Company Registration No. 02572702

NEEROCK LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE 53 WEEKS ENDED 4 FEBRUARY 2018

NEEROCK LIMITED

COMPANY INFORMATION

Directors	Mr A Thornber Mr J Reed Mr A Clappen Mr M Stitson
Secretary	Mr J Burke
Company number	02572702
Registered office	Hilmore House 71 Gain Lane Bradford West Yorkshire England BD3 7DL
Independent auditors	PricewaterhouseCoopers LLP Central Square 29 Wellington Street Leeds West Yorkshire England LS1 4DL

NEERROCK LIMITED

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The Directors present the Strategic Report and the Company's audited financial statements for the period ended 4 February 2018. These financial statements are prepared under United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101).

The term 'Company' refers to Neerock Limited and the term 'Group' refers to Wm Morrison Supermarkets PLC and its subsidiary undertakings.

Principal activities and future developments
The principal activity of the Company is fresh meat processing, supplying the Group and third parties. As a subsidiary of Wm Morrison Supermarkets PLC the Company will benefit from the Group's commitment to developing its customer proposition, facilitating the Company's successful performance in future.

Results and dividends
During the period, the Group changed the way it manages its manufacturing business - moving to a cost centre model. Goods sold between the manufacturing and retail operations are now transferred at cost plus a standard margin. This change better reflects the way the business is now operated. The impact of this change resulted in lower sales and lower profit margins in the current period than under the previous agreement.

Sales have increased by 2% in the period as the impact of the change in transfer pricing has been more than offset by underlying growth in volumes, including sales to third parties. The results for the Company show a profit for the financial period of £14,013,000 (2017: £37,987,000) with the decrease largely as a result of the change in the business model during the period. The Directors have not authorised a dividend during the period (2017: £nil).

As at 4 February 2018 the Company had net assets of £195,293,000 (2017: £181,280,000).

Principal risks and uncertainties
From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks and uncertainties of the Group and are not managed separately. Accordingly, the principal risks and uncertainties of the Group, which include those of the Company, are disclosed on pages 24 and 25 of the Wm Morrison Supermarkets PLC Annual Report and Financial Statements 2017/18, which does not form part of this report.

Key performance indicators (KPIs)
The KPIs of the Company are integrated with those of the Group and are not managed separately. The KPIs of the Group, which include those of the Company, are disclosed on 1, 17, 18 and 19 of the Wm Morrison Supermarkets PLC Annual Report and Financial Statements 2017/18, which does not form part of this report.

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

....
Mr A Thornber
Director
29 October 2018

DIRECTORS' REPORT

FOR THE 53 WEEKS ENDED 4 FEBRUARY 2018

The Directors present their Annual Report and the Company's audited financial statements for the 53 weeks ended 4 February 2018. These financial statements are prepared under United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101).

Matters discussed in the Strategic report

The Directors have chosen to present certain requirements of the Directors report within the Strategic report on page 1 of the financial statements, including the Company's principal activity, business review and details of proposed dividends.

Directors and their interests

The Directors who held office during the period and up to the date of signing of the financial statements were as follows:

Mr A Thornber	
Mr D Blackhurst	(Resigned 17 October 2018)
Mr J Reed	
Mr A Clappen	
Mr M Stitson	(Appointed 16 May 2017)
Mr M Gleeson	(Resigned 16 May 2017)

The Company is ultimately wholly owned by Wm Morrison Supermarkets PLC and none of the Directors who held office at the period end held any interest in the shares of the Company or any of its subsidiaries. The interest in the shares of the ultimate parent undertaking held by Directors of that Company is disclosed in the Wm Morrison Supermarkets PLC Annual Report and Financial Statements 2017/18, which does not form part of this report.

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

Directors' and Officers' liability insurance

The Group maintains insurance cover for the protection of Directors and senior management from personal liabilities and costs which may arise in the course of fulfilling their duties. This insurance was in force during the 53 weeks ended 4 February 2018 and to the date of approval of the Company financial statements.

Internal control

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

Corporate and social responsibilities

The Group recognises the importance of its corporate and social responsibilities, monitors its impact on the environment and designs and implements policies to reduce any damage that might be caused by the Group's activities. The Company operates in accordance with Group policies, which are described in the Group's Annual Report and Financial Statements which do not form part of this report. Initiatives designed to minimise the Company's impact on the environment include recycling and reducing energy consumption.

Employment policy
The Company'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, local, regional and national consultative committees. The Company recognises a number of trade unions and has a partnership agreement with USDAW.

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

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

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

Disability
The Group gives full and fair consideration to applications for employment made by people with disabilities. Where an employee becomes disabled whilst in employment, every effort will be made to look at appropriate and reasonable adjustments and to offer suitable employment together with assistance in retraining. The Company's policy is to offer equal opportunity to all disabled applicants and employees who have a disability or who become disabled during the course of their employment in respect of recruitment, career development, promotion, training, pay and other employment conditions.

Financial risk management
The financial risk management and policies of the Company are consistent with those of the Group. For further details, see page 95 of the Wm Morrison Supermarkets PLC Annual Report and Financial Statements 2017/18, which does not form part of this report.

Political donations
There were no political donations (2017: none) for the period and the Company did not incur any political expenditure (2017: £nil).

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

Company law requires the Directors to prepare financial statements for each financial period. Under that law the Directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 'Reduced Disclosure Framework', and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The Directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In the case of each Director in office at the date the Directors' Report is approved:

- so far as the Directors are aware, there is no relevant audit information of which the Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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

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Mr A Thornber
Director
29 October 2018

NEEROCK LIMITED

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF NEEROCK LIMITED

Report on the audit of the financial statements

Opinion

In our opinion, Neerock Limited's financial statements:

- give a true and fair view of the state of the Company's affairs as at 4 February 2018 and of its profit for the 53 week period (the 'period') then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 'Reduced Disclosure Framework', and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the balance sheet as at 4 February 2018; the income statement, the statement of changes in equity for the period then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the period ended 4 February 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 4, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the Company's Members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

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

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

We have no exceptions to report arising from this responsibility.

Arif Ahmad

Arif Ahmad (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
29 October 2018

NEEROCK LIMITED

INCOME STATEMENT

FOR THE 53 WEEKS ENDED 4 FEBRUARY 2018

	Notes	53 Weeks ended 4 February 2018 £000	52 Weeks ended 29 January 2017 £000
Revenue	3	629,072	615,206
Cost of sales		(593,225)	(556,997)
Gross profit		35,847	58,209
Administrative expenses		(20,987)	(20,329)
Other operating income		578	641
Operating profit	4	15,438	38,521
Interest payable and similar charges	5	(53)	(66)
Profit on ordinary activities before taxation		15,385	38,455
Tax on profit on ordinary activities	6	(1,372)	(468)
Profit for the financial period		14,013	37,987

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

There were no amounts recognised in other comprehensive income other than those included in the income statement.

The notes on pages 11 to 22 form part of these financial statements.

NEERock LIMITED

BALANCE SHEET

AS AT 4 FEBRUARY 2018

	Notes	2018 £000	2017 £000
Fixed assets			
Intangible assets	7	55	140
Property, plant and equipment	8	55,462	50,104
Investments	9	-	-
		55,517	50,244
Current assets			
Stock	11	12,407	11,723
Debtors	12	512,971	343,423
Cash and cash equivalents		364	61
		525,742	355,207
Creditors: amounts falling due within one year	13	(375,876)	(215,823)
Net current assets		149,866	139,384
Total assets less current liabilities		205,383	189,628
Creditors: amounts falling due after one year	13	(8,710)	(7,175)
Deferred tax liabilities	14	(1,380)	(1,173)
Net assets		195,293	181,280
Shareholders' equity			
Called-up share capital	15	2,000	2,000
Retained earnings		193,293	179,280
Total shareholders' funds		195,293	181,280

The notes on pages 11 to 22 form part of these financial statements.

The financial statements on pages 8 to 22 were approved by the Board of Directors and authorised for issue on 29 October 2018 and are signed on its behalf by:

....

Mr M Stitson
Director

Company Registration No. 02572702

NEERROCK LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE 53 WEEKS ENDED 4 FEBRUARY 2018

	Caled-up share capital £000	Retained earnings £000	Total shareholders' funds £000
Balance at 1 February 2016	2,000	141,293	143,293
Profit for the Financial period	-	37,987	37,987
Balance at 29 January 2017	2,000	179,280	181,280
Profit for the Financial period	-	14,013	14,013
Balance at 4 February 2018	2,000	193,293	195,293

The notes on pages 11 to 22 form part of these financial statements.

1 Accounting policies

Company information

Neerock Limited is a limited company incorporated in the United Kingdom under the Companies Act 2006 (Registration number 02572702). The Company is domiciled in the United Kingdom and its registered address is Hilmore House, 71 Gain Lane, Bradford, West Yorkshire, BD3 7DL, United Kingdom.

Basis of preparation

These financial statements of the Company have been prepared in accordance with the Companies Act 2006 (the Act) as applicable to companies using Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). FRS 101 sets out a reduced disclosure framework for a 'qualifying entity' as defined in the standard which addresses the financial reporting requirements and disclosure exemptions in the individual financial statements of qualifying entities that otherwise apply the recognition, measurement and disclosure requirements of EU-adopted IFRS.

The Company is a qualifying entity for the purposes of FRS 101 as it is a member of a group which prepares publicly available consolidated financial statements and it is included in the consolidation for that group.

These financial statements, which have been prepared on the going concern basis, under the historic cost convention and in accordance with applicable accounting standards in the United Kingdom, are presented as required by the Act.

The disclosure exemptions adopted by the Company in preparation of these financial statements in accordance with FRS 101 are as follows:

a) IFRS 2, 'Share-based payment' (paragraphs 45(b) and 46 to 52) – details of the number and weighted-average exercise prices of share options, and how the fair value of goods or services received was determined;

b) IFRS 7, 'Financial Instruments: Disclosures';

c) IFRS 13, 'Fair value measurement' (paragraphs 91 to 99) – disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities;

d) IAS 1, 'Presentation of financial statements' (paragraph 38) – comparative information requirements in respect of:

- paragraph 79(a)(iv) of IAS 1;
- paragraph 73(e) of IAS 16, 'Property, plant and equipment'; and
- paragraph 118(e) of IAS 38, 'Intangible assets' – reconciliations between the carrying amount at the beginning and end of the period.

e) The following paragraphs of IAS 1, 'Presentation of financial statements':

- 10(d), (statement of cash flows);
- 111 (cash flow statement information); and
- 134-136 (capital management disclosures);

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

g) IAS 8 'Accounting policies, changes in accounting estimates and errors' (paragraph 30 and 31) – requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective;

h) The requirements of IAS 24, 'Related party disclosures' paragraph 17 – key management compensation and the requirements to disclose related party transactions entered into with two or more wholly owned members of a group.

1 Accounting policies (Continued)

Basis of preparation (continued)

The Directors have chosen not to prepare consolidated financial statements for the Company in accordance with the provisions of section 400 of the Act. The results of the Company are included in the consolidated financial statements of Wm Morrison Supermarkets PLC.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are impairment of non-financial assets and stock. For further details, see page 69 of the Wm Morrison Supermarkets PLC Annual Report and Financial Statements 2017/18, which does not form part of this report.

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.

Revenue

Revenue comprises the fair value of consideration received or receivable for sale of goods in the ordinary course of the Company's activities. 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.

Revenue represents the amounts (excluding value added tax) derived from the provision of goods to customers during the period. All turnover is to customers based in the United Kingdom.

Cost of sales

Cost of sales consists of all costs to the point of sale including warehouse and transportation costs. Depreciation, production overheads and production-based employee costs are also allocated to cost of sales, the latter based on the size of production space and number of production-based employees as a proportion of the total.

Other operating income

Other operating income consists of income not directly related to the principal activity of the Company, mainly staff canteen income.

Current tax

The current income tax charge is calculated on the basis of the tax laws in effect during the period and any adjustments to tax payable in respect of previous periods. Taxable profit differs from the profit as reported in the profit for the period as it is adjusted both for items that will never be taxable or deductible, and temporary differences. Current tax is charged to profit for the period, except when it relates to items charged or credited directly in other comprehensive income or equity in which case the current tax is reflected in other comprehensive income or equity as appropriate.

1 Accounting policies **(Continued)**

Deferred tax
Deferred tax is recognised using the balance sheet method. Provision is made for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. No deferred tax is recognised for temporary differences that arise on the initial recognition of goodwill or the initial recognition of assets and liabilities that are not a business combination and that affects neither accounting nor taxable profits.

Deferred tax is calculated based on tax law that is enacted or substantively enacted at the reporting date and provided at rates expected to apply when the temporary differences reverse. Deferred tax is charged or credited to profit for the period except when it relates to items charged or credited directly to other comprehensive income, in which case the deferred tax is reflected in other comprehensive income or equity as appropriate.

Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the asset can be utilised. Deferred tax assets recognised are reviewed at each reporting date as judgement is required to estimate the availability of future taxable income. Deferred tax assets and liabilities are offset where amounts will be settled on a net basis as there is a legally enforceable right to offset.

Accruals for tax contingencies require management to make judgements and estimates of the probable outcome of tax compliance issues. All accruals are included in current liabilities.

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

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

Licences
Separately acquired software licences are recognised at historic cost less accumulated amortisation and impairment.

Those acquired in a business combination are recognised at fair value at the acquisition date. Software licences are amortised over their useful lives (3 to 10 years) on a straight-line basis or over the life of the licence if shorter

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

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

Freehold land	0%
Freehold buildings	2.5%
Plant, equipment, fixtures and vehicles	10 to 33%

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

1 Accounting policies **(Continued)**

Impairment of non-financial assets
The Company tests non-financial assets if events or changes in circumstances indicate that the carrying amount may not be recoverable. Testing is performed at the level of a cash generating unit (CGU) in order to compare the CGU's recoverable amount against its carrying value. An impaired CGU is written down to its recoverable amount, which is the higher of value in use or its fair value less costs to dispose. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses are reversed if there is evidence of an increase in the recoverable amount of a previously impaired asset, but only to the extent that the recoverable amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised.

Investments
Investments comprise investments in equity instruments held for long term investment. They are measured at fair value through other comprehensive income, where the fair value can be measured reliably. Where the fair value of the instruments cannot be measured reliably, for example, when there is variability in the range of estimates, the investments are recognised at cost less accumulated impairment losses.

Stock
Stock represents raw materials and finished goods and is measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale. Cost is calculated on a weighted average basis and comprises purchase price, import duties, and other non-recoverable taxes and a provision for estimated losses relating to obsolete and slow moving items.

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.

Assets funded through finance leases are capitalised as property, plant and equipment and depreciated over their useful economic life or lease term, whichever is shorter. The amount capitalised is the lower of the fair value and the present value, calculated using the interest rate implicit in the lease, of the future minimum lease payments. The obligations to pay future rentals are included within liabilities. 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.

Retirement benefits
The Group operates a cash balance scheme (the 'RSP') that the Company'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.

The Group accounts for the RSP as a defined benefit scheme. The RSP is a Group Plan as defined in IAS 19. The Group has chosen not to put in place a contractual agreement or stated policy for sharing across its group the net defined benefit cost, which is recognised in the individual financial statements of the sponsoring employer for the plan (Wm Morrison Supermarkets PLC). Each of the other Group entities, including those within the Company, recognises a cost equal to its contribution payable for the period.

Payments by the Company to the RSP are charged to profit for the period as they arise.

1 Accounting policies **(Continued)**

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 the Company's employees is calculated based on an appropriate apportionment and recharged through intercompany. The charge to reserves is retained within Wm Morrison Supermarkets PLC retained earnings.

Trade and other debtors
Trade and other debtors are initially recognised at fair value, which is generally equal to face value, and subsequently held at amortised cost. Provision is made when there is objective evidence that will not be able to recover balances in full, with the charge being included in administrative expenses.

Cash and cash equivalents
Cash and cash equivalents for cash flow purposes include cash-in-hand, cash-at-bank and bank overdrafts. In the balance sheet bank overdrafts that do not have a right of offset are presented within current liabilities.

Trade and other creditors
Trade and other creditors are initially recognised at fair value, which is generally equal to face value of the invoices received, and subsequently held at amortised cost.

Share capital
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2 Employees and Directors

Average number of people employed in the period:

	2018	2017
Selling and administration	170	200
Production	1,460	1,400
	1,630	1,600

2 Employees and Directors (Continued)

	2018 £000	2017 £000
Employee benefit expense for the Company during the period:		
Wages and salaries	35,513	33,864
Social security costs	3,471	3,195
Other pension costs	1,563	730
Share-based payments	235	175
	40,782	37,964

Share-based payments
The share-based payments cost was recharged from Wm Morrison Supermarkets PLC in respect of shares it has granted to employees of the Company. The fair value assumptions, method of accounting and financial models used in determining the share-based payment charge are consistent with those adopted in the Wm Morrison Supermarkets PLC Annual Report and Financial Statements. The charge in the period in respect of the Company was £235,000 (2017: £175,000).

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.

Pension costs
The Company is party to a cash balance scheme operated by the Group (the Retirement Saver Plan, RSP). The pension cost charge for the period represents contributions payable by the Company to the schemes and amounts to £1,563,000 (2017: £730,000).

There are no outstanding or prepaid contributions at either the beginning or end of the financial year.

3 Revenue

All revenue relates to the principal activity of the Company and all revenue is derived in the UK.

4 Operating profit

	2018 £000	2017 £000
Operating profit for the period is stated after charging:		
Employee costs (note 2)	40,782	37,964
Depreciation of property, plant and equipment (note 8)	5,906	5,440
Amortisation of intangible assets (note 7)	85	173
Value of stock expensed	521,748	478,815

Fees to the auditors of £5,000 (2017: £5,000) in relation to audit services were paid by Wm Morrison Supermarkets PLC on the Company's behalf. No fees were paid in relation to non-audit services (2017: £nil).

5 Interest payable and similar expenses

	2018 £000	2017 £000
Interest on finance leases	53	66

6 Tax on profit on ordinary activities

	2018 £000	2017 £000
Current tax		
UK corporation tax on profits for the current period	1,165	-
	1,165	-
Deferred tax		
Current period	201	16
Adjustment in respect of prior periods	6	452
	207	468
Total tax charge for the period	1,372	468

The tax rate for both periods is different to the standard rate of corporation tax in the UK of 19.16% (2017: 20.00%). The differences are explained below:

	2018 £000	2017 £000
Profit before taxation	15,385	38,455
Expected tax charge based on a corporation tax rate of 19.16% (2017: 20.00%)	2,948	7,691
Effect of expenses not deductible in determining taxable profit	50	11
Group relief	(2,204)	(8,048)
Deferred tax adjustments in respect of prior years	6	452
Fixed asset differences	339	210
Transfer pricing adjustments	259	231
Rate change	(26)	(79)
Total tax charge for the period	1,372	468

6 Tax on profit on ordinary activities **(Continued)**

Factors affecting current and future tax charges
Legislation to reduce the standard rate of corporation tax to 17% from 1 April 2020 was included in Finance Act 2016. Accordingly, deferred tax has been provided at 17% depending upon when the temporary difference is expected to reverse (2017: 17%).

There have not been any further announcements of changes to the rate of corporation tax after 1 April 2020.

7 Intangible assets

	Software development costs	Licences	Total
	£000	£000	£000
Cost			
At 30 January 2017	287	31	318
Fully amortised assets	(100)	-	(100)
At 4 February 2018	187	31	218
Accumulated amortisation			
At 30 January 2017	172	6	178
Charge for the period	74	11	85
Fully amortised assets	(100)	-	(100)
At 4 February 2018	146	17	163
Net book amount			
At 4 February 2018	41	14	55

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

Fully amortised assets are retained in the Company's fixed asset register. In order to provide greater understanding of the Company's annual amortisation charge, assets which have become fully amortised in the year have been removed from both cost and accumulated amortisation.

8 Property, plant and equipment

	Freehold land	Freehold buildings	Plant, equipment, fixtures and vehicles	Total
	£000	£000	£000	£000
Cost				
At 30 January 2017	3,665	29,218	46,885	79,768
Additions	-	-	11,264	11,264
Fully depreciated assets	-	-	(12,126)	(12,126)
At 4 February 2018	3,665	29,218	46,023	78,906
Accumulated depreciation				
At 30 January 2017	-	4,851	24,813	29,664
Charge for the period	-	733	5,173	5,906
Fully depreciated assets	-	-	(12,126)	(12,126)
At 4 February 2018	-	5,584	17,860	23,444
Net book amount				
At 4 February 2018	3,665	23,634	28,163	55,462

The Company has performed its annual assessment of its depreciation policies and asset lives and deemed them to be appropriate. No changes have been made to asset lives during the year. Fully depreciated assets have been retained in the Company's fixed asset register. In order to provide greater understanding of the Company's annual depreciation charge, these assets have been removed from both cost and accumulated depreciation.

The totals in Plant, equipment, fixtures and vehicles above include a cost of £9,008,000 (2017: £8,736,000) and depreciation of £3,203,000 (2017: £2,913,000) in relation to property, plant and equipment held under finance lease with fellow group undertakings.

9 Investments

	2018	2017
	£000	£000
Cost and net book value	-	-

In accordance with section 409 of the Companies Act 2006, a full list of related undertakings including the country of incorporation, the principal activity and the effective percentage of equity owned as at 4 February 2018 is disclosed in note 10. The registered address of all undertakings is Hilmore House, Gain Lane, Bradford, BD3 7DL unless otherwise stated.

10 Related undertakings

Details of the Company's related undertakings at 4 February 2018 are as follows:

Related undertaking	Country of incorporation	Interest (%)	Principal activity
Safeway Trustee (FURB) Limited	United Kingdom	100	Dormant
Safeway Stores (Gibraltar) Pension Trustees Limited	Gibraltar	50	Dormant

The registered address of Safeway Stores (Gibraltar) Pension Trustees Limited is Suites 41/42 Victoria House, 26 Main Street, Gibraltar.

The Company owns 1 share in English Real Estates Limited, 1 share in Safeway Limited, 1 share in Neerock Farming Limited and 1 share in Safeway Stores Limited. All of these entities are subsidiaries in the Group.

11 Stock

	2018 £000	2017 £000
Raw materials	5,061	3,845
Finished goods	7,346	7,878
	12,407	11,723

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

12 Debtors

	2018 £000	2017 £000
Trade debtors	1,282	10,989
Other debtors	7,286	5,187
Amounts owed by Group undertakings	504,010	326,858
Prepayments and accrued income	393	389
	512,971	343,423

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

13 Creditors

	Due within one year		Due after one year	
	2018	**2017**	**2018**	**2017**
	£000	**£000**	**£000**	**£000**
Trade creditors	27,885	27,890	-	-
Amounts owed to Group undertakings	336,155	180,197	8,710	7,175
Other creditors	3,949	1,025	-	-
Accruals and deferred income	7,887	6,711	-	-
	375,876	215,823	8,710	7,175

Amounts owed to Group undertakings are non-interest bearing and unsecured and repayable on demand. However, within this balance are net obligations under finance leases of £298,000 (2017: £1,561,000) which are payable within one year, unsecured and are interest-bearing.

Net obligations under finance leases of £8,710,000 (2017: £7,175,000) are payable in one to five years, are interest-bearing and are included in amounts owed to Group undertakings in the table above.

14 Deferred tax liabilities

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

	Property, plant and equipment £000
Deferred tax liability at 1 February 2016	705
Charged to income statement for the period (note 5)	468
Deferred tax liability at 30 January 2017	1,173
Charged to income statement for the period (note 5)	207
Deferred tax liability at 4 February 2018	1,380

	2018	**2017**
	£000	**£000**
Deferred tax liabilities	1,380	1,173

15 Called-up share capital

	2018 £000	2017 £000
2,000,000 (2017: 2,000,000) ordinary shares of £1 each	2,000	2,000

All issued shares are fully paid.

16 Ultimate holding company

During the 53 weeks ended 4 February 2018, the Group and the Company's immediate parent undertaking changed from Wm Morrison Supermarkets PLC to Wm Morrison Supermarkets Holdings Limited as part of an internal restructuring exercise.

The ultimate parent company and head of the largest group in which the results of the Company are consolidated is Wm Morrison Supermarkets PLC which is incorporated in Great Britain and registered in England and Wales. The Directors consider this to be the Company's ultimate controlling party.

The smallest and largest group in which these results of the Company are consolidated are those of the controlling party, Wm Morrison Supermarkets PLC, which is incorporated in Great Britain and registered in England and Wales.

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

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