This financial review is my opportunity to discuss and analyse Safeway's business performance and the factors underlying the figures. It's more complicated as we had 53 weeks this year, but I'll show you a 52 week comparison where appropriate as well

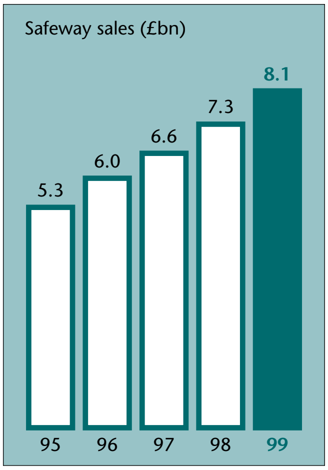
Long-term performance targets set 18 months ago.

Over three years we aimed to:

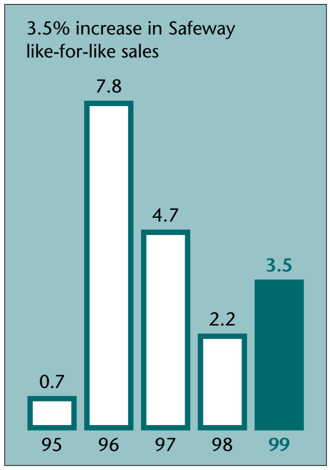
- *Generate £1 billion of additional sales in existing stores.*
- *Deliver further efficiency savings of at least £60million.*
- *Deliver £600million of cash to shareholders by dividend or buy-back.*

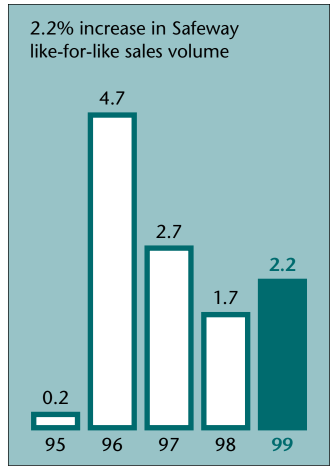
The progress so far:
Lower inflation and volume growth across the sector will mean that we'll need an extra year to achieve our £1 billion of sales, but we'll beat the £60 million cost saving and £600 million cash targets!

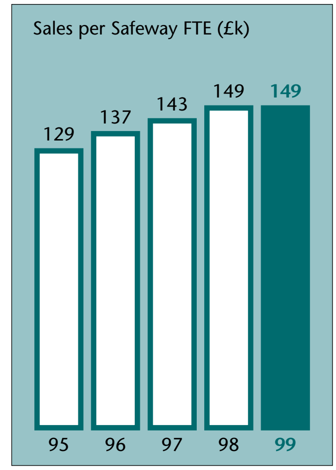
getting to the



1999 was a 53 week year.







1999 was a 53 week year.

– Sales growth in existing stores ahead of the industry average.
– Profit growth resumed in second half of the year.
– Share buy-back programme announced of up to 10% of our share capital.

Group sales

The value of sales made by the group rose by 7.7% to £8,071 million.

	1999 £m	Total	% Growth due to Like-for-like	Net New Space	Double Easter Effect	53rd Week
Britain	**7,925**	6.7				
Ireland	**146**	128.4				
Group	**8,071**	7.7	3.5	1.7	0.5	2.0

Our sales for the year grew by 7.7% over the 53 weeks. However, excluding the extra week, they grew by 5.4%. Sales growth in stores more than one year old ('like-for-like') was 3.5%, of which volume growth was 2.2%. Our sales inflation averaged 1.3% compared with a 2.1% increase in the Retail Prices Index. New stores, less closures, added 1.7%. The two Easters in the year and the 53rd week added 2.5% in total.

Although like-for-like sales growth slowed in the second half against tougher comparatives and low sector volume growth, we outperformed the industry average by 0.9% in the second half and by 1.3% for the full year.

Sales from our joint venture stores in Northern Ireland totalled £146 million. The conversion programme to Safeway was virtually completed in the year and, during the second half, converted stores increased their sales by 20%.

Group operating profit

Over 53 weeks, group operating profit, before the costs of last year's store portfolio review and redundancy programme, fell by 1.1% to £422 million. Without the extra week, group operating profit fell by 3.0% to £414 million, with a net margin of 5.6% compared with 6.1% last year.

This was as a result of significant extra investment started in the second half of last year and increased during the year. This included more staff in our stores and extra distribution costs to improve product availability, £40 million extra spend in marketing, category management and supply chain and our continued investment in Northern Ireland.

In the second half, as we passed the anniversary of these extra costs, operating profit grew by 12%.

	1999 £m 53 weeks	1999 £m 52 weeks	Fall % 52 weeks	Net Margin %	Change %
Britain	**431**	**423**	(2.9)		
Ireland	**(9)**	**(9)**	(4.5)		
Group	**422**	**414**	(3.0)	**5.6**	(0.5)

Net margin

The group's net margin fell by 0.5% for the full year as shown below:

	1st half %	2nd half %	Full Year %
Gross margin	(0.4)	0.4	–
Store wages	(0.2)	(0.3)	(0.3)
Marketing investments	(0.4)	–	(0.2)
Efficiency savings	0.2	0.4	0.3
Ireland	(0.3)	0.1	–
Other	(0.3)	(0.2)	(0.3)
Overall change	(1.4)	0.4	(0.5)

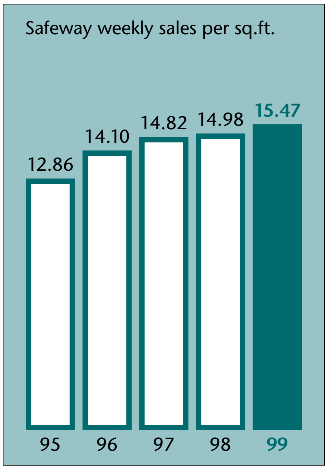
Our gross margin was stable for the year as a whole as we improved our management of the whole supply chain, which reduced product wastage, and we targeted better our promotions. These offset, particularly in the second half, pressure from continued tough price competition in the sector. Wages increased as a % of sales as we invested in more customer service in stores and our annual wage award of 3.0% was higher than our sales inflation.

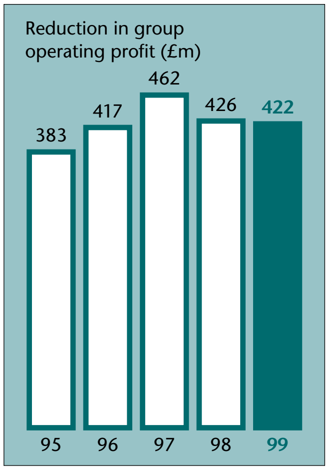
Our ABC 'Triple Points' promotion in the first half, drove strong sales, but cost 0.4% of net margin. Our efficiency gains of £25 million gathered pace during the year, helping net margin by 0.3%. Ireland's performance also improved.

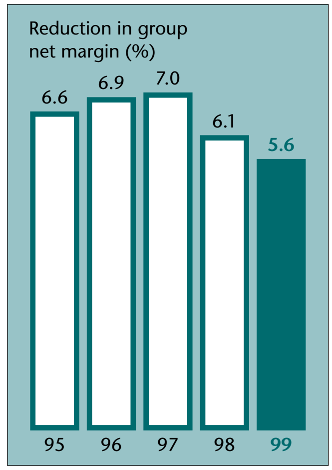
Northern Ireland

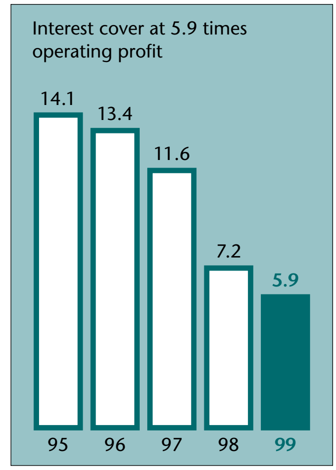
With the recent opening of three new stores, at Cookstown, Omagh and Downpatrick, to complement our now

bottom line









1997 and 1999 both affected by there being two Easters in each year.

1998 group operating profit and net margin are before the costs of the store portfolio review and redundancy programme.

fully refitted former Wellworth units, our store portfolio in Northern Ireland now comprises 12 modern, mainly freehold, superstores with an average sales area of 27,000 square feet. Operating losses incurred by our joint venture reduced significantly during the second half.

Profit before taxation
Over 53 weeks, profit before taxation, net property losses and the costs of last year's store portfolio review and redundancy programme fell by 4.8% to £357 million. Without the extra week, the fall was 6.7% to £350 million.

	1999 £m 53 weeks	1999 £m 52 weeks	Change % 53 weeks
Operating profit	422	414	(1.1)
Net interest payable	(65)	(64)	–
Profit (before property)	357	350	(4.8)
Net property losses	(16)	(16)	–
Profit before tax*	341	334	0.1

*Last year included £30 million for the costs of the store portfolio review and redundancy programme.

BP joint venture
The BP joint venture made £0.4 million of profit, of which our share is £0.2 million. Sales were £55.3 million in total (our share £27.7 million). These sales are not included in the total group sales.

Interest
On a 53 week basis, the net interest charge increased by £14 million to £65 million. Over 52 weeks, the increase was £13 million to £64 million. The increase reflects the group's average net usage of cash throughout the year and is despite the reduction in floating interest rates during the year from 7.5% to 7.2%, resulting from the general reduction in UK interest rates mainly during the second half of the year.

Interest cover (the number of times operating profit is greater than the net interest charge before capitalised interest) reduced to 5.9 times, from 7.2 times last year. This, however, is still well ahead of our financial covenant requirement of 3.0 times.

Property
There was a net property loss on disposals of £16 million (last year £19 million including the property element of the store portfolio review and redundancy programme). This included £4 million (last year £2 million) of additional provisions for loss on disposal of short life stores and development sites.

Taxation
We have provided £107 million for corporation tax at a rate of 30% on our profit before taxation and net property losses compared with 29% last year. A similar tax rate is expected to be charged this year.

The rate is below the standard rate of 31% due mainly to tax allowances exceeding depreciation and to tax relief on capitalised interest.

Minority interest
In accordance with the requirements of FRS 9 – Associates and Joint Ventures, our Northern Ireland joint venture is accounted for as a subsidiary since we have management control. However, as we own only 50% of the shares, there is a minority

17

new stores were opened during the year

interest credit on our Profit and Loss Account to reflect our partner's, Fitzwilton, share of the post tax loss. This was nearly £10 million compared with nearly £5 million last year.

Earnings and dividends

Before property and the costs of last year's store portfolio review and redundancy programme	1999	Change %
Profit before tax (53 weeks)	**£341m**	0.1
Earnings per share (53 weeks)	**23.8p**	(4.4)
Dividends per share	**14.4p**	2.1
Dividend cover	**1.5x**	

Earnings per share for 53 weeks and excluding the net property loss and costs of last year's store portfolio review and redundancy programme, reduced by 4.4% to 23.8p. Over 52 weeks, the earnings per share fall was 6.0% to 23.4p.

Diluted earnings per share (which reflect the impact of outstanding share options) were 22.2p for 53 weeks (21.8p for 52 weeks) compared with 22.0p last year.

Dividend

The Board is recommending a final dividend of 10.0p per share, giving a full year dividend of 14.4p. This is an increase of 2.1% over last year's 14.1p per share. Dividend cover has reduced to 1.5 times (last year 1.6 times) which compares with the FTSE 250 average of 1.9 times. The group's policy remains to increase dividends broadly in line with growth in underlying earnings per share.

Store development

During the year, 17 new Safeway stores were opened, including three in Northern Ireland, with a total sales area of 383,000 square feet. We expect to open 12 new stores this year and, in future, the new store programme is expected to add around 10 new freehold stores and 250,000 square feet of sales area annually.

We are directing a growing proportion of our capital budget towards our existing store base and are achieving good returns from this investment. During the year, some 46 major refits and eight extensions were completed. A similar programme is planned for the current year.

Return on capital employed

Return on average capital employed after taxation ('ROCE'), fell to 11.8% from 13.7% last year.

Our cost of capital has also fallen to 8.3%, reflecting lower inflation, higher debt financing and reducing interest rates. We invest to continue to keep our returns above our cost of capital.

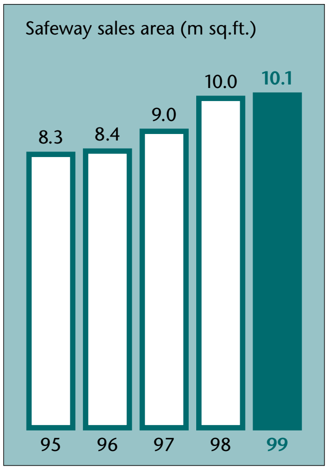
Cash flow

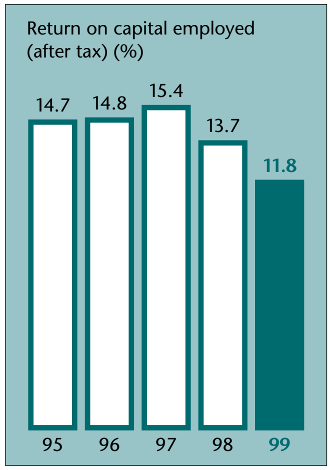
The group used £74 million of cash from operations, ie. before dividends and new share issues. The net cash outflow of £197 million included cash dividends paid of £130 million.

Cash Flow	1999 £m	Change £m
Operating profit	**422**	12*
Property/depreciation	**168**	17
Working capital investment	**(10)**	(52)
Capital spend	**(460)**	5
Fixed asset disposals	**3**	(6)
Investment in joint venture with BP	**(2)**	4
Taxation paid	**(93)**	(3)
Net interest paid	**(68)**	(9)
Net investment in own shares	**(34)**	(9)
Cash available to shareholders	**(74)**	(41)
Cash dividends paid	**(130)**	7
New shares issued for cash	**7**	(19)
Increase in net debt	**(197)**	(53)

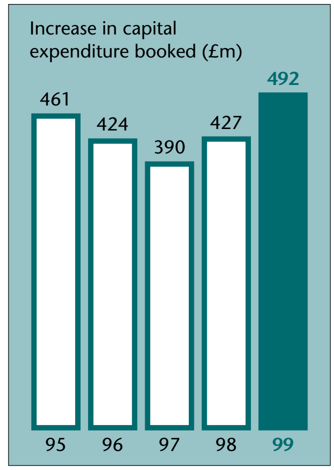
*After the costs of last year's store portfolio review and redundancy programme.

Financial review





ROCE for 1998 is before the costs of the store portfolio review and redundancy programme.



Capital expenditure
Capital expenditure booked of £492 million (cash spend £460 million) was mainly on new store openings but also included £160 million on extensions and refits in existing stores, together with £55 million in Northern Ireland on new stores and the conversion programme.

Our emphasis is on improving investment returns and maximising the value of our existing portfolio. Planned capital expenditure in the current year is being reduced to below £350 million of which some £150 million will be spent on the existing store base.

Net debt and funding
Net debt increased by £197 million to end the year at £969 million. As a result, gearing (net debt as a percentage of capital employed) rose from 38% to 46%.

During the year, we arranged a new £200 million 20 year 6 1/8% fixed rate Sterling Bond (rated A3 by Moody's and A– by Standard and Poors'), £150 million of which was subsequently swapped into floating rate debt. As a result, at the year end around 52% of the group's debt was at fixed interest rates. It remains our policy to balance evenly fixed and floating rate funding. We estimate that a 1% movement in floating interest rates would impact upon profit before taxation by around 1%.

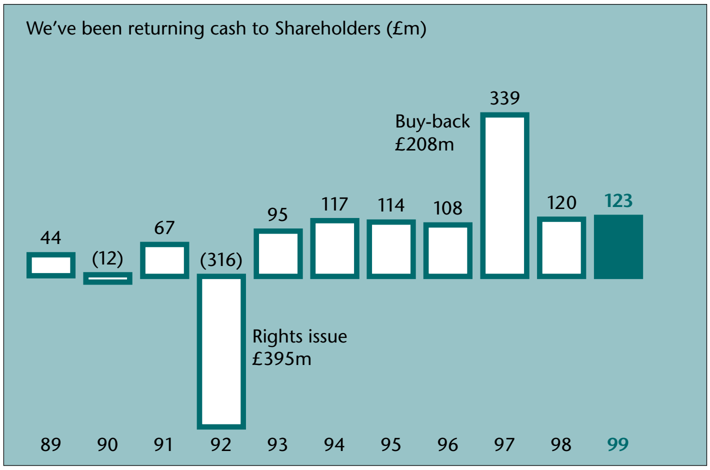
We have committed borrowing facilities totalling over £1.3 billion and also have access to funds from relationship banks on an uncommitted basis. These provide cover for our normal seasonal peak borrowings in January and February and are considered sufficient for our expected requirements. These include facilities negotiated since the year end with our relationship banks in order to assist with the funding of our new share buy-back programme.

Treasury policies
The treasury function manages the group's funding, banking service requirements and exposures resulting from volatility in interest and exchange rates. The policy on derivatives is to use them only on a very selective basis, to manage interest rate risk. Foreign exchange transaction exposures on product are hedged, generally up to three months ahead, by using forward contracts when the forecast exposure becomes reasonably certain. The department does not operate as a profit centre.

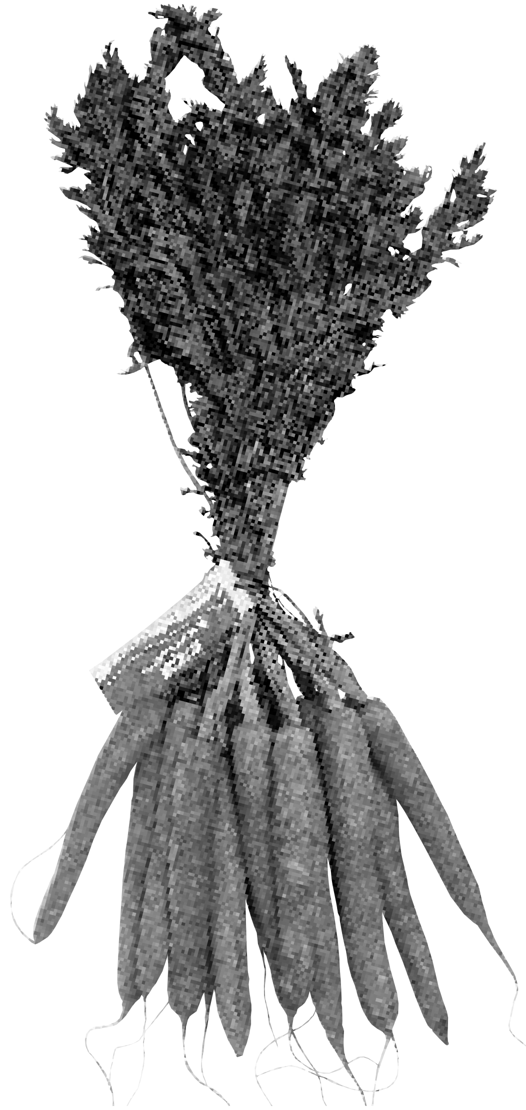
The main controls are (i) regular reports to the Board, (ii) periodic reviews by our internal Business Controls department and our external auditors, (iii) approved investment limits and financial instruments, after taking into account Moody's or Standard and Poors' credit ratings and (iv) dealing mandates issued to all financial institutions with which deals are authorised.

The group's main financial covenants are in respect of tangible net worth, net gearing and interest cover. All have been complied with comfortably.

Year 2000
We are confident that our preparations for Year 2000 systems compliance are nearing completion and will be implemented within our original £5 million total budget. We believe our mainframe computer systems to be Millennium compliant and these are being thoroughly tested. Minor systems and equipment are planned to be compliant by the end of September. Comprehensive contingency plans are being developed, working with suppliers, to minimise the risk of disruption to the continuity of supply and service to customers.



Cash Returned to Shareholders: Cash dividends paid and £208 million share buy-back in 1996 less new share issues for cash.



Shareholder returns
Growing shareholder value faster than our competitors remains one of our key corporate goals.

Long-term Total Shareholder Return ('TSR') is a key external measure of this. Over the 12 years since we acquired the original Safeway business, we have grown TSR by 6.1% per annum. Over the last five years, we have grown TSR by 4.4% per annum.

Accounting standards
The group's accounting standards reflect the current requirements of the UK Accounting Standards Board including the various new standards which came into effect during the year, namely:

FRS 11 – Impairment of Fixed Assets and Goodwill;
FRS 12 – Provisions, Contingent Liabilities and Contingent Assets;
FRS 13 – Derivatives and Other Financial Instruments: Disclosures; and
FRS 14 – Earnings Per Share.

The only notable impact of these new standards is the change in the calculation of earnings per share and additional disclosures on derivatives and other financial instruments.

Full details of directors' remuneration and pension entitlements are shown in the Directors' Report on pages 53 to 57 and in Note 7.3 on page 45.

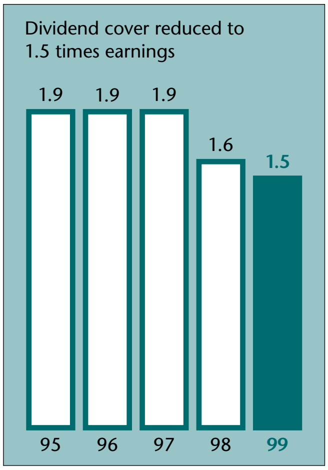
We remain committed to the adoption of best practice in our communications with investors following London Stock Exchange guidelines. Market updates on current trading are issued quarterly.

The future
The group is committed to enhancing shareholder value. We only invest where the return is expected to be higher than our cost of capital.

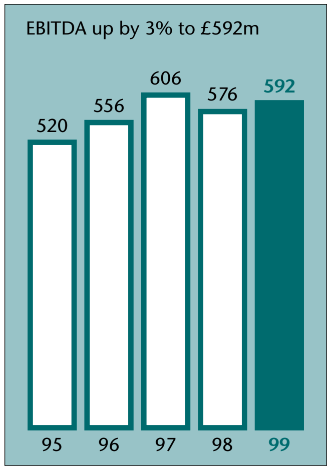
On 12 May 1999 we announced that we would start a share repurchase programme up to our authority of buying 10% of our issued shares. Our dividend yield (dividend payable as a percentage of a share's market value) is 5.6%. However, our current cost of debt is some 6.7% before tax and 4.7% after tax. So this will help our shareholders because the Company will pay out less after tax to providers of the extra debt than we would have done to the shareholders we've bought out.

As at the latest practicable date prior to the printing of this Annual Report, we have repurchased for cancellation 50.1 million shares, representing 4.5% of our issued share capital.

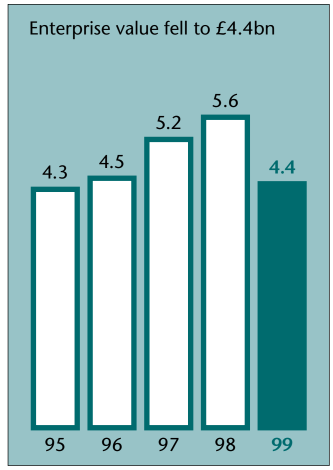
We will continue actively to manage our capital structure (ie. the mix between debt, property and equity funding) as we believe this plays an important role in reducing our cost of capital and so delivering value to our shareholders.



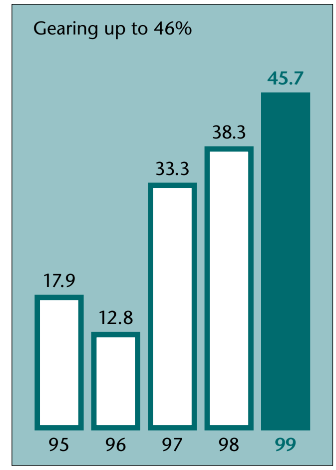
Dividend cover (times): Profit for the financial year (before exceptionals) divided by dividends payable.



EBITDA: Earnings before interest (before exceptionals), Taxation, Depreciation and Amortisation.



Enterprise value: Comprises year end market capitalisation and net debt together with the capitalised value of operating leases.

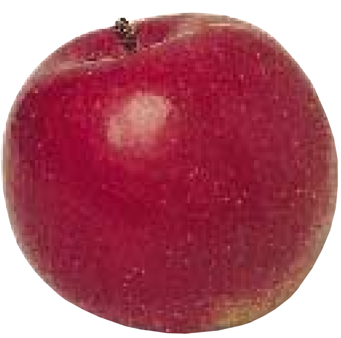


Gearing: Net debt divided by total capital employed.

Other financial ratios

		1999	1998	Change
Safeway sales per sq. ft. per week Total Safeway sales (incl. VAT)/Weighted average sales area	£	**15.47**	14.98	+3.3%
Sales per full-time equivalent (FTE) Safeway employee Total Safeway sales (incl. VAT)/Average number of Safeway FTEs	£K	**149.1**	149.4	-0.2%
Operating margin (excl. VAT) Operating profit*/Turnover (excl. VAT)	%	**5.6**	6.1	-0.5%
Operating profit per FTE Safeway employee Safeway operating profit*/Average number of Safeway FTEs	£K	**7.8**	8.8	-11.4%
Return on capital employed (ROCE) Profit for the financial year*/Average total capital employed	%	**11.8**	13.7	-1.9%
Net tangible assets per share Net assets/Year end number of shares in issue	pence	**191.2**	183.1	+4.4%
Earnings per share (EPS) (before property) Profit for the financial year*/Average number of shares in issue	pence	**23.8**	24.9	-4.4%

*The 1998 ratios are before the costs of the store portfolio review and redundancy programme.
Safeway sales per square foot per week for the year ended 28 March 1998, after adjusting for the timing of Easter, were £15.05.
The 1999 ratios are based on our 53 weeks performance.



Our new Internet site shows the full Annual Report together with latest press releases, policy statements and various facts and figures about the group. This will be expanded in the autumn for customers and will feature recipes, ABC news, kids' activities and lots of ideas on how to make shopping easier

www.safeway.co.uk