Safeway Limited

Directors' report and financial statements

Registered number 01299733

53 weeks ended 3 February 2013

Safeway Limited

53 weeks ended 3 February 2013

Contents

Directors' report

The Directors have pleasure in presenting their report and the Group's audited financial statements for the 53 weeks ended 3 February 2013.

Result and dividend

The profit for the period after taxation amounted to £397m (2012· £403m) The Directors authorise a dividend during the year of £501m (2012. £nil) and propose a final dividend of 46.44p per share which will absorb a further £501m of shareholders' funds (2012 £nil).

Principal activity

The principal activity of the Group is the operation of retail supermarket stores and the Company that of a holding company

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 References to 'the Board' and 'the management Group' are to those bodies within the Morrisons Group.

Total turnover was £9,618m, an increase of £147m (1 6%)

Disposable incomes continued to come under pressure during the year from the unwelcome impact of inflation on commodities, with the increasing price of oil again being felt at the pump and throughout the supply chain For the third year in a row, consumers were faced with increases in the price of oil, albeit at a slower rate than previously, and in this environment consumers shop around carefully to find the best deals Our 'Fuel Britannia' programmes and innovative 'Fuel Saver' initiative have proved highly attractive to budget conscious drivers. Total fuel sales increased by 10 0% in the year

Consumers also had to absorb the effects of significant increases in the prices of other core commodities, adding to the pressure on household budgets In this environment customers inevitably changed their shopping habits They shopped around in different formats, using convenience stores for top up shopping, increasing their use of the online channel, putting fewer items into their baskets and managing their spend carefully

Our below market sales performance was disappointing, we did not perform as well as we should have in a trading environment that should have played more to the Morrisons Group's strengths Whilst our base pricing was strong, we do need to do more to communicate our value message and our unique points of difference We did run some good promotions but we need to do more to improve the overall effectiveness of our promotional programme and ensure that our pricing is clear and consistent We will be addressing these issues in the coming year

Operating results

During the year Group turnover grew by 1 6% In a low sales growth environment it is important that we manage our cost base tightly After costs of goods sold, the two main areas of cost are store wages and distribution costs and we have continued to focus on improving efficiency in both of these areas, whilst maintaining the highest standards of customer service During the year, with improved processes and systems, we were once again able to improve our store labour costs relative to sales, with in-store labour productivity increasing The investments we have made in systems improvements also enabled us to build on previous successes by improving Distribution productivity by 4%

Directors' report (continued)

Business review (continued)

Market Overview

In a tough economic climate, the UK grocery market continued to be a very challenging environment in which to operate, with consumers seeing no respite in the economy

Market growth was driven by inflation, which averaged 2 8%[1] during the year CPI food inflation averaged 4.1%[1] reaching 5 5%[1] by the end of the year. With commodity and energy costs increasing faster than average wages, household incomes continued to be squeezed throughout 2012

In 2012, the UK grocery market grew by 3 7%[2] over the previous year and was worth £101bn[2] The fundamental changes that are taking place in the market show shoppers being increasingly drawn away from traditional supermarkets towards the online, convenience and discount channels

The online grocery market grew by 15 7%[3] during the year to £6 5bn[3] Online sales now account for 3 9%[3] of the UK grocery market and are expected to grow significantly faster than traditional grocery over the coming years The convenience market too is expected to continue growing at a faster rate than the traditional grocery market for some time to come

More shoppers now regard price as their first consideration when choosing between products compared with a year ago Consumers are also growing increasingly forensic in the way they shop, building their knowledge of how much things cost, down trading and switching to own label products, managing their consumption and actively searching and taking advantage of promotions

The proliferation of promotional activity amongst retailers has driven consumers to seek more personalised offers in return for their loyalty and spend Retailers are responding to this by leveraging their customer relationship management systems and improving their in-store experience

Strategy

In 2010, we outlined our vision to make Morrisons 'Different and Better than Ever' Three years on, we believe that our vision is even more relevant today and that we have the right strategy to achieve it.

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 businesses; 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 succeed 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

[1] source Office of National Statistics

[2] source Kantar Worldpanel

[3] source IGD

Directors' report (continued)

Business review (continued)

Strategy (continued)

Our strategy reflects our view of how the market will evolve, what will be most appealing to our customers and how we make best use of our existing capabilities. It is based on six convictions about the type of business that our customers want us to be·

- Food focused not generalist
- Experiential over purely functional
- Value is forever
- Skills not just drills
- General merchandise – clicks not bricks
- Multi-format and multi-channel

We set these convictions out for the first time last year and they form the base for the business we are building today Over the past year we have seen continuing changes in the market Value for money has come even more to the fore for consumers and there is an ongoing shift towards multi-format, multi-channel shopping, with more and more general merchandise being bought online. These changes confirm our convictions and we are confident that we have the right strategy for future growth.

We have a clearly defined set of initiatives which will enable us to deliver our vision These are grouped under the three strategic objectives of driving the topline, increasing efficiency and capturing growth.

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·
- growing sales organically,
- converting sales growth into profitable growth; and
- investing in our business to yield an appropriate rate of return

Cash generated from operations

Cash from operating activities increased by £493m to £657m as a result of cash generated by operations and stable working capital requirements

Directors' report (continued)

Business review (continued)

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 3 February 2013 the scheme had a deficit of £18m (2012 surplus £9m) The movement is summarised in the table below

Pension bridge	£m
Net pension surplus at 29 January 2012	9
Actual vs expected return on scheme assets	108
Actuarial loss due to changes in financial assumptions	(133)
Net pension interest	(2)
Net pension deficit at 3 February 2013	(18)

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 The Trustees are currently undertaking their triennial valuation of the scheme as at April 2013.

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 on page 9 of the Directors' report

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 Group largely shares the same risk profile as, and is managed as part of, the Morrisons Group. The Group's risks are reviewed regularly and updated as appropriate

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

Directors' report (continued)

Principal risks and uncertainties (continued)

Business change

Risk

The Morrisons Group is undertaking a number of major change programmes that will significantly impact existing ways of working. There is a risk that the business fails to build the capacity and capability to support business changes resulting in service disruption or unintended costs.

Mitigation

- Organisation Design structures and support established for change programmes.

Business interruption

Risk

Our distribution and systems infrastructures are 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 our ability to operate effectively.

Mitigation

- Recovery plans exist for individual sites.
- Investment in remote IT disaster recovery site and regular testing of recovery plans for key systems
- Adherence to a stringent process for evaluating new suppliers/third parties
- Contingency arrangements documented for key suppliers.
- Annual crisis simulation exercise

Business strategy

Risk

Effective long term management of the Group's strategic risks will deliver benefits to all our stakeholders The Board understands that, if the strategy and vision are not properly formulated, communicated or implemented, then the long term aims of the Group may not be met and the business may suffer.

Mitigation

- Strategy development led by the Chief Executive and senior management with Main Board scrutiny and approval
- Engagement with a wide group of stakeholders to ensure the strategy remains current
- Communication of strategy via numerous channels
- Clear link between strategic targets and business plans to drive implementation
- Close Board monitoring of business performance

Colleague engagement and retention

Risk

We are a people business and our 58,000 colleagues make it happen for our customers If we fail to retain, develop and motivate our colleagues, we will not provide our customers with the quality of service they expect

Mitigation

- Competitive employment policies, remuneration and benefits packages established
- Significant investment in training and development, including Morrisons Academy and Coaching For Performance programmes
- Regular talent reviews and refresh of succession plans to meet the future needs of the business
- Climate and Pulse surveys undertaken to understand and respond to colleague concerns

Directors' report (continued)

Principal risks and uncertainties (continued)

Customer proposition

Risk

We operate in a highly competitive industry and 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

Mitigation

- Insight team provides data and analysis to help identify customer needs and wants which inform product ranging, marketing and advertising.
- Regular review of positioning against competitors.

Financial and treasury

Risk

Financial and treasury risk for the Group is managed at the Morrisons Group level The main financial risks at that level are the availability of funding, the loss of a financial counterparty and the uncertainty produced by fluctuations in interest and foreign exchange rates The Group itself has limited direct exposure to these risks, but as part of the Morrisons Group and guarantor to certain Morrisons financing arrangements (see note 24c), these risks have the potential to undermine the Group's ability to finance its trading activities and its financial results.

Mitigation

- Treasury Committee controls activities in line with Board approved policies and procedures and reports twice a year to the Audit Committee
- Hedging and derivatives used to control risk and protect the business rather than create profit
- Board approval of budgets and business plans

Food and product safety

Risk

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.

Mitigation

- Strict standards and monitoring processes established to manage food safety risks throughout the Group and supply chain
- ISO22000 accreditation of food manufacturing businesses
- Regular supplier assessments undertaken to ensure adherence to standards
- Stock withdrawal procedures operate throughout our supply chain to minimise the impact to customers of any supplier recalls
- Food Safety Steering Group, Management Board and Main Board provide oversight of operational activities.

Directors' report (continued)

Principal risks and uncertainties (continued)

IT systems

Risk

A number of existing systems are approaching the end of their useful lives and the Group is investing significantly in a multi-channel technology platform
Morrisons Group is aware of the risks faced by any organisation seeking to successfully design and implement new systems

Mitigation

- We partner with some of the world's leading technology companies for key projects
- Project management methodology ('The Method') used to manage delivery.
- Regular reviews undertaken by Risk and Internal Audit and other specialists provide assurance over Evolve and multi-channel programmes.

Regulation

Risk

The Group operates in an environment governed by strict regulations to ensure the safety and protection of customers, shareholders, colleagues and other stakeholders, and the operation of an open and competitive market. These regulations include alcohol licensing, 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

Mitigation

- Clear accountabilities for compliance with all areas of regulation exist.
- Policies and procedures designed to accord with relevant laws and regulations, including GSCOP and Competition Law training
- Health and Safety and Compliance Steering Group together with the Management Board and Corporate Compliance and Responsibility Committee oversee compliance with regulatory requirements

Reputation

Risk

Morrisons 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

Mitigation

- Morrisons Values embedded into colleague Performance Development Review (PDR) process.
- Corporate Responsibility policies, targets and key performance measures clearly defined and integrated into operational management activities
- Responsible Sourcing Group, Management Board and Corporate Compliance and Responsibility Committee oversee delivery against targets
- External assurance of Morrisons Corporate Responsibility report
- Further information is available in our Corporate Responsibility report at www morrisons co uk/cr

Directors' report (continued)

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

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 resolve these 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. Trade creditors for the Morrisons Group at the financial year end represented 30 days of purchases (2011/12. 30 days)

Directors' report (continued)

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 Morrisons 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 7 along with how the Directors mitigate these risks in the current economic climate

After reviewing the Group's financial forecasts, including an assessment of working capital and other medium term plans, the Directors are confident that the Company and the Group have adequate financial resources available to continue in operational existence for the foreseeable future 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·

R Pennycook	(resigned 10 April 2013)
G McMahon	(resigned 11 January 2013)
T Strain	appointed 11 February 2013
M Amsden	appointed 11 February 2013

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. The interest in the shares of the parent company held by directors 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 2012/13

Directors' report (continued)

Political and charitable donations

Durıng the perıod the Morrısons Group made charıtable donatıons amountıng to £0 1m (2012· £0 1m). In addıtıon the Morrısons Group sponsored varıous charıtıes and ın the perıod over £2.1m (2012 £2 3m) was raısed by customers and staff. No polıtıcal donatıons were made, whıch ıs Group polıcy

Auditor

Pursuant to sectıon 487(2) of the Companıes Act 2006, the audıtor ıs deemed to be reappoınted and KPMG Audıt Plc wıll therefore contınue ın office

By order of the Board

M Amsden

Dırector and Company Secretary

Regıstered office
Hılmore House
Gaın Lane
Bradford
BD3 7DL
17 July 2013

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 judgements 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.

M Amsden

Director and Company Secretary

By order of the Board

17 July 2013

Independent auditor's report to the members of Safeway Limited

We have audited the financial statements of Safeway Limited for the 53 weeks ended 3 February 2013 set out on pages 14 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 Parent 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 11, 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 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 Financial Reporting Council's website at www frc org uk/auditscopeukprivate

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 3 February 2013 and of the Group's profit for the 53 weeks then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU,
- the Parent 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 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 Parent 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 9, in relation to going concern

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

17 July 2013

Consolidated statement of comprehensive income

	Note	**53 weeks to 3 February 2013 £m**	52 weeks to 29 January 2012 £m
Turnover	1	**9,618**	9,471
Cost of sales		**(9,019)**	(8,915)
Gross profit		**599**	556
Other operating income		**13**	18
Administrative expenses		**(75)**	(30)
Loss arising on property transactions		**(6)**	(1)
Operating profit	4	**531**	543
Finance costs	5	**(42)**	(39)
Finance income	5	**-**	11
Other income	4	**34**	34
Profit before taxation		**523**	549
Taxation	6	**(126)**	(146)
Profit for the period attributable to owners of the Company		**397**	403
Other comprehensive income:			
Actuarial loss arising in the pension scheme	15	**(25)**	(45)
Tax in relation to components of other comprehensive income	6	**-**	10
Other comprehensive income for the period, net of tax		**(25)**	(35)
Total comprehensive income for the period attributable to the owners of the Company		**372**	368

Safeway Limited

53 weeks ended 3 February 2013

Consolidated balance sheet

	Note	2013 £m	2012 £m
Assets			
Non-current assets			
Property, plant and equipment	8	**2,835**	2,944
Investment property	9	**11**	36
Net pension asset	15	**-**	9
		2,846	2,989
Current assets			
Stocks		**218**	237
Debtors	10	**1,117**	1,114
Cash and cash equivalents	11	**21**	4
		1,356	1,355
Liabilities			
Current liabilities			
Creditors	12	**(212)**	(236)
Current tax liabilities		**(145)**	(153)
		(357)	(389)
Non-current liabilities			
Other financial liabilities	13	**(579)**	(550)
Deferred tax liabilities	16	**(154)**	(173)
Net pension liability	15	**(18)**	-
Provisions	17	**(60)**	(69)
		(811)	(792)
Net assets		**3,034**	3,163
Shareholders' equity			
Called-up share capital	18	**270**	270
Share premium	18	**742**	742
Other reserves	19	**31**	31
Retained earnings	19	**1,991**	2,120
Total equity		**3,034**	3,163

The financial statements on pages 14 to 45 were approved by the Board of Directors on 17 July 2013 and were signed on its behalf by

T Strain

Director

Safeway Limited

53 weeks ended 3 February 2013

Consolidated cash flow statement

	Note	2013 £m	2012 £m
Cash flow from operating activities			
Cash generated from operations	20	**657**	164
Interest paid		**(40)**	(39)
Taxation paid		**-**	(4)
Net cash inflow from operating activities		**617**	121
Cash flows from investing activities			
Proceeds from property, plant and equipment transactions		**3**	3
Purchase of property, plant and equipment and investment property		**(141)**	(141)
Net cash outflow from investing activities		**(138)**	(138)
Cash flows from financing activities			
New borrowings		**29**	-
Repayment of borrowings		**-**	(11)
Dividends paid to equity shareholders		**(501)**	-
Net cash outflow from financing activities		**(472)**	(11)
Net increase/(decrease) in cash and cash equivalents		**7**	(28)
Cash and cash equivalents at start of period		**(23)**	5
Cash and cash equivalents at end of period	11	**(16)**	(23)

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

	Note	2013 £m	2012 £m
Net increase/(decrease) in cash and cash equivalents		**7**	(28)
Cash outflow from increase in loans		**(29)**	11
Opening net debt		**(573)**	(556)
Closing net debt	20	**(595)**	(573)

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 29 January 2012		**270**	**742**	**31**	**2,120**	**3,163**
Profit for the period		-	-	-	**397**	**397**
Other comprehensive income						
Actuarial loss arising in the pension scheme	15	-	-	-	**(25)**	**(25)**
Tax in relation to components of other comprehensive income	6	-	-	-	-	-
Total comprehensive income for the period		-	-	-	**372**	**372**
Dividends	7				**(501)**	**(501)**
Total transactions with owners		-	-	-	**(501)**	**(501)**
At 3 February 2013		**270**	**742**	**31**	**1,991**	**3,034**

		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 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	15		-	-	-	**(45)**	**(45)**
Tax in relation to components of other comprehensive income	6		-	-	-	**10**	**10**
Total comprehensive income for the period			-	-	-	**368**	**368**
Total transactions with owners			-	-	-	-	-
At 29 January 2012			**270**	**742**	**31**	**2,120**	**3,163**

Group accounting policies

These financial statements on pages 18 to 45 are for the consolidated Safeway Limited Group

General information

Safeway Limited is a limited company incorporated in the United Kingdom 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 53 weeks ended 3 February 2013 (2012 52 weeks ended 29 January 2012) 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

The following amendments to standards are mandatory for the first time for the financial period beginning 30 January 2012, but do not have a material impact on the Group.

- Amendments to IFRS 7, 'Financial Instruments· Disclosures on transfer of assets'
- Amendment to IFRS 1, 'First time adoption', on fixed dates and 'hyperinflation', and
- Amendment to IAS 12, 'Income taxes', on deferred tax

There are a number of standards and interpretations issued by the IASB that are effective for financial statements after this reporting period The following have not been early adopted by the Group

Notes to the financial statements (continued)

New IFRS and amendments to IAS and interpretations (continued)

International Financial Reporting Standards		Effective for accounting periods starting on or after
IAS 1*	Amendment to Financial statement presentation	1 July 2012
IAS 19*	Amendment to Employee benefits	1 January 2013
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 10,11 and 12**	Amendments in transition guidance	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
IFRS 7*	Amendment to financial instruments, disclosures	1 January 2013
IFRS 1*	Amendment to first time adoption	1 January 2013
IAS 32*	Amendment to financial instruments presentation	1 January 2013

* Endorsed by the European Union

** Endorsed by the European Union for periods starting on or after 1 January 2014

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 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, is 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

Notes to the financial statements (continued)

Turnover recognition

Turnover 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 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 Revenue is recognised when transactions are completed in-store

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, manufacturing 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 over the lease term Details of rental income from Investment property are provided in note 9

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

Notes to the financial statements (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%

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

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

Notes to the financial statements (continued)

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 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 over the lease term

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

Notes to the financial statements (continued)

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.

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 15 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

The Morrisons Group also operates a cash balance scheme that the Group's employees may join This scheme provides a lump sum benefit based upon a defined proportion of an employee's earnings each year This scheme is defined benefit in nature

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 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

Notes to the financial statements (continued)

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, 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

b) Financial liabilities

i) Trade and other creditors: Trade and other creditors are initially stated at fair value and subsequently held at amortised cost

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 A sensitivity analysis of key assumptions is contained in note 15

Notes to the financial statements (continued)

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

The Directors consider that the individual carrying values of stores and other operating assets are supportable either by value in use or market values Appropriate provision is made for impairment

1. Sales analysis

	53 weeks ended 3 February 2013 £m	52 weeks ended 29 January 2012 £m
Sale of goods in-stores	**7,337**	7,392
Fuel	**2,256**	2,051
Total store-based sales	**9,593**	9,443
Other sales	**25**	28
Turnover	**9,618**	9,471

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

	53 weeks ended 3 February 2013 £m	52 weeks ended 29 January 2012 £m
Employee benefit expense for the Group dunng the penod		
Wages and salanes	**732**	745
Socıal secunty costs	**41**	45
Pensıon costs (note 15)	**17**	14
Share-based payments	**2**	9
	792	813

	2013 No.	2012 No
Average monthly number of people employed		
Stores	**57,541**	62,702

Share-based payments

The share-based payments cost has been recharged from Wm Mornson Supermarkets PLC ın respect of shares ıt has granted to employees of the Group The faır value assumptıons, method of accountıng and fınancıal models used ın determınıng the share-based payment charge are consıstent wıth those adopted ın the Wm Mornson Supermarkets PLC Annual report and fınancıal statements The charge ın the penod ın respect of the Group was £2m (2012 £9m)

Directors' emoluments

The emoluments of the Dırectors' are paıd by Wm Mornson Supermarkets PLC whıch makes no recharge to the Group It ıs not possıble to make an accurate apportıonment of the emoluments of the Dırectors' between Wm Mornson Supermarkets PLC and fellow subsıdıanes Accordıngly, the above detaıls ınclude no emoluments ın respect of Dırectors

Where the Dırectors are also Dırectors of the ultımate parent company, Wm Mornson Supermarkets PLC, detaıls of the emoluments and accrued benefıts under the defıned benefıt pensıon schemes that the Dırectors receıved for the penod endıng 3 February 2013 are dısclosed ın the Annual report and fınancıal statements of that company

Notes to the financial statements (continued)

4. Operating profit

	53 weeks ended 3 February 2013 £m	52 weeks ended 29 January 2012 £m
The following items have been included in arriving at operating profit		
Employee costs (note 3)	**792**	817
Depreciation		
–Property, plant and equipment (note 8)	**149**	140
–Investment properties (note 9)	**1**	4
Rental income from investment properties	**(5)**	(5)
Operating lease rentals payable		
–Property	**21**	20
Management charge	**(34)**	(34)
Value of stock expensed	**7,495**	7,365

Services provided by the Group's auditor

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

	53 weeks ended 3 February 2013 £m	52 weeks ended 29January 2012 £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

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

Notes to the financial statements (continued)

5. Net finance costs

	53 weeks ended 3 February 2013 £m	52 weeks ended 29 January 2012 £m
Interest payable on bonds	**(34)**	(34)
Provisions unwinding of discount	**(3)**	(4)
Other finance costs	**(3)**	(1)
Net pension interest cost (note 15)	**(2)**	-
Finance costs	**(42)**	(39)
Net pension interest income (note 15)	**-**	11
Finance income	**-**	11
Net finance costs	**(42)**	(28)

Interest is capitalised at the effective interest rate incurred on borrowings before taxation of 5% (2012 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

		53 weeks ended 3 February 2013 £m	52 weeks ended 29January 2012 £m
Current tax	– current period	**147**	160
	– adjustment in respect of prior periods	**(2)**	(6)
		145	154
Deferred tax	– current period	**(19)**	(10)
	– adjustment in respect of prior periods	**-**	2
		(19)	(8)
Tax charge for the period		**126**	146

Notes to the financial statements (continued)

6. Taxation (continued)

b) Tax on items included in other comprehensive income	53 weeks ended 3 February 2013 £m	52 weeks ended 29 January 2012 £m
Tax on actuarial movement arising in the pension scheme (note 15)	-	10
Total tax credit on items included in other comprehensive income	-	10
Analysis of items included in other comprehensive income		
Deferred tax (note 16)	-	10
	-	10

c) Tax reconciliation

The tax for both periods is different to the standard rate of corporation tax in the UK of 24.33% (2012. 26 33%) The differences are explained below

	53 weeks ended 3 February 2013 £m	52 weeks ended 29 January 2012 £m
Profit before tax	523	549
Profit before tax at 24 33% (2012 26 33%)	127	145
Effects of		
Expenses not deductible for tax purposes	2	2
Tax relief on special pension contribution (note 15)	(3)	-
Non-qualifying depreciation	18	17
Effect of change in tax rate	(16)	(14)
Adjustments in respect of prior period	(2)	(4)
Tax charge for the period	126	146

Factors affecting current and future tax charges

The standard rate of corporation tax in the UK changed from 26% to 24% with effect from 1 April 2012. Accordingly, the Group's profits for this accounting period are taxed at the combined rate of 24 33%.

The Finance Act 2012, which had been substantively enacted by the balance sheet date, includes legislation to further reduce the main rate of corporation tax to 23% on 1 April 2013 Consequently, deferred tax balances identified at the balance sheet date have been measured at this rate, the overall impact of this change is a credit to the Income Statement of £16m

Notes to the financial statements (continued)

6. Taxation (continued)

Factors affecting current and future tax charges (continued)
The Autumn Statement 2012 has indicated that the main rate of corporation tax will further reduce to 21% in April 2014, and 20% in April 2015, however since these changes have not been substantively enacted, the impact of the changes is not included in these Financial Statements Had the change been substantively enacted, the overall effect of this change would be a credit to the Income Statement of £32m

7. Dividends

Amounts recognised as distributed to equity holders in the period·

	53 weeks ended 3 February 2013 £m	52 weeks ended 29 January 2012 £m
Interim dividend for the period ended 3 February 2013 of 46 43 pence per share (2012 £nil)	**501**	-

The Directors authorised a dividend during the period of £501m (2012. £nil) and propose a final dividend in respect of the financial period ending 3 February 2013 of 46 44p per share which will absorb a further £501m of shareholders funds (2012 £nil)

8. Property, plant and equipment

	Land and buildings			
Current period	Freehold £m	Leasehold £m	Plant, equipment, fixtures & vehicles £m	Total £m
Cost				
At 29 January 2012	3,219	398	1,255	4,872
Additions at cost	75	10	48	133
Transfers from investment property	25	-	-	25
Disposals	(125)	-	(30)	(155)
At 3 February 2013	**3,194**	**408**	**1,273**	**4,875**
Accumulated depreciation				
At 29 January 2012	670	74	1,184	1,928
Charge for the period	65	10	74	149
Transfers from investment property	1	-	-	1
Disposals	(15)	-	(23)	(38)
At 3 February 2013	**721**	**84**	**1,235**	**2,040**
Net book amount at 3 February 2013	**2,440**	**348**	**35**	**2,835**

Notes to the financial statements (continued)

8. Property, plant and equipment (continued)

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 (2012: £150m)

The totals above include a net book amount of £87m (2012 £79m) and depreciation of £14m (2012 £13m) in relation to property, plant and equipment held under finance lease

	Land and buildings			
Prior 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)
Disposals	(5)	-	(1)	(6)
At 29 January 2012	**3,219**	**398**	**1,255**	**4,872**
Accumulated depreciation				
At 30 January 2011	620	64	1,106	1,790
Charge for the period	51	10	79	140
Disposals	(1)	-	(1)	(2)
At 29 January 2012	**670**	**74**	**1,184**	**1,928**
Net book amount at 29 January 2012	**2,549**	**324**	**71**	**2,944**

9. Investment property

	2013 £m	2012 £m
Cost		
At start of the period	**51**	50
Transfer (to)/from property, plant and equipment	**(25)**	1
At end of the period	**26**	51
Accumulated depreciation		
At start of the period	**15**	11
Charge for the period	**1**	4
Transfer to property, plant and equipment	**(1)**	-
At end of the period	**15**	15
Net book amount at end of the period	**11**	36

Notes to the financial statements (continued)

9. Investment property (continued)

Included in other operating income is £5m (2012 £5m) of rental income generated from investment properties

The fair value of investment properties at the end of the period was £40m (2012. £42m) The Directors do not believe that there has been a material change in yield since last year Investment properties transferred to property, plant and equipment have arisen following a review of asset categories, and remain within the same asset class for depreciation purposes

10. Debtors

	2013 £m	2012 £m
Amounts due from parent company	**989**	1,059
Other debtors	**1**	2
Prepayments and accrued income	**127**	53
	1,117	1,114

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

Prepayments and accrued income include £60m of pension contributions prepaid on behalf of Wm Morrison Property Partnership (SLP) This amount unwinds over the 20 year term of the arrangement Further details are given in note 15

11. Cash and cash equivalents

	2013 £m	2012 £m
Cash and cash equivalents	**21**	4

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

	2013 £m	2012 £m
Cash and cash equivalents	**21**	4
Bank overdraft (note 12)	**(37)**	(27)
	(16)	(23)

12. Creditors - current

	2013 £m	2012 £m
Bank overdraft	**37**	27
Trade creditors	**32**	31
Other creditors	**20**	24
Accruals and deferred income	**116**	147
Interest accrual	**7**	7
	212	236

Notes to the financial statements (continued)

13. Other financial liabilities

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

	2013 £m	2012 £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
Finance lease obligations	**29**	-
Total non-current Sterling bonds	**579**	550

Borrowing facilities

Borrowings are denominated in Sterling and 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

14. Financial instruments

a) Financial risk management

The Group's treasury operations are controlled centrally by the Treasury Committee established by its parent company, Wm Morrison 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 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's financial assets comprise cash amounts due from its ultimate parent company, which arise directly from its operations

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

(i) 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 3 February 2013, Wm Morrison Supermarkets PLC had undrawn committed facilities of £675m (2012 £725m) These facilities remain available to the Morrisons Group

The 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

Notes to the financial statements (continued)

14. Financial instruments (continued)

a) Financial risk management (continued)

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

	2013 £m	2012 £m
Less than 1 year	**34**	63
1 to 2 years	**184**	34
2 to 3 years	**24**	184
3 to 4 years	**224**	24
4 to 5 years	**12**	224
More than 5 years	**212**	224

(ii) 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 A3 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

(iii) Other risks

Commodity risk The Morrisons Group manages the risks associated with the purchase of electricity, gas and diesel consumed by its activities (excluding fuel purchased for resale to customers) by entering into bank swap contracts to fix prices for expected consumption

The Treasury Committee reviews the Morrisons Group's market price exposure to these commodities on a quarterly basis and determines a strategy for utilising derivative financial products in order to mitigate the volatility of energy prices The Morrisons Group intends to hold derivatives to maintain cover of its energy purchases of up to 75% over an appropriate timescale

Cash flow interest rate risk: The Morrisons Group's long term policy is to protect itself against adverse movements in interest rates by maintaining at least 60% of its total borrowings at fixed interest rates As at the balance sheet date 100% (2012: 100%) of the Group's borrowings are at fixed rate, thereby substantially reducing the Group's exposure to adverse movements in interest rates.

Notes to the financial statements (continued)

14. Financial instruments (continued)

b) Capital management

The Group defines the capital it manages as the Group's total equity and net debt balances, with an adjustment to reflect rental commitments.

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 Morrisons Group

There has been no change in the objectives, policies or processes with regards to capital management during the period.

c) Fair values

i) Financial assets

Cash and cash equivalents and debtors are held at book value which equals their fair value.

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:

	2013	**2013**	2012	2012
	Amortised cost	**Fair value**	Amortised cost	Fair value
	£m	**£m**	£m	£m
Total bonds – non current	**550**	**633**	550	633

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)

15. 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 3 February 2013 by a qualified independent actuary

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 4 February 2013 is £15m (2012 £13m)

On 31 January 2013, the Group made a contribution to the pension scheme of £60m. On the same day the pension schemes' trustees invested £60m in Wm Morrison Property Partnership (SLP) as limited partners SLP was established by Wm Morrison Property Investments Limited, a wholly owned subsidiary of the Group, to hold investments in retail and distribution properties of the Group with a market value of £141m The Morrisons Group retains control over the SLP, and as such it is fully consolidated within the Morrisons Group financial statements, although not included in these consolidated financial statements These properties have been leased to Wm Morrison Supermarkets Plc and Safeway Stores Limited As a partner in SLP the Morrison and Safeway pension schemes are entitled to a semi-annual share of the profits of SLP each year for 20 years The profits shared with the pension scheme will be reflected in the Group financial statements as pension contributions

Consequently, the Group has recognised a prepayment of the SLP's contributions of £60m (note 10), derecognised property sold to the SLP (note 8) and recognised a related debtor due from Wm Morrison Supermarkets Plc. Tax relief on this contribution is spread over four years

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

	2013	2012
Rate of increase in salaries	**3.70%**	4 55%
Rate of increase in pensions in payment and deferred pensions to April 2005	**3.70%**	3 30%
Rate of increase in pensions in payment and deferred pensions from April 2005	**2.30%**	2 30%
Discount rate applied to scheme liabilities	**4.85%**	4 75%
Inflation assumption	**2.90%-3.70%**	2 50%-3 30%

Notes to the financial statements (continued)

15. Pensions (continued)

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:

	2013	2012
Male	**24.5**	24 4
Female	**25.4**	25 3

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

	2013	2012
Male	**22.1**	22 0
Female	**23.1**	23 0

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 24, the results of the experience study conducted for the scheme have been used to adjust the longevity assumption in 2010.

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	**2013**	2012
Equities	**7.30%**	5 90%
Bonds	**4.85%**	4 75%
Gilts	**-**	2 90%
Liability driven investments	**3.30%**	-
Scottish limited partnership	**4.05%**	-
Cash	**0.60%**	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.

Notes to the financial statements (continued)

15. Pensions (continued)

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 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, are as follows:

	2013 £m	2012 £m
Equities	**903**	794
Bonds	**597**	546
Gilts	**-**	606
Liability driven investments	**623**	-
Cash	**1**	5
Total fair value of plan assets	**2,124**	1,951
Present value of defined benefit funded obligation	**(2,142)**	(1,942)
Net pension (liability)/asset in the balance sheet	**(18)**	9
Related deferred tax asset/(liability) (note 16)	**1**	(1)
Net (deficit)/surplus	**(17)**	8

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

	2013 £m	2012 £m
Fair value of plan assets at start of period	**1,951**	1,751
Expected return on plan assets	**90**	106
Actuarial gain recognised in other comprehensive income	**108**	112
Employer contributions	**15**	13
Employee contributions	**5**	5
Benefits paid	**(45)**	(36)
Fair value of plan assets at end of period	**2,124**	1,951

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.

Notes to the financial statements (continued)

15. Pensions (continued)

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

	2013 £m	2012 £m
Defined benefit obligation start of period	**(1,942)**	(1,709)
Current service cost	**(15)**	(12)
Employee contributions	**(5)**	(5)
Interest on defined benefit obligation	**(92)**	(95)
Actuarial loss recognised in other comprehensive income	**(133)**	(157)
Benefits paid	**45**	36
Defined benefit obligation at end of period	**(2,142)**	(1,942)

d) Sensitivities

Below is listed the impact on the liabilities of changing key assumptions whilst holding other assumptions constant

		2013 £m	2012 £m
Discount factor	+/- 0 1%	**72**	65
Longevity	+/- 1 year	**87**	80

e) Profit for the period

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

	2013 £m	2012 £m
Current service cost	**(15)**	(12)

The following amounts have been included in finance income

	2013 £m	2012 £m
Expected return on pension scheme assets	**90**	106
Interest on pension scheme liabilities	**(92)**	(95)
	(2)	11

f) Actuarial gains and losses recognised other comprehensive income

The amounts included in other comprehensive income were

	2013 £m	2012 £m
Actual return less expected return on scheme assets	**108**	112
Changes in demographic and financial assumptions underlying the present value of plan obligations	**(133)**	(157)
Actuarial movement recognised in other comprehensive income	**(25)**	(45)
Taxation on actuarial movement recognised in other comprehensive income	**3**	10
Deferred tax credit resulting from special contribution (note 15a))	**(3)**	-
Net actuarial movement recognised in other comprehensive income	**(25)**	(35)

Safeway Limited

53 weeks ended 3 February 2013

Notes to the financial statements (continued)

15. Pensions (continued)

	2013 £m	2012 £m
Cumulative gross actuarial movement recognised in other comprehensive income	**(140)**	(115)
Taxation on cumulative actuarial movement recognised in other comprehensive income	**34**	30
Cumulative net actuarial movement recognised in other comprehensive income	**(106)**	(85)

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

	2013 £m	2012 £m
Expected return on plan assets	**90**	106
Actuarial gain recognised in other comprehensive income reflecting the difference between expected and actual return on assets	**108**	112
Actual return on plan assets	**198**	218

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.

g) History of experience gains and losses

	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Difference between the expected and actual return on scheme assets					
Amount	**108**	**112**	48	199	(339)
Percentage of scheme assets	**4.9%**	**5.7%**	2 7%	12 3%	(24 9)%
Experience gains and losses arising on scheme liabilities					
Amount	-	-	(81)	-	(3)
Percentage of present value of plan obligation	-	-	(4 7)%	-	(0 2)%
Effects of changes in the demographic and financial assumptions underlying the present value of the scheme liabilities					
Amount	**133**	**157**	81	(242)	244
Percentage of present value of plan obligation	**6.2%**	**8.1%**	4 7%	(14 8)%	17 6%
Total amount recognised in other comprehensive income					
Amount	**25**	**45**	48	(43)	(98)
Percentage of present value of plan obligation	**1.2%**	**2.3%**	2 8%	(2 6)%	(7 0)%
Total value of schemes' assets	**2,124**	**1,951**	1,751	1,621	1,360
Present value of defined benefit obligation	**(2,142)**	**(1,942)**	(1,709)	(1,639)	(1,389)
Net pension (liability)/surplus recognised in the balance sheet	**(18)**	**9**	42	(18)	(29)

Notes to the financial statements (continued)

15. Pensions (continued)

h) 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

	2013 £m	2012 £m
Stakeholder pension scheme costs	1	1

i) Post retirement benefit plan

On 24 September 2012, the Morrisons Group opened a new post retirement benefit plan, the Morrisons Retirement Saver Plan The scheme provides a lump sum benefit based upon a defined proportion of an employee's earnings each year, revalued in line with a guaranteed rate prior to retirement All employees joining the Group after 24 September 2012 are automatically enrolled Existing employees are also eligible to join In the year contributions of £2m were made into the scheme by the Group

16. Deferred tax

	2013 £m	2012 £m
Deferred tax liability	(164)	(182)
Deferred tax asset	10	9
Net deferred tax liability	**(154)**	(173)

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 29 January 2012	(181)	(1)	9	(173)
Credited to profit for the period	17	2	-	19
Credited to other comprehensive income and equity	-	-	-	-
At 3 February 2013	**(164)**	**1**	**9**	**(154)**

Prior period				
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)**

Notes to the financial statements (continued)

16. Deferred tax (continued)

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

	2013 £m	2012 £m
Actuarial gains	-	(10)

Included within the total charged to profit for the period is an amount credited of £16m (2012 £15m) and within the total recognised in other comprehensive income is a debit of £2m (2012 £1m) in respect of the change in the tax rate at which deferred tax balances are expected to reverse

17. Provisions

	Property provisions £m
At 29 January 2012	69
Charged to profit for the period	2
Utilised in period	(14)
Unwinding of discount	3
At 3 February 2013	**60**

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 59 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

18. Called-up share capital

	Number of shares millions	Share capital £m	Share premium £m	Total £m
At 3 February 2013 and 29 January 2012	1,079	270	742	**1,012**

All issued shares are fully paid

Notes to the financial statements (continued)

19 Reserves

	2013 £m	2012 £m
Retained earnings	**1,992**	2,120
Other reserves	**31**	31
Total	**2,023**	2,151

Other reserves include a capital redemption reserve of £31m (2012 £31m)

20. Cash flow from operating activities

	52 weeks ended 3 February 2013 £m	52 weeks ended 29 January 2012 £m
Continuing operations		
Profit for the financial period	**394**	403
Adjustments for		
Taxation	**129**	146
Depreciation	**150**	144
Loss on disposal of property, plant and equipment	**6**	1
Net finance cost	**42**	28
Excess of contributions over pension service cost	**-**	(1)
Decrease/(increase) in stocks	**19**	(26)
Increase in debtors	**(38)**	(587)
(Decrease)/increase in creditors	**(36)**	65
Decrease in provisions	**(9)**	(9)
Cash inflow from operations	**657**	164

21. Analysis of net debt

	2013 £m	2012 £m
Cash and cash equivalents per balance sheet	**21**	4
Bank overdrafts (note 11)	**(37)**	(27)
Cash and cash equivalents per cash flow	**(16)**	(23)
Bonds	**(550)**	(550)
Finance lease obligations	**(29)**	-
Non-current financial liabilities	**(579)**	(550)
Net debt	**(595)**	(573)

Notes to the financial statements (continued)

22. 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 2013 £m	Property 2012 £m
Within one year	**33**	26
More than one year and less than five years	**125**	93
After five years	**450**	308
	608	427

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

	2013 £m	2012 £m
Within one year	**7**	8
More than one year and less than five years	**25**	28
After five years	**40**	49
	72	85

23. Capital commitments

The Group does not have any future committed capital contracts.

24. Related party transactions

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

The following transactions were carried out with related parties·

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

	2013 £m	2012 £m
Payment for goods by Wm Morrison Supermarkets PLC on behalf of Safeway Limited	**7,406**	7,363
Management recharge	**(34)**	(34)
	7,372	7,329

b) Period-end balances with related parties

Funds due from related parties	**2012 £m**	2012 £m
Wm Morrison Supermarkets PLC (note 10)	**989**	1,059

Notes to the financial statements (continued)

24. Related party transactions (continued)

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, the Sterling bonds issued on 27 July 2012, at a fixed rate of 3 50%, expiring in July 2026, 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.

Post balance sheet event

On the 19 June 2013 Safeway Limited guaranteed the Wm Morrison Supermarkets PLC €700m Euro bond at a fixed rate of 2 25%, expiring June 2021

25. 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

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 principal area of trading of the subsidiaries is the United Kingdom apart from Safeway (Overseas) Limited which trades in Gibraltar

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

Safeway Limited

53 weeks ended 3 February 2013

Safeway Limited Company balance sheet at 3 February 2013

	Note	2013 £m	2012 £m
Fixed assets			
Investments	28	**1,261**	1,261
		1,261	1,261
Current assets			
Debtors	29	**919**	918
Creditors – amounts falling due within one year	30	**(7)**	(7)
Net current assets		**912**	911
Total assets less current liabilities		**2,173**	2,172
Creditors - due after more than one year	31	**(550)**	(550)
Net assets		**1,623**	1,622
Capital and reserves			
Called-up share capital	32	**270**	270
Share premium		**742**	742
Other reserves	33	**31**	31
Merger reserve	34	**572**	572
Profit and loss account	35	**8**	7
Equity shareholders' funds	36	**1,623**	1,622

The accounting policies on pages 47 and 48 and the 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 [15 July 2013] and signed on its behalf by

T Strain

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, except as disclosed in the accounting policies set out below, 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, 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 asset is ready for use

Capital management

The capital management policy of the Company is consistent with that of the Group set out in note 14

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 than not that there will be suitable taxable profits against which to recover carried

Safeway Limited Company accounting policies (continued)

Deferred and current taxation (continued)

forward tax losses and from which the future reversal of underlying timing differences can be deducted. Deferred tax assets and liabilities are not discounted

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 wholly-owned 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

26. Profit and loss account

The profit for the Company for the 53 week period ending 3 February 2013 was £502m (2012 £2m loss).

Audit fees and expenses were paid by the ultimate parent company Fees paid were £15,000 (2012 £15,000) in relation to audit services There are no fees in relation to non-audit services

27. Employees and Directors

There are no employees of the Company (2012 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 53 weeks ending 3 February 2013 are disclosed in the Annual report and financial statements of that company

28. Investments

	Investment in subsidiary undertakings £m	Loans to subsidiary undertakings £m	Total £m
Cost			
At 3 February 2013 and 29 January 2012	111	1,150	**1,261**

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

Notes to the financial statements (continued)

29. Debtors

	2013 £m	2012 £m
Amounts due from Group undertakings	**915**	913
Deferred tax	**4**	5
	919	918

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

30. Creditors – amounts falling due within one year

	2013 £m	2012 £m
Interest payable	**7**	7

31. Creditors – amounts due after more than one year

	2013 £m	2012 £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:

	2013 Amortised cost £m	2013 Fair value £m	2012 Amortised cost £m	2012 Fair value £m
Total bonds – non-current	**550**	**633**	550	633

Borrowings are denominated in Sterling and bear fixed interest based on LIBOR. All borrowings are unsecured

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

32. Called up share capital

	2013 £m	2012 £m
Issued and fully paid		
Equity share capital		
1,078,800,000 ordinary shares of 25p each (2012 1,078,800,000)	**270**	270

Notes to the financial statements (continued)

33. Other reserves

	Other reserves £m
At 3 February 2013 and 29 January 2012	31

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

34. 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

35. Profit and loss account

	2013 £m	2012 £m
At start of period	**7**	9
Profit/(loss) on ordinary activities after taxation	**502**	(2)
Dividend paid	**(501)**	-
At end of period	**8**	7

36. Reconciliation of movements in equity shareholders' funds

	2012 £m	2012 £m
Profit/(loss) on ordinary activities after taxation	**502**	(2)
Dividend paid	**(501)**	-
Net movement in equity shareholders' funds	1	(2)
Opening shareholders' funds	**1,622**	1,624
Closing equity shareholders' funds	**1,623**	1,622

Notes to the financial statements (continued)

37. 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

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