial statements of that company

Notes to the financial statements (continued)

4. Operating profit

	52 weeks ended 29 January 2012 £m	52 weeks ended 30 January 2011 £m
The following items have been included in arriving at operating profit		
Employee costs (note 3)	**813**	817
Depreciation		
– Property, plant and equipment – owned assets (note 7)	**139**	158
– Property, plant and equipment – under finance lease (note 7)	**1**	1
– Investment properties (note 8)	**4**	3
Charge in the income statement	**144**	162
Operating lease rentals payable		
– Property	**20**	18
Management charge	**(34)**	(36)
Value of stock expensed	**7,365**	7,054

Fees paid to the auditors in relation to tax advice were borne by Wm Morrison Supermarkets PLC.

Services provided by the Group's auditor

During the period KPMG Audit Plc, the Group's auditor, provided the following services

	52 weeks ended 29 January 2012 £m	52 weeks ended 30 January 2011 £m
Audit services		
Fees payable to the Group's auditor for the audit of the Group and Company financial statements	**0.1**	0 1
Other services		
Fees payable to the Group's auditors and its associates for other services		
– the audit of the Group's subsidiaries pursuant to legislation	**0.1**	0 1

Notes to the financial statements (continued)

5. Net finance costs

	52 weeks ended 29 January 2012 £m	52 weeks ended 30 January 2011 £m
Interest payable on bonds	**(34)**	(36)
Provisions unwinding of discount	**(4)**	(4)
Other finance costs	**(1)**	(1)
Finance costs	**(39)**	(41)
Pension liability interest cost	**(95)**	(92)
Expected return on pension assets	**106**	95
Net pension interest income (note 14)	**11**	3
Finance income	**11**	3
Net finance costs	**(28)**	(38)

Interest is capitalised at the effective interest rate incurred on borrowings before taxation of 4% (2011 4%) Tax relief is obtained on interest paid and this reduces the tax charged for the period

6. Taxation

a) Analysis of charge in period		**52 weeks ended 29 January 2012 £m**	52 weeks ended 30 January 2011 £m
Current tax	– current period	**160**	162
	– adjustment in respect of prior periods	**(6)**	(6)
		154	156
Deferred tax	– current period	**(10)**	(11)
	– adjustment in respect of prior periods	**2**	(3)
		(8)	׀14)
Tax charge for the period		**146**	142

Notes to the financial statements (continued)

6. Taxation (continued)

b) Tax on items included in other comprehensive income	52 weeks ended 29 January 2012 £m	52 weeks ended 30 January 2011 £m
Actuarial movement arising in the pension scheme (note 14)	10	(13)
Cash flow hedges		
– deferred tax	-	6
Total tax credit/(charge) on items included in other comprehensive income	10	(7)
Analysis of items included in other comprehensive income		
Deferred tax (note 15)	10	(7)
	10	(7)

c) Tax reconciliation
The tax for both periods is different to the standard rate of corporation tax in the UK of 26 33% (2011 28%) The differences are explained below

	52 weeks ended 29 January 2012 £m	52 weeks ended 30 January 2011 £m
Profit before tax	549	492
Profit before tax at 26 33% (2011 28%)	145	138
Effects of		
Expenses not deductible for tax purposes	2	2
Non-qualifying depreciation	17	18
Effect of change in tax rate	(14)	(8)
Other	-	1
Adjustments in respect of prior period	(4)	(9)
Tax charge for the period	**146**	142

Factors affecting current and future tax charges
The standard rate of corporation tax in the UK changed from 28% to 26% with effect from 1 April 2011 Accordingly, the Group's profits for this accounting period are taxed at an effective rate of 26.33% and will be taxed at 26% in the future The impact of this change in tax rate is a credit of £14m to the income statement

The Finance Act 2011, which was substantively enacted on 8 July 2011, includes legislation reducing the main rate of corporation tax from 27% to 25% from 1 April 2011

It has been announced that future Finance Acts will continue to reduce tax rates by a further 1% per year for the next two years. The Budget of March 2012 has indicated that the main rate of corporation tax will further reduce to 24% applicable from April 2012; this will result in a

Notes to the financial statements (continued)

6. Taxation (continued)

Factors affecting current and future tax charges (continued)
corporation tax rate of 22% by April 2014 The effect of this change in tax rate is a deferred tax credit of £14m to comprehensive income The remaining reduction has yet to be enacted, and so has not been reflected in these accounts

Had the reduction been incorporated, both the deferred tax liability in the balance sheet, and the credit to comprehensive income, would be reduced by a further £21m

7. Property, plant and equipment

	Land and buildings			
Current period	Freehold £m	Leasehold £m	Plant, equipment, fixtures & vehicles £m	Total £m
Cost				
At 30 January 2011	3,163	397	1,178	4,738
Additions at cost	62	1	78	141
Transfers to investment property	(1)	-	-	(1)
als	(5)	-	(1)	(6)
January 2012	**3,219**	**398**	**1,255**	**4,872**
Accumulated depreciation				
At 30 January 2011	620	64	1,106	1,790
harge for the period	51	10	79	140
osals	(1)	-	(1)	(2)
January 2012	**670**	**74**	**1,184**	**1,928**
Net book amount at 29 January 2012	**2,549**	**324**	**71**	**2,944**

The cost of financing property developments prior to their opening date has been included in the cost of the project. The cumulative amount of interest capitalised in the total cost above amounts to £150m (2011 £150m)

The totals above include a net book amount of £79m (2011 £75m) and depreciation of £13m (2011 £12m) in relation to property, plant and equipment held under finance lease

Notes to the financial statements (continued)

7. Property, plant and equipment (continued)

Prior period	Land and buildings Freehold £m	Land and buildings Restated Leasehold £m	Plant, equipment, fixtures & vehicles £m	Total £m
Cost				
At 31 January 2010	3,109	397	1,126	4,632
Additions at cost	59	2	72	133
Transfers to investment property	2	-	-	2
Disposals	(7)	(2)	(20)	(29)
At 30 January 2011	**3,163**	**397**	**1,178**	**4,738**
Accumulated depreciation				
At 31 January 2010	570	55	1,028	1,653
Charge for the period	51	11	97	159
Transfers from investment property	1	-	-	1
Disposals	(2)	(2)	(19)	(23)
At 30 January 2011	**620**	**64**	**1,106**	**1,790**
Net book amount at 30 January 2011	**2,543**	**333**	**72**	**2,948**

Notes to the financial statements (continued)

8. Investment property

	2012 £m	2011 £m
Cost		
At start of the period	**50**	47
Additions	**-**	5
Transfer from/(to) property, plant and equipment	**1**	(2)
At end of the period	**51**	50
Accumulated depreciation		
At start of the period	**11**	9
Charge for the period	**4**	3
Transfer from/(to) property, plant and equipment	**-**	(1)
At end of the period	**15**	11
Net book amount at end of the period	**36**	39

Included in other operating income is £5m (2011 £4m) of rental income generated from investment properties

The fair value of investment properties at the end of the period was £42m (2011 £40m) The Directors do not believe that there has been a material change in yield since last year

9. Debtors

	2012 £m	2011 £m
Amounts due from parent company	**1,059**	657
Other debtors	**2**	-
Prepayments and accrued income	**53**	21
	1,114	678

Notes to the financial statements (continued)

10. Cash and cash equivalents

	2012 £m	2011 £m
Cash and cash equivalents	4	5

Cash and cash equivalents comprise the following for the purposes of the cash flow statement

	2012 £m	2011 £m
Cash and cash equivalents	4	5
Bank overdraft (note 11)	(27)	-
	(23)	5

11. Creditors - current

	2012 £m	2011 £m
Bank overdraft	27	-
Trade creditors	31	13
Other creditors	24	9
Accruals and deferred income	147	115
Interest accrual	7	7
	236	144

Notes to the financial statements (continued)

12. Other financial liabilities

The Group had the following current and non-current borrowings and other financial liabilities:

	2012 £m	2011 £m
Non-current		
£150m Sterling bonds 6 50% August 2014	**150**	150
£200m Sterling bonds 6 00% January 2017	**200**	200
£200m Sterling bonds 6 12% December 2018	**200**	200
Total non-current Sterling bonds	**550**	550
Other loans – 9 38%	**-**	11
	550	561

Borrowing facilities

Borrowings are denominated in Sterling bear fixed interest rates All borrowings are unsecured.

In the event of default of covenants on the bank facility, the principal amounts and any interest accrued are repayable on demand.

13. Financial instruments

a) Financial risk management

The Group's treasury operations are controlled centrally by the Treasury Committee established by its parent company, Wm Morrisons Supermarkets PLC, in accordance with clearly defined policies and procedures that have been authorised by the Morrisons Board There is an amount of delegated authority to the Treasury Committee, but all activities are summarised in half yearly treasury reports which are presented to the Audit Committee

The Group's principal financial liabilities, other than derivatives, comprise bank loans and overdrafts, bonds and other creditors The main purpose of these financial liabilities is to raise finance for the Group's operations The Group has various financial assets such as cash and short-term bank deposits, which arise directly from its operations

The objectives, policies and processes for managing these risks are stated below·

(i) *Foreign currency risk*

The Group makes the majority of its purchases in Sterling however it incurs currency exposure in respect of overseas trade purchases made in currencies other than Sterling, primarily being Euro and US Dollar The Group's objective is to reduce risk to short term profits from exchange rate fluctuations It is Group policy that any transactional currency exposures recognised to have a material impact on short term profits will be hedged through the use of derivative financial instruments

As at the balance sheet date, Wm Morrison Supermarkets PLC had entered into forward foreign exchange contracts to mitigate foreign currency exposure on up to 50% (2011 50%) of the Group's forecasted purchases within the next six months

The sensitivity to a reasonably possible change (+/- 10 %) in the US Dollar / Euro exchange rate has been determined as being immaterial

Notes to the financial statements (continued)

13. Financial instruments (continued)

a) Financial risk management (continued)

(ii) Liquidity risk

The Group finances its operations with a combination of bank credit facilities, bonds and support from Wm Morrison Supermarkets PLC

The day to day operations of the Group are funded through Wm Morrison Supermarkets PLC and therefore the short and medium term liquidity risk is monitored at a Morrisons Group level

The Wm Morrison Supermarkets PLC Treasury Committee monitors rolling forecasts of the Morrisons Group on a quarterly basis, which comprises committed and uncommitted borrowing facilities on the basis of expected cash flow At 29 January 2012, Wm Morrison Supermarkets PLC had undrawn committed facilities of £725m. These facilities remain available to the Morrisons Group

he table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments, which includes interest payments.

Creditors and current tax liabilities have been excluded from this analysis as these balances are due within 12 months and their contractual undiscounted payments equal their carrying balances as the impact of discounting is not significant

The amounts included in the table are the contractual undiscounted cash flows, and therefore do not agree to the amounts disclosed on the balance sheet for borrowings

	2012 £m	2011 £m
Less than 1 year	**63**	34
1 to 2 years	**34**	34
2 to 3 years	**184**	34
3 to 4 years	**24**	184
4 to 5 years	**224**	24
More than 5 years	**224**	449

(iii) Credit risk

Credit risk arises from cash and cash equivalents, deposits with banking groups as well as credit exposures from other sources of income such as supplier income and tenants of investment properties

The Group maintains deposits with banks and financial institutions who must possess a long term credit rating of A1 or higher with Moody's for a period not exceeding six months Further, the Group has specified limits that can be deposited with any banking group or financial institution at any point. The maximum exposure on cash and cash equivalents and deposits is equal to the carrying amount of these instruments The Group does not expect any significant performance losses from counterparties

The Group trades only with recognised third parties It is the Group's policy that tenants of investment properties who wish to trade on credit terms are subject to credit verification procedures.

Notes to the financial statements (continued)

13. Financial instruments (continued)

b) Capital management

The Group defines the capital it manages as the Group's total equity and net debt balances

The Group's objectives are to safeguard its ability to continue as a going concern, through the optimisation of debt and equity balances and having adequate liquidity headroom The Group manages its capital structure and makes appropriate decisions in light of the current economic conditions and strategic objectives of the Group

There has been no change in the objectives, policies or processes with regards to capital management during the periods ended 29 January 2012 and 30 January 2011

c) Fair values

i) Financial assets

All financial derivatives are held at fair value which has been determined by reference to prices available from the markets on which the instruments are traded The carrying value of these assets is disclosed within note 9

Cash and cash equivalents and Debtors are held at book value which equals their fair value The values of these financial assets are disclosed within notes 9 and 10

ii) Financial liabilities

All financial liabilities are carried at amortised cost. The fair value of the Sterling bonds is measured using closing market prices. These compare to carrying values as follows:

	2012	**2012**	2011	2011
	Amortised cost	**Fair value**	Amortised cost	Fair value
	£m	**£m**	£m	£m
Total bonds – non current	**550**	**633**	550	621

The fair value of other items within current and non-current borrowing equals their carrying amount, as the impact of discounting is not significant

Notes to the financial statements (continued)

14. Pensions

a) Defined benefit pension scheme

The Group operates a pension scheme providing benefits 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 revalue earnings (CARE) The assets of the scheme are held in a separate trustee administered fund; no part of the scheme is wholly unfunded The latest full actuarial valuations were carried out at 1 April 2010 and were updated for IAS 19 'Employee benefits' purposes for the period to 29 January 2012 by a qualified independent actuary.

On 8 July 2010 the Government announced that the Consumer Price Index (CPI) rather than the Retail Price Index (RPI) will be used as the basis for inflationary increases to pensions in its next update of the statutory requirement. Following this, the Accounting Standards Board has issued UITF 48 Accounting implications of the replacement of the retail prices index with the consumer prices index for retirement benefits clarifying the required accounting treatment and indicating the use of CPI rather than RPI where the scheme rules allow In the absence of specific guidance issued under IFRS, the requirements of this UITF have been applied in accounting for this change The Group has consulted with its advisors and based on review of certain clauses in the schemes' trust deeds, has concluded that this change is applicable to certain deferred members within the Group's defined benefit schemes The trust deeds state that, for those members affected, a statutory index should be used and therefore the actuarial assumptions applied within this financial report have been updated accordingly This resulted in a credit of £64m recognised in other comprehensive income within actuarial gains/(losses) during the prior year

The Deed and Rules of the scheme gives the Group the power to set the level of contributions, subject to regulatory override

The current best estimate of employer contributions to be paid for the period commencing 29 January 2012 is £13m (2011 £14m).

Notes to the financial statements (continued)

14. Pensions (continued)

b) Assumptions

The major assumptions used in this valuation to determine the present value of the scheme's defined benefit obligation are shown below.

i) Financial

	2012	2011
Rate of increase in salaries	**4 55%**	5 05%
Rate of increase in pensions in payment and deferred pensions to April 2005	**3.30%**	3 80%
Rate of increase in pensions in payment and deferred pensions from April 2005	**2.30%**	2 30%
Discount rate applied to scheme liabilities	**4 75%**	5 60%
Inflation assumption	**2 50%-3.30%**	3 30%-3 80%

ii) Longevity

The average life expectancy in years of a member who reaches normal retirement age of 65 and is currently aged 45 is as follows

	2012	2011
Male	**24.4**	24 2
Female	**25.3**	25 1

The average life expectancy in years of a member retiring at the age of 65 at balance sheet date is as follows

	2012	2011
Male	**22.0**	21 8
Female	**23.0**	22 8

Assumptions regarding future mortality experience are set based on actuarial advice and in accordance with published statistics The longevity assumption considers how long a member will live when they reach the age of retirement Amongst the UK population there is a continuing trend for a generation to live longer than the preceding generation, and this has been reflected in the longevity assumption This means that a 45 year old today is assumed to live on average longer than a 65 year old today This particular adjustment, described in the mortality tables below, is known as 'Long Cohort' and is in-line with the latest advice from the Pension Regulator.

In calculating the present value of the liabilities the actuary selects the appropriate mortality table that reflects the longevity assumption The most up to date tables are used in each period The current mortality table used is S1PMA/S1PFA-Heavy YOB (2011. S1PMA/S1PFA-Heavy YOB) As disclosed in the Critical accounting assumptions on page 21, the results of the experience study conducted for the scheme have been used to adjust the longevity assumption in 2010

Notes to the financial statements (continued)

14. Pensions (continued)

iii) Expected return on assets

The major assumptions used to determine the expected future return on the scheme's assets, were as follows:

Scheme assets long-term rate of return	2012	2011
Equities	**5 90%**	7 45%
Bonds	**4 75%**	5 60%
Gilts	**2.90%**	4 44%
Property	**-**	5 60%
Cash	**1.50%**	1 50%

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescales covered, may not necessarily be borne out in practice The expected return on plan assets is based on market expectation at the beginning of the period for returns over the entire life of the benefit obligation

c) Valuations

Assets of the scheme are held in order to generate cash to be used to satisfy the scheme's obligations, and are not necessarily intended to be realised in the short-term The allocation of assets between categories is governed by the Investment Principles of the scheme and is the responsibility of the trustees of the scheme The trustees should take due consideration of the Group's views and a representative of the Group attends Trustee Investment Committees 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 are inherently uncertain, were as follows

	2012 £m	2011 £m
Equities	**794**	767
Bonds	**546**	495
Gilts	**606**	476
Property	**-**	4
Cash	**5**	9
Total fair value of plan assets	**1,951**	1,751
Present value of defined benefit funded obligation	**(1,942)**	(1,709)
Net pension asset in the balance sheet	**9**	42
Related deferred tax liability (note 15)	**(1)**	(11)
Net surplus	**8**	31

Notes to the financial statements (continued)

14. Pensions (continued)

The movement in the fair value of the scheme's assets over the period is as follows·

	2012 £m	2011 £m
Fair value of plan assets at start of period	**1,751**	1,621
Expected return on plan assets	**106**	95
Actuarial gain recognised in other comprehensive income	**112**	48
Employer contributions	**13**	20
Employee contributions	**5**	5
Benefits paid	**(36)**	(38)
Fair value of plan assets at end of period	**1,951**	1,751

The above pension scheme assets do not include any investments in the parent company's own shares or property occupied by the Group or its subsidiaries at either period end

The movement in the present value of the defined benefit obligation during the period was as follows

	2012 £m	2011 £m
Defined benefit obligation start of period	**(1,709)**	(1,639)
Current service cost	**(12)**	(12)
Employee contributions	**(5)**	(5)
Interest on defined benefit obligation	**(95)**	(92)
Actuarial (loss)/gain recognised in other comprehensive income	**(157)**	1
Benefits paid	**36**	38
Defined benefit obligation at end of period	**(1,942)**	(1,709)

d) Profit for the period

The following amounts have been charged in employee benefits in arriving at operating profit

	2012 £m	2011 £m
Current service cost	**(12)**	(12)

The following amounts have been included in finance income

	2012 £m	2011 £m
Expected return on pension scheme assets	**106**	95
Interest on pension scheme liabilities	**(95)**	(92)
	11	3

Notes to the financial statements (continued)

14. Pensions (continued)

e) Actuarial gains and losses recognised other comprehensive income

The amounts included in other comprehensive income were

	2012 £m	2011 £m
Actual return less expected return on scheme assets	112	48
Experience gains and losses arising on plan obligation	-	(81)
Changes in demographic and financial assumptions underlying the present value of plan obligations	(157)	81
Actuarial movement recognised in other comprehensive income	**(45)**	48
Taxation on actuarial movement recognised in other comprehensive income	10	(13)
Net actuarial movement recognised in other comprehensive income	**(35)**	35

	2012 £m	2011 £m
Cumulative gross actuarial movement recognised in other comprehensive income	(115)	(70)
Taxation on cumulative actuarial movement recognised in other comprehensive income	30	20
Cumulative net actuarial movement recognised in other comprehensive income	**(85)**	(50)

The actual return on plan assets can therefore be summarised as follows

	2012 £m	2011 £m
Expected return on plan assets	106	95
Actuarial gain recognised in other comprehensive income reflecting the difference between expected and actual return on assets	112	48
Actual return on plan assets	**218**	143

The expected return on plan assets was determined by considering the expected returns available on the assets underlying the current investment policy Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date Expected returns on equity and property investments reflect long-term real rates of return experienced in the respective markets

Notes to the financial statements (continued)

14. Pensions (continued)

f) History of experience gains and losses

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Difference between the expected and actual return on scheme assets					
Amount	**112**	48	199	(339)	(82)
Percentage of scheme assets	**5 7%**	2 7%	12 3%	(24 9)%	(5 4)%
Experience gains and losses arising on scheme liabilities					
Amount	**-**	(81)	-	(3)	70
Percentage of present value of plan obligation	**-**	4 7%	-	(0 2)%	4 5%
Effects of changes in the demographic and financial assumptions underlying the present value of the scheme liabilities					
Amount	**157**	81	(242)	244	5
Percentage of present value of plan obligation	**8.1%**	4 7%	(14 8)%	17 6%	0 3%
Total amount recognised in other comprehensive income					
Amount	**45**	48	(43)	(98)	(7)
Percentage of present value of plan obligation	**2.3%**	(2 8)%	(2 6)%	(7 0)%	(0 5)%
Total value of schemes' assets	**1,951**	1,751	1,621	1,360	1,531
Present value of defined benefit obligation	**(1,942)**	(1,709)	(1,639)	(1,389)	(1,551)
Net pension surplus/(liability) recognised in the balance sheet	**9**	42	(18)	(29)	(20)

g) Defined contribution pension scheme

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

	2012 £m	2011 £m
Stakeholder pension scheme costs	**1**	1

15. Deferred tax

	2012 £m	2011 £m
Deferred tax liability	**(182)**	(201)
Deferred tax asset	**9**	10
Net deferred tax liability	**(173)**	(191)

Notes to the financial statements (continued)

15. Deferred tax (continued)

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.

The movements in deferred tax (liabilities)/assets during the period are shown below

Current period	Property, plant and equipment £m	Pensions £m	Other £m	Total £m
At 30 January 2011	(190)	(11)	10	(191)
Credited/(charged) to profit for the period	9	-	(1)	8
Credited to other comprehensive income and equity	-	10	-	10
At 29 January 2012	**(181)**	**(1)**	**9**	**(173)**

Prior period	Property, plant and equipment £m	Pensions £m	Other £m	Total £m
At 31 January 2010	(202)	5	(1)	(198)
Credited/(charged) to to profit for the period	12	(36)	38	14
Credited to other comprehensive income and equity	-	20	(27)	(7)
At 30 January 2011	**(190)**	**(11)**	**10**	**(191)**

The deferred income tax credited through other comprehensive income during the period was as follows·

	2012 £m	2011 £m
Actuarial gains	**(10)**	(13)
Hedging instruments	**-**	6
	(10)	(7)

Included within the total credited/(charged) to profit for the period is an amount credited of £15m (2011 £8m) and within the total credited to other comprehensive income of £1m (2011 £1m) in respect of the change in the tax rate at which deferred tax balances are expected to reverse

Notes to the financial statements (continued)

16. Provisions

	Property provisions £m
At 30 January 2011	78
Charged to profit for the period	2
Unused amounts reversed during the period	(10)
Utilised in period	(5)
Unwinding of discount	4
At 29 January 2012	**69**

Provisions comprise onerous leases provision, petrol filling station decommissioning reserve and provisions for dilapidations on leased buildings

Onerous leases relate to sublet and vacant properties Where the rent receivable on the properties is less than the rent payable, a provision based on present value of the net cost is made to cover the expected shortfall The lease commitments range from 1 to 61 years Market conditions have a significant impact and hence the assumptions on future cash flows are reviewed regularly and revisions to the provision made where necessary

Other property provisions comprise petrol filling station decommissioning reserve and dilapidations cost Provision is made for decommissioning costs for when the petrol filling station tanks reach the end of their useful life or when they become redundant and is based on the present value of costs to be incurred to decommission the petrol tanks Dilapidation costs are incurred to bring a leased building back to the condition in which it was originally leased Provision is made for these costs, which are incurred on termination of the lease

17. Called-up share capital

	Number of shares millions	Share capital £m	Share premium £m	**Total £m**
At 29 January 2012 and 30 January 2011	1,079	270	742	**1,012**

All issued shares are fully paid

Notes to the financial statements (continued)

18 Reserves

	2012 £m	2011 £m
Retained earnings	**2,120**	1,752
Other reserves	**31**	31
Total	**2,151**	1,783

Other reserves include a capital redemption reserve of £31m (2011 £31m)

19. Cash flow from operating activities

	52 weeks ended 29 January 2012 £m	52 weeks ended 30 January 2011 £m
Continuing operations		
Profit for the financial period	**403**	350
Adjustments for		
Taxation	**146**	142
Depreciation	**144**	162
Loss/(profit) on disposal of property, plant and equipment	**1**	1
Net finance cost (note 5)	**28**	38
Excess of contributions over pension service cost	**(1)**	(8)
Increase in stocks	**(26)**	(19)
Increase in debtors	**(587)**	(160)
Increase/(decrease) in creditors	**65**	(143)
Decrease in provisions	**(9)**	(2)
Cash inflow from operations	**164**	361

£553m (2011 £157m) of the increase in debtors during the period relates to intercompany

Notes to the financial statements (continued)

20. Analysis of net debt

	2012 £m	2011 £m
Cash and cash equivalents per balance sheet	**4**	5
Bank overdrafts (note 11)	**(27)**	-
Cash and cash equivalents per cash flow	**(23)**	5
Bonds	**(550)**	(550)
Other unsecured loans	**-**	(11)
Non-current financial liabilities	**(550)**	(561)
Net debt	**(573)**	(556)

21. Operating lease arrangements

a) Lessee arrangements

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

	Property 2012 £m	Property 2011 £m
Within one year	**26**	28
More than one year and less than five years	**93**	124
After five years	**308**	308
	427	460

b) Lessor arrangements

The Group sub-lets buildings for various usages under non-cancellable agreements The leases have various terms, escalation clauses and renewal rights The future minimum lease income is as follows

	2012 £m	2011 £m
Within one year	**8**	7
More than one year and less than five years	**28**	25
After five years	**49**	45
	85	77

Notes to the financial statements (continued)

22. Capital commitments

	2012 £m	2011 £m
Contracts placed for future capital expenditure not provided for in the financial statements	-	8

23. Related party transactions

The Group is controlled by Wm Morrison Supermarkets PLC (incorporated in England and Wales), which owns 100% of the Company's shares

The following transactions were carried out with related parties:

a) Purchase of goods and services from and charges to Group companies:

	2012 £m	2011 £m
Payment for goods by Wm Morrison Supermarkets PLC on behalf of Safeway Limited	**7,363**	7,171
Management recharge	**(34)**	(36)
	7,299	7,135

b) Period-end balances with related parties

Funds due from related parties	2012 £m	2011 £m
Wm Morrison Supermarkets PLC (note 9)	**1,059**	657

c) Guarantee

Safeway Limited has guaranteed the Wm Morrison Supermarkets PLC £400m Sterling bonds issued on 8 December 2011, at a fixed rate of 4 625%, expiring in December 2023, and the $250m US Dollar private placement loan notes issued on 2 November 2011, at a fixed rate of 4 4%, expiring in November 2026

Notes to the financial statements (continued)

24. Principal subsidiaries

Subsidiary	Principal activity	% equity holding
Safeway (Overseas) Limited*	Grocery retailing	100
Safeway Stores Limited*	Grocery retailing	100

*Shareholding is through a wholly owned subsidiary within the Safeway Group

Each of the above companies are registered in England and Wales

The principal area of trading for all the above companies is the United Kingdom apart from Safeway (Overseas) Limited which trades in Gibraltar

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

The results of all of the subsidiary companies are included in the consolidated financial statements

Safeway Limited Company balance sheet at 29 January 2012

	Note	2011 £m	2011 £m
Fixed assets			
Investments	27	**1,261**	1,261
		1,261	1,261
Current assets			
Debtors	28	**918**	920
			920
Creditors – amounts falling due within one year	29	**(7)**	(7)
Net current assets		**911**	913
Total assets less current liabilities		**2,172**	2,174
Creditors - due after more than one year	30	**(550)**	(550)
Net assets		**1,622**	1,624
Capital and reserves			
Called-up share capital	31	**270**	270
Share premium		**742**	742
Other reserves	32	**31**	31
Merger reserve	33	**572**	572
Profit and loss account	34	**7**	9
Equity shareholders' funds	35	**1,622**	1,624

The accounting policies on pages 47 and 48 and notes on pages 49 to 51 form part of these financial statements

The financial statements on pages 46 to 51 were approved by the Board of Directors on 12 July 2012 and signed on its behalf by

R Pennycook
Director

Safeway Limited Company accounting policies

Basis of preparation

These separate financial statements of Safeway Limited (the Company) have been prepared on a going concern basis under the historic cost convention and in accordance with applicable accounting standards under UK GAAP and the Companies Act 2006

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

Accounting reference date

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

Investments

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

Financial instruments

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

Borrowings

Borrowings are recognised initially and subsequently at amortised cost using the effective interest rate method

Borrowing costs

All borrowing costs are recognised in the Company's profit and loss account on an accruals basis

Capital management

The capital management policy of the Company is consistent with that of the Group set out in note 13

Deferred and current taxation

Current tax payable is based on the taxable profit for the year using tax rates in effect during the period Taxable profit differs from the profit as reported in the profit and loss account as it is adjusted both for items that will never be taxable or deductible and timing differences

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at average rates expected to apply when they crystallise, based on tax rates enacted or substantively enacted at the balance sheet date Timing differences arise from the inclusion of items of income and expenditure in taxation computations in different periods from those in which they are included in the financial statements

A net deferred tax asset is recognised only when it is recoverable on the basis that it is more likely that not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted

Deferred tax assets and liabilities are not discounted

Safeway Limited Company accounting policies (continued)

Exemptions

The Company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1 'Cash flow statements' and exemption from the disclosure requirements of FRS 29 'Financial instruments disclosures' The cash flows of the Company and financial instruments disclosures are included in the consolidated financial statements

The Company is also exempt under the terms of FRS 8 'Related party disclosures' from disclosing related party transactions with entities that are part of the Wm Morrison Supermarkets PLC Group

The Company has taken advantage of the exemption available under section 408 of the Companies Act 2006 and not presented a profit and loss account for the Company.

Notes to the financial statements (continued)

25. Profit and loss account

The loss for the Company for the 52 week period was £2m (2011 £1m loss)

Audit fees and expenses were paid by the ultimate parent company Fees paid were £15,000 (2011 £15,000) in relation to audit services There are no fees in relation to non-audit services

26. Employees and Directors

There are no employees of the Company (2011 none)

Directors' emoluments

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

Where the Directors are also Directors of the ultimate parent company, Wm Morrison Supermarkets PLC, details of the emoluments and accrued benefits under the defined benefit pension schemes that the Directors received for the 29 January 2012 are disclosed in the Annual report and financial statements of that company

27. Investments

	Investment in subsidiary undertakings £m	Loans to subsidiary undertakings £m	Total £m
Cost			
At 29 January 2012 and 30 January 2011	111	1,150	**1,261**

A list of the Company's principal subsidiaries is shown in note 24 above.

28. Debtors

	2012 £m	2011 £m
Amounts due from Group undertakings	**913**	913
Deferred tax	**5**	7
	918	920

The amounts owed by Group undertakings are non-interest bearing, unsecured and have no fixed date of repayment.

Notes to the financial statements (continued)

29. Creditors – amounts falling due within one year

	2012 £m	2011 £m
Interest payable	7	7

30. Creditors – amounts due after more than one year

	2012 £m	2011 £m
£150m Sterling bonds 6 50% August 2014	150	150
£200m Sterling bonds 6 00% January 2017	200	200
£200m Sterling bonds 6 12% December 2018	200	200
Total Sterling bonds	550	550

The Sterling bonds are carried at amortised cost The fair values of the Sterling bonds are measured using closing market prices These compare to carrying values as follows

	2012 Amortised cost £m	2012 Fair value £m	2011 Amortised cost £m	2011 Fair value £m
Total bonds – non-current	550	633	550	621

Borrowings are denominated in Sterling and bear either fixed or variable interest based on LIBOR All borrowings are unsecured

In the event of default of covenants on the bonds, the principle amounts and any interest accrued are repayable on demand

31. Called up share capital

	2012 £m	2011 £m
Issued and fully paid		
Equity share capital		
1,078,800,000 ordinary shares of 25p each (2011 1,078,800,000)	270	270

32. Other reserves

	Other reserves £m
At 29 January 2012 and 30 January 2011	31

Notes to the financial statements (continued)

32. Other reserves (continued)

Other reserves include a capital redemption reserve of £31m (2011 £31m)

In July 1996, 60 million ordinary shares with a nominal value of £15 0 million were repurchased and subsequently cancelled by the Company During May and June 1999, a further 62 5 million ordinary shares with a nominal value of £15 6 million were repurchased and subsequently cancelled by the Company In each case, an amount equal to the nominal value of the shares repurchased has been transferred to this reserve in order to maintain the capital base of the Company

33. Merger reserve

This represents the reserve in the Company's balance sheet arising on the acquisition in 1987 of Safeway Food Stores Limited, a subsidiary of Safeway Incorporated (USA) In the opinion of the Directors, this reserve is not distributable and accordingly it will be carried forward as a capital reserve

34. Profit and loss account

	2012 £m	2011 £m
At start of period	9	10
Loss on ordinary activities after taxation	(2)	(1)
At end of period	**7**	9

35. Reconciliation of movements in equity shareholders' funds

	2012 £m	2011 £m
Cash flow hedging reserve movement (net of tax)	-	(15)
Loss on ordinary activities after taxation	(2)	(1)
Net movement in equity shareholders' funds	(2)	(16)
Opening shareholders' funds	1,624	1,640
Closing equity shareholders' funds	**1,622**	1,624

36. Ultimate holding company

The immediate and ultimate parent undertaking and controlling party is Wm Morrison Supermarkets PLC, which is the parent undertaking of the largest group in which the results of the Company are consolidated

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

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