

Welcome to our 1999 Annual Report in this new style and format we will enjoy reading about Safeway has made and we are doing in a high to deliver more value for



We have now built a strong platform for recovery. We have strengthened the Safeway brand and sharpened its appeal to our target customers. The result for the year was like for like sales growth of 3.5%, which was 1.3% ahead of the industry average, and renewed profits growth in the second half.

Although our profits were below last year, this reflected our planned programme of additional investment in our product ranges, supply chain, staffing levels and marketing. The benefits of this investment and the supporting management programmes which we introduced last year began to come through in the form of improved operational standards and a more distinctive Safeway offer. As a result of our improving value, product ranges and availability, family shoppers are recognising that Safeway has the prices, products and services that they want, delivered through a store portfolio which is benefiting from more investment. The fundamentals of the Safeway brand have been strengthened. These initiatives started

to drive our profits forward again in the second half and are helping us to realise the potential of our quality superstore assets.

Our targets

We are continuing to work towards the three year performance targets we adopted last year:

- £1 billion of additional sales in existing stores;
- further effectiveness gains of £60 million; and
- £600 million of cash to shareholders by dividend or share buy-back.

Since the end of the year, we have announced that we will be buying back shares up to our authority of 10% of our issued equity. This will help us exceed our target for returning cash to shareholders.

Our sales target will take longer to achieve due to a decline in the underlying volume growth in our industry and a lower than expected food inflation rate of barely 1% during the year. We are therefore extending the timeframe over which we

Annual Report, the first format. I hope you put the progress that about everything in a very competitive market for our shareholders.

plan to meet this target by 12 months to November 2001. We expect to beat our other two performance targets.

The Competition Commission

In view of the increasing intensity of competition across the sector and the downward trend in both average net margin and return on capital employed, it is somewhat ironic that our industry should now be investigated by the Competition Commission. In International terms, the UK food retailing industry is neither particularly concentrated nor exceptionally profitable, particularly when measured in terms of return on capital employed. What *does* distinguish us from our North American and European counterparts, however, is the high cost structure, principally store development, within which we are obliged to operate.

We welcome the opportunity for all competition issues to be thoroughly investigated by a professional agency and the positive contribution made by our industry recognised.

The Board

Following the Annual General Meeting, Ann Burdus retires from the Board, having served as a non-executive director and as Chairman of the Board's Remuneration Committee since 1993. Her wise comments will be missed and I thank her warmly for her contribution over the past six years. I expect to announce the appointment of a new non-executive director shortly.

Industry outlook

The dynamics of competition are irreversibly driving the food retailing sector towards greater concentration. Our objective is to ensure that if and when an attractive opportunity arises for us to participate in this process, we are in the best possible position to do so and safeguard the interests of our shareholders, customers, staff and suppliers.

Kosovo

The plight of the refugees from Kosovo has touched the hearts of all of us. We in Safeway wanted to help those in need.

Shortly after the first public appeal was made, and in association with UNICEF and The Express, a Safeway lorry was on its way to Macedonia, filled with a range of basic necessities. Customers also donated 23 million ABC points and over £215,000 to the appeal, which paid for other vital shipments to the Balkans. I would like to thank all those who donated and our four volunteer truck drivers who risked their lives to help.



DGC Webster
26 May 1999