Group profit and loss account Year ended 3 April 1999

	Notes and page numbers	1999 £m	1998 £m
Sales	1 (p44)	**8,071.2**	7,493.6
Value added tax		**(560.5)**	(514.9)
Turnover, excluding value added tax	1 (p44)	**7,510.7**	6,978.7
Cost of sales		**(5,893.8)**	(5,475.2)
Gross profit		**1,616.9**	1,503.5
Net operating expenses	2 (p44)	**(1,195.1)**	(1,093.6)
Operating profit	1 (p44)	**421.8**	409.9
Share of joint venture operating profit/(loss)	3 (p44)	**0.2**	(0.2)
Net property losses	4 (p44)	**(16.5)**	(18.5)
Net interest payable	5 (p44)	**(64.9)**	(51.0)
Profit on ordinary activities before taxation	6 (p45)	**340.6**	340.2
Tax on profit on ordinary activities	8 (p45)	**(107.1)**	(104.0)
Profit on ordinary activities after taxation		**233.5**	236.2
Minority interest		**9.7**	4.8
Profit for the financial year		**243.2**	241.0
Dividends paid and proposed	9 (p45)	**(157.6)**	(154.1)
Retained profit for the year		**85.6**	86.9
Retained profit, beginning of year		**1,078.0**	991.1
Retained profit, end of year		**1,163.6**	1,078.0
Earnings per share	10 (p46)		
Before net property losses and costs of store portfolio review and redundancy programme		**23.8p**	24.9p
Net property losses		**(1.5p)**	(0.4p)
Store portfolio review and redundancy programme		**–**	(2.3p)
Earnings per share		**22.3p**	22.2p
Diluted earnings per share		**22.2p**	22.0p

There are no recognised gains or losses other than those shown in the profit and loss account above.
The accompanying Notes 1.0 to 26.0 and statement of general accounting policies form part of this profit and loss account.
A summary of profit before taxation is shown on page 34 and also in Note 1.0 on page 44.
These accounts are for the 53 week period to 3 April 1999 compared with the 52 week period to 28 March 1998.

Reconciliation of movements in shareholders' funds Year ended 3 April 1999

	Group		Company	
	1999 £m	1998 £m	1999 £m	1998 £m
Profit for the financial year	**243.2**	241.0	**160.1**	161.5
Dividends paid and proposed	**(157.6)**	(154.1)	**(157.6)**	(154.1)
Retained profit for the year	**85.6**	86.9	**2.5**	7.4
New share capital subscribed, including premium	**6.9**	16.2	**6.9**	16.2
New share capital issued, by way of scrip dividends	**23.7**	16.4	**23.7**	16.4
Net addition to shareholders' funds	**116.2**	119.5	**33.1**	40.0
Shareholders' funds, beginning of year	**2,006.9**	1,887.4	**1,867.6**	1,827.6
Shareholders' funds, end of year	**2,123.1**	2,006.9	**1,900.7**	1,867.6

The accompanying Notes 1.0 to 26.0 and statement of general accounting policies form part of this reconciliation.

Balance sheets At 3 April 1999

	Notes and page numbers	Group 1999 £m	Group 1998 £m	Company 1999 £m	Company 1998 £m
Fixed assets					
Tangible fixed assets	11 (p46)	**3,770.0**	3,465.6	**–**	–
Investments	12 (p47)	**77.8**	40.9	**1,734.9**	1,957.3
		3,847.8	3,506.5	**1,734.9**	1,957.3
Current assets					
Stocks	13 (p47)	**327.3**	337.6	**–**	–
Debtors	14 (p47)	**133.3**	131.2	**1,025.4**	674.0
Money market investments and deposits	15 (p48)	**24.9**	30.6	**–**	–
Cash at bank and in hand		**127.9**	88.7	**318.5**	275.4
		613.4	588.1	**1,343.9**	949.4
Creditors (due within one year)					
Bank overdrafts		**(55.6)**	(21.5)	**(0.1)**	(8.8)
Loans	17 (p48)	**(249.2)**	(47.1)	**(246.7)**	(43.5)
Other creditors	16 (p48)	**(1,210.4)**	(1,181.4)	**(241.3)**	(233.2)
Net current assets/(liabilities)		**(901.8)**	(661.9)	**855.8**	663.9
Total assets less current liabilities		**2,946.0**	2,844.6	**2,590.7**	2,621.2
Creditors (due after one year)					
Loans	17 (p48)	**(817.2)**	(822.3)	**(690.0)**	(753.6)
Provisions for liabilities and charges					
Deferred taxation	18 (p49)	**(10.2)**	(10.2)	**–**	–
Net assets		**2,118.6**	2,012.1	**1,900.7**	1,867.6
Capital and reserves					
Called-up share capital	19 (p49)	**276.9**	274.7	**276.9**	274.7
Share premium account	20 (p49)	**667.6**	639.2	**667.6**	639.2
Capital redemption reserve	21 (p50)	**15.0**	15.0	**15.0**	15.0
Capital reserve	22 (p50)	**–**	–	**572.5**	572.5
Profit and loss account	23 (p50)	**1,163.6**	1,078.0	**368.7**	366.2
Equity shareholders' funds		**2,123.1**	2,006.9	**1,900.7**	1,867.6
Minority interest		**(4.5)**	5.2	**–**	–
Total capital employed		**2,118.6**	2,012.1	**1,900.7**	1,867.6

The accompanying Notes 1.0 to 26.0 and statement of general accounting policies form part of these balance sheets.

Approved by the Board of Directors on 26 May 1999.

D G C Webster, Director
S T Laffin, Director

The Capital redemption reserve of £15 million represents the nominal value (25p each) of the Company's shares repurchased (60 million) and subsequently cancelled in July 1996. The new share buy-back programme will increase this reserve during the current year.

Stocks comprise everything we sell from baked beans to bacon in our depots and stores. These are delivered by suppliers initially to our depots and then our lorry fleet delivers them daily to our stores. We sold over 82 million cans of baked beans during the year.

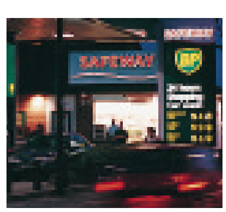
Cash flow statement Year ended 3 April 1999

	Notes and page numbers	1999 £m	1998 £m
Net cash inflow from operating activities	25 (p50)	**579.8**	602.5
Returns on investments and servicing of finance			
Interest received		**5.4**	1.7
Interest paid		**(72.7)**	(59.4)
Interest element of finance lease rental payments		**(0.6)**	(1.4)
Net cash outflow from returns on investments and servicing of finance		**(67.9)**	(59.1)
Taxation			
Tax paid		**(94.6)**	(89.9)
Certificates of tax deposit utilised		**1.3**	–
Taxation paid		**(93.3)**	(89.9)
Capital expenditure and financial investment			
Payments for tangible fixed assets		**(459.8)**	(409.7)
Proceeds received from disposal of tangible fixed assets		**3.1**	9.1
Increase in own shares held by the Company	12 (p47)	**(34.4)**	(24.7)
Net cash outflow from capital expenditure and financial investment		**(491.1)**	(425.3)
Acquisitions and disposals			
Payments for tangible fixed assets on initial investment in Northern Ireland	26 (p50)	**–**	(55.0)
Investment in joint venture		**(2.3)**	(6.4)
Net cash outflow from acquisitions and disposals		**(2.3)**	(61.4)
Equity dividends paid in cash		**(129.7)**	(136.6)
Net cash outflow before use of liquid resources and financing		**(204.5)**	(169.8)
Financing and management of liquid resources			
Proceeds received from issue of share capital		**6.9**	16.2
Subsidiary company share capital issued to minority interest	26 (p50)	**–**	10.0
Issue of new unsecured sterling bonds		**200.0**	–
Increase in other loans		**–**	208.4
Capital element of finance lease rental payments		**(3.0)**	(8.6)
Net cash inflow from financing		**203.9**	226.0
Decrease/(increase) in money market investments and deposits		**5.7**	(6.5)
Net cash inflow from financing and management of liquid resources		**209.6**	219.5
Increase in net cash		**5.1**	49.7

The accompanying Notes 1.0 to 26.0 and statement of general accounting policies form part of this cash flow statement.
A summarised cash flow statement is also shown on page 35.

A new £200 million 20 year $6^1/_8$% fixed rate Sterling Bond was issued during the year. £150 million of this Bond was then swapped to floating rate debt.

The £2.3 million investment in our joint venture during the year comprises the group's share of spend on additional sites in our partnership with BP, less our share of the year's operating profit.



Reconciliation of net cash flow to movement in net debt Year ended 3 April 1999

	1999 £m	1998 £m
Increase in net cash	**5.1**	49.7
Net cash (inflow)/outflow from movements in money market investments and deposits	**(5.7)**	6.5
Cash inflow from net movement in loans	**(197.0)**	(199.8)
Movement in net debt during the year	**(197.6)**	(143.6)
Net debt at beginning of year	**(771.6)**	(628.0)
Net debt at end of year	**(969.2)**	(771.6)

The accompanying Notes 1.0 to 26.0 and statement of general accounting policies form part of this reconciliation.

Analysis of movement in net debt during the year Year ended 3 April 1999

	At 28 March 1998 £m	Cash Flow £m	Non-cash Changes £m	At 3 April 1999 £m
Cash at bank and in hand	88.7	39.2	–	**127.9**
Bank overdrafts	(21.5)	(34.1)	–	**(55.6)**
Net cash	67.2	5.1	–	**72.3**
Money market investments and deposits	30.6	(5.7)	–	**24.9**
Bank and other loans:				
Due within one year	(44.1)	(49.1)	(153.5)	**(246.7)**
Due after one year	(816.6)	(150.9)	153.5	**(814.0)**
Finance leases	(8.7)	3.0	–	**(5.7)**
	(771.6)	(197.6)	–	**(969.2)**

The accompanying Notes 1.0 to 26.0 and statement of general accounting policies form part of this analysis.

General accounting policies Year ended 3 April 1999

Basis of accounting

The accounts have been prepared under the historical cost convention and in accordance with all applicable United Kingdom accounting and financial reporting standards. These accounts are for the 53 week period to 3 April 1999 compared with the 52 week period to 28 March 1998.

Principles of consolidation

The group accounts comprise the accounts of the Company, its subsidiary undertakings and its share of the profits or losses from joint ventures. The results of subsidiaries acquired or disposed of in the year are included in the group profit and loss account as from or up to their effective date of acquisition or disposal.

Goodwill arising in connection with the acquisition of subsidiaries and businesses prior to 28 March 1998 has been written off against reserves and is not being reinstated on the balance sheet. When a business is disposed of, the applicable goodwill is charged to the profit and loss account in the year of disposal.

Foreign currency

Transactions in foreign currencies are translated into sterling at the rates of exchange current at the dates of the transactions. Foreign currency monetary assets and liabilities in the balance sheet are translated into sterling at the rates of exchange ruling at the end of the year. Resulting exchange gains and losses are taken to the profit and loss account.

Fixed asset investments denominated in foreign currencies are translated into sterling at the rates of exchange current at the dates of the transaction except to the extent that they are financed by borrowings denominated in foreign currencies when both the investments and borrowings are re-translated at the rates of exchange ruling at the end of the year. Resulting exchange gains and losses are taken directly to reserves.

Other

All other accounting policies have been incorporated within the relevant note on pages 44 to 50.

1.0 Sales and profit

Sales represent proceeds from external customers and are inclusive of excise duty and VAT but exclude sales from our joint venture with BP (Note 3.0 below).

Cost of sales represents the purchase cost of goods for resale and includes the cost of transfer to the point of sale.

The group's sole trading activity is grocery retailing which is carried out almost entirely in the United Kingdom.

In order to provide shareholders with additional information, the group's sales and operating profit have been analysed as set out below:

	1999 £m	1998 £m
Sales:		
Britain	**7,925.5**	7,429.8
Ireland	**145.7**	63.8
	8,071.2	7,493.6
Turnover, excluding VAT:		
Britain	**7,374.2**	6,919.1
Ireland	**136.5**	59.6
	7,510.7	6,978.7
Operating profit, before the costs of the store portfolio review and redundancy programme:		
Britain	**431.2**	435.3
Ireland	**(9.4)**	(8.9)
Total	**421.8**	426.4
% margin – VAT excl.	**5.6%**	6.1%
Share of BP joint venture operating profit/(loss)	**0.2**	(0.2)
Net interest payable	**(64.9)**	(51.0)
Profit after interest	**357.1**	375.2
Net property losses	**(16.5)**	(5.0)
Profit before taxation and the costs of the store portfolio review and redundancy programme	**340.6**	370.2
Store portfolio review and redundancy programme	**–**	(30.0)
Profit on ordinary activities before taxation	**340.6**	340.2

The charge of £30.0 million for the store portfolio review and redundancy programme in the year ended 28 March 1998 related to operating costs of £16.5 million and property costs of £13.5 million. Operating profit for the year ended 28 March 1998, after the costs of the store portfolio review and redundancy programme, totalled £409.9 million.

2.0 Net operating expenses

	1999 £m	1998 £m
Distribution costs	**(1,057.4)**	(956.2)
Administrative expenses	**(137.7)**	(120.9)
Store portfolio review and redundancy programme (Note 1.0 above)	**–**	(16.5)
	(1,195.1)	(1,093.6)

Distribution costs represent the cost of holding goods at the point of sale, selling costs and the costs of transferring goods to the customer and include store operating expenses.

Administrative expenses represent the central and field support costs.

We used over 11 million square metres of blue wiping paper roll in our food preparation areas during the year to ensure surfaces and other areas were kept clean.

We gave away free to our customers around 1.1 billion carrier bags during the year at a cost to us of nearly £10 million.
We offer recycling facilities for carrier bags in 360 of our stores.

3.0 Share of joint venture operating profit/(loss)

The group has a joint venture partnership with BP Oil UK Limited to develop, on certain sites, a joint retailing business in the convenience store market linked to petrol filling stations (Note 12.3 below).

The total sales of £55.3 million (1998 – £25.0 million) during the year from the ten sites trading at the end of the year are not material to the group and are disclosed here rather than on the face of the profit and loss account. The group's share of these sales was half, i.e. £27.7 million (1998 – £12.5 million).

During the year, Safeway purchased products on behalf of the partnership totalling £15.0 million (1998 – £6.0 million) and provided distribution services for a fee of £0.8 million (1998 – £0.4 million).

4.0 Net property losses

	1999 £m	1998 £m
Profits on property disposals	**1.0**	0.2
Losses on property disposals	**(13.4)**	(2.8)
Provisions for loss on disposal of stores and development sites	**(4.1)**	(2.4)
Store portfolio review and redundancy programme (Note 1.0 above)	**–**	(13.5)
	(16.5)	(18.5)

5.0 Net interest payable

	1999 £m	1998 £m
Interest payable:		
Short term bank loans and overdrafts repayable within five years	**(36.9)**	(25.0)
Sterling bonds	**(39.8)**	(35.5)
Finance charges payable on finance leases	**(0.5)**	(1.1)
	(77.2)	(61.6)
Interest capitalised on freehold and long leasehold developments	**7.1**	8.6
	(70.1)	(53.0)
Interest receivable on money market investments and deposits	**1.8**	2.0
Profit on cancellation of interest swap contract	**3.4**	–
	(64.9)	(51.0)

Interest costs relating to the financing of freehold and long leasehold developments are capitalised at the weighted average cost of the related borrowings up to the date of completion of the project.

6.0 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging the following items:

	1999 £m	1998 £m
Depreciation of tangible fixed assets	**169.9**	166.3
Hire charges under operating leases:		
Plant and equipment	**21.9**	22.8
Property	**54.6**	55.9
Auditors' remuneration	**0.3**	0.2
Staff costs, including directors' emoluments (Note 7.2 below)	**776.3**	695.3

Other fees paid to the auditors and associated firms during the year, mainly comprising taxation advice fees, totalled £0.3 million (1998 – £0.3 million).

The costs of operating leases of land and buildings and other assets are charged to the profit and loss account as incurred. Surpluses on sale and operating leaseback of properties are recognised as income in the year of disposal.

Product research and development expenditure is charged to the profit and loss account as incurred.

7.0 Staff costs and directors' emoluments

7.1 Numbers employed:
The average weekly number of persons employed by the group was as follows:

	1999 Number	1998 Number
Total employed	**75,904**	75,193
Full-time equivalent	**54,134**	50,969

At 3 April 1999, the total number of employees was 76,090 (1998 – 76,096) and the full-time equivalent number was 55,706 (1998 – 50,580).

7.2 Staff costs:	1999 £m	1998 £m
Wages and salaries	**707.8**	634.5
Social security costs	**49.3**	43.7
Other pension costs	**19.2**	17.1
	776.3	695.3

7.3 The staff costs above include the following emoluments in respect of all directors of the Company:

	1999 £'000	1998 £'000
Fees	**120**	103
Fixed remuneration	**1,940**	2,026
Annual incentive payments	**157**	–
Pension contributions to defined benefit scheme	**158**	131
Pension contributions to money purchase scheme	**73**	74
	2,448	2,334
Long-term incentive plan (covering 1995 to 1997)	**1,266**	2,971
	3,714	5,305
Compensation on termination of employment	**–**	450
	3,714	5,755

Full details of the emoluments of directors (including those of the Chairman) and their interests in the share capital of the Company are given in the Directors' Report on pages 53 to 57.

Our largest store is at the Gyle in Edinburgh. Some 330 people work there, of which about 70% are part-time. The largest company-managed depot is at Aylesford in Kent. Over 1,100 people are employed there.

Of the 76,090 people employed at the year end, just over 70,000 work in stores, 3,000 in company-managed depots and 3,000 in central or store support functions.

8.0 Tax on profit on ordinary activities

Corporation tax is provided on the taxable profits for the year at the rate current during the year.

	1999 £m	1998 £m
United Kingdom corporation tax at 31% (1998 – 31%)	**114.5**	105.8
Overseas taxation	**1.4**	1.3
Prior year items	**(8.8)**	(3.1)
	107.1	104.0

In addition to the prior year items, the principal reasons for the lower than standard tax charge are tax relief for capital allowances on fixed assets exceeding related depreciation by £10.7 million (1998 – £4.1 million) and tax relief for interest capitalised on freehold and long leasehold developments of £2.2 million (1998 – £2.7 million).

No taxation relief has been assumed on the net property losses of £16.5 million (1998 – £18.5 million inclusive of the fixed asset losses and reverse premia provisions which formed part of the store portfolio review and redundancy programme). In the year ended 28 March 1998, tax relief of £4.8 million was assumed on the operating items charge totalling £16.5 million included within the store portfolio review and redundancy programme.

9.0 Dividends paid and proposed

	1999 £m	1998 £m
Ordinary shares:		
Interim of 4.4p paid (1998 – 4.4p)	**48.7**	48.1
Final of 10.0p payable (1998 – 9.7p)	**110.8**	106.6
Dividends waived	**(1.9)**	(0.6)
	157.6	154.1

The Trustee of the Company's Employee Share Ownership Plan ("ESOP") has waived all but 0.01p per share of the dividends due on ordinary shares held by the Trust whilst the shares remain within the Trust. The amount waived in respect of the 1998 final dividend and the 1999 interim dividend was £182,013 (1998 – £270,249) and the maximum that could be waived in respect of the 1999 final dividend on shares currently held by the Trust is £229,041.

The Trustee of the Company's Customer Care Performance Share Option Plan ("CCPSOP") has also waived all but 0.01p per share of the dividends due on ordinary shares held by the Trust whilst the shares remain within the Trust. The amount waived in respect of the 1998 final dividend and the 1999 interim dividend was £1,697,967 (1998 – £307,300) and the maximum that could be waived in respect of the 1999 final dividend on shares currently held by the Trust is £2,075,076.

As at the latest practicable date prior to the printing of this Annual Report, the Company has purchased for cancellation 50.1 million ordinary shares. As a result, the final dividend payable to shareholders will be reduced by at least £5.0 million.

10.0 Earnings per share

The calculation of earnings per share is based on the net profit attributable to ordinary shareholders of £243.2 million (1998 – £241.0 million) divided by the weighted average number of ordinary shares in issue during the year, excluding those owned by the Company, totalling 1,089,382,278 (1998 – 1,087,405,019).

In order to gain a clearer understanding of the group's underlying performance, earnings per share statistics are also shown excluding the effect of net property losses and the costs of last year's store portfolio review and redundancy programme.

As required by FRS14 – Earnings Per Share, set out below is the calculation of diluted earnings per share. Earnings are based on the net profit attributable to ordinary shareholders with the dilution effect of the exercise of share options granted by the Company calculated by comparing the difference between the weighted average exercise price of the share options with the average daily mid market closing share price over the year, as follows:

	1999	1998
Weighted average exercise price of share options in the year	**289.41p**	280.99p
Average daily share price in the year	**317.82p**	366.02p
Dilution ratio applied to share options	**8.94%**	23.23%
Weighted average number of dilutive share options (millions)	**3.5**	9.1
Weighted average number of shares in issue in the year (millions)	**1,089.4**	1,087.4
Total number of shares for calculating diluted earnings per share (millions)	**1,092.9**	1,096.5

11.0 Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation. Plant, equipment and vehicles which are leased but provide the group with substantially all the benefits and risks of ownership are capitalised at the original cost to the lessor.

Freehold land is not depreciated unless, in the opinion of the directors, a permanent diminution in value has occurred.

Depreciation is provided to write off the cost of other tangible fixed assets over their estimated economic lives on a straight-line basis as follows:

Freehold and long leasehold buildings	–	maximum of 40 years
Short leasehold buildings	–	maximum of 40 years or term of lease if less
Plant and equipment	–	4 years to a maximum of 8 years
Motor cars and commercial vehicles	–	4 years to a maximum of 6 years
Computer hardware and software	–	4 years to a maximum of 6 years

In the case of poor performing or proposed replacement stores, additional depreciation is provided in excess of the normal annual charge over the remaining estimated life to write them down to net realisable value.

11.1 Group

	Land and buildings			Plant, equipment and vehicles	
	Freehold £m	Long leasehold £m	Short leasehold £m	£m	Total £m
Cost:					
Beginning of year	2,790.6	294.5	187.4	1,098.4	4,370.9
Additions	297.7	19.9	15.5	159.2	492.3
Disposals	(26.8)	(4.1)	(10.5)	(54.5)	(95.9)
End of year	**3,061.5**	**310.3**	**192.4**	**1,203.1**	**4,767.3**
Depreciation:					
Beginning of year	173.1	39.0	77.6	615.6	905.3
Charged during the year	44.9	5.1	3.7	116.2	169.9
Disposals	(11.6)	(4.3)	(12.0)	(50.0)	(77.9)
End of year	**206.4**	**39.8**	**69.3**	**681.8**	**997.3**
Net book value:					
Beginning of year	2,617.5	255.5	109.8	482.8	3,465.6
End of year	**2,855.1**	**270.5**	**123.1**	**521.3**	**3,770.0**
Assets in course of construction included in cost above:					
Beginning of year	123.2	–	0.2	1.1	124.5
End of year	**162.8**	**2.3**	**–**	**3.5**	**168.6**

11.1.1 Freehold land included in the total cost above amounts to £1,330.4 million (1998 – £1,230.3 million).

11.1.2 At 3 April 1999, the cost and depreciation values for plant, equipment and vehicles included £275.6 million of fully depreciated fixed assets (1998 – £224.8 million).

11.1.3 At 3 April 1999, the net book value of tangible fixed assets included £1.0 million of leased plant, equipment and vehicles (1998 – £10.1 million).

11.1.4 The depreciation charged in respect of leased plant, equipment and vehicles during the year amounted to £9.0 million (1998 – £10.6 million).

11.1.5 Interest capitalised on freehold and long leasehold developments included in additions during the year amounted to £7.1 million (1998 – £8.6 million). The cumulative amount of interest capitalised in the total cost above amounts to £130.4 million (1998 – £124.0 million).

11.2 Company

The Company has no tangible fixed assets.

Our average shares in issue during the year of nearly 1.1 billion excludes our own shares held by the Company for the purpose of calculating earnings per share.

Our fixed assets include over 500 properties (stores, depots, offices). Our commercial vehicle fleet includes nearly 1,200 trailers pulled by over 650 lorry cabs.

12.0 Investments

12.1 Fixed asset investments comprise:

	Group		Company	
	1999 £m	1998 £m	**1999 £m**	1998 £m
Own shares held by the Company's ESOP	**4.4**	6.7	**4.4**	6.7
Own shares held by the Company's CCPSOP	**64.3**	27.6	**64.3**	27.6
Investment in joint venture with BP	**8.7**	6.2	**–**	–
Subsidiaries	**–**	–	**111.0**	117.8
Loans to subsidiaries	**–**	–	**1,555.2**	1,805.2
Other – Unlisted	**0.4**	0.4	**–**	–
	77.8	40.9	**1,734.9**	1,957.3

Own shares held by both the Company's ESOP and CCPSOP are included at cost less any provision for permanent diminution in value. This is a change in accounting policy from last year to reflect more generally accepted practice.

12.2 Own shares held by the Customer Care Performance Share Ownership Plan ("CCPSOP")

The CCPSOP is designed to encourage all Safeway employees to deliver outstanding customer service and reward them when they do. The Plan is based on the customer service performance at each store, as measured by a Mystery Shopper programme, together with corresponding customer care measures for non-store employees. Options granted to employees are exercisable normally between three and six and a half years after grant and it is anticipated that future grants will take place annually around December.

Share options to subscribe for ordinary shares in the Company under the CCPSOP were as follows:

Date of grant	Subscription price	Number of shares At 3 April 1999	At 28 March 1998	Last date when options exercisable
25.11.1997	333.00p	**6,293,101**	8,317,704	24.5.2004
2.12.1998	296.00p	**16,416,598**	–	1.6.2005
		22,709,699	8,317,704	

An independent Trustee, based in Jersey, holds a sufficient number of shares in the Company to meet the anticipated future obligations of the CCPSOP, funded by an interest free loan from the Company. The annual administrative costs and funding costs of the CCPSOP are charged to the profit and loss account as they accrue. The Trustee waives all but 0.01p per share of the dividends due on shares held by the Trust.

At 3 April 1999, the Trust held 20,771,536 (1998 – 8,314,970) ordinary shares of the Company at an aggregate cost of £64.3 million (1998 – £27.6 million). The related loan from the Company is included within Investments on the balance sheet. The market value of the shares held by the Trust at 3 April 1999 was £51.4 million (1998 – £31.1 million). The directors do not consider the shortfall between cost and market value to be a permanent diminution in value.

12.3 Investment in joint venture with BP

The group has a joint venture partnership with BP Oil UK Limited to develop, on certain sites, a joint retailing business in the convenience store market linked to petrol filling stations (Note 3.0 above). The investment of £8.7 million (1998 – £6.2 million) reflects the group's share of the cost of developing and fitting out these sites and our share of the profits or losses.

At 3 April 1999, the group's share of the gross assets and the gross liabilities of the partnership are not material to the group and are disclosed here rather than on the face of the balance sheet. They totalled £13.0 million (1998 – £8.2 million) and £4.3 million (1998 – £2.0 million) respectively.

12.4 Investments in Subsidiaries

In the Company's accounts, investments in subsidiaries which include loans to subsidiaries of a long-term nature are stated at cost, less amounts written off. Only dividends received and receivable are credited to the Company's profit and loss account.

The movement on this account during the year was:

	1999 £m	1998 £m
Beginning of year	**117.8**	127.3
Transfer to subsidiary company	**–**	(6.6)
Liquidation of dormant subsidiaries	**(6.8)**	(2.9)
End of year	**111.0**	117.8

Set out below are the Company's principal subsidiaries:

Company	% holding	Principal area of operation	Country of registration	Business
Stores Group Ltd*	100.00	England	England	Investment company
Safeway Stores plc	100.00	England	England	Grocery retailer
Safeway Stores (Ireland) Ltd	50.01	N. Ireland	England	Grocery retailer

* Direct subsidiary of the Company.

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 of the Company.

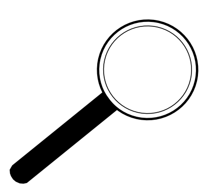
13.0 Stocks

Stocks are stated at the lower of cost and net realisable value. For stocks at retail stores, cost is calculated by reference to selling price less appropriate trading margins.

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

14.0 Debtors

	Group		Company	
	1999 £m	1998 £m	**1999 £m**	1998 £m
Amounts falling due within one year:				
Trade debtors	**4.2**	6.1	**–**	–
Due from subsidiaries	**–**	–	**1,018.4**	653.6
Due from joint venture	**2.2**	1.2	**–**	–
Tax recoverable	**–**	–	**–**	13.4
Interest receivable	**0.7**	0.9	**0.2**	0.5
Tangible fixed asset disposals	**3.0**	2.5	**–**	–
Prepayments and accrued income	**20.7**	19.9	**–**	–
Other debtors	**100.9**	97.7	**6.8**	3.0
Certificates of tax deposit	**1.6**	2.9	**–**	–
	133.3	131.2	**1,025.4**	670.5
Amounts falling due after more than one year:				
Due from subsidiaries	**–**	–	**–**	3.5
	133.3	131.2	**1,025.4**	674.0



Our Mystery Shopper programme to improve customer service levels was successful and, in December 1998, 54,500 employees were granted options under the CCPSOP.

At the year end, stocks in our stores and depots were the equivalent of around 2.1 weeks of sales. This is a 13% reduction in stockholding over the last five years.

15.0 Money market investments and deposits

The group holds the following investments in interest bearing assets:

	1999 £m	1998 £m
Sterling cash deposits	–	5.8
Investments in sterling denominated debt securities	**24.9**	24.8
	24.9	30.6

All the investments in debt securities are in fixed rate securities. The weighted average yield to maturity on the debt securities held is 5.3% (1998 – 7.1%) and the weighted average time for which the rate is fixed is 2.2 years (1998 – 1.5 years). Sterling cash deposits at 28 March 1998 comprised deposits placed on money markets at call, weekly or up to six months.

16.0 Other creditors

	Group		Company	
	1999 £m	1998 £m	1999 £m	1998 £m
Amounts falling due within one year:				
Trade creditors	**667.7**	655.6	–	–
Due to subsidiaries	–	–	**110.9**	117.7
Current taxation	**121.9**	109.4	**6.8**	–
Interest payable	**13.7**	9.8	**12.5**	8.8
Capital expenditure	**108.3**	82.9	–	–
Social security and PAYE	**17.0**	12.2	–	–
VAT	**7.8**	21.1	–	–
Accruals and deferred income	**75.7**	79.5	–	–
Other creditors	**87.5**	104.3	**0.3**	0.1
Proposed dividend	**110.8**	106.6	**110.8**	106.6
	1,210.4	1,181.4	**241.3**	233.2

17.0 Loans

17.1 All loans are denominated in £ Sterling and comprise:

	Interest rate %	Group 1999 £m	Group 1998 £m	Company 1999 £m	Company 1998 £m
Unsecured bank loans:					
1993/99	Variable	**3.6**	7.1	**3.6**	7.1
1998	Variable	–	40.0	–	40.0
1999	Variable	**45.0**	–	**45.0**	–
2000	Variable	**48.1**	–	**48.1**	–
2001	Variable	**190.0**	175.0	**190.0**	175.0
2002	Variable	**108.0**	172.0	–	125.0
		394.7	394.1	**286.7**	347.1
Debenture and other loans:					
Unsecured loan notes 1999	7	–	0.6	–	–
Unsecured loan 2001	Variable	**16.0**	16.0	–	–
Sterling Bonds 2000	$8^{1}/_{8}$	**150.0**	150.0	**150.0**	150.0
Sterling Bonds 2002	$8^{1}/_{8}$	**150.0**	150.0	**150.0**	150.0
Sterling Bonds 2004	$7^{1}/_{2}$	**150.0**	150.0	**150.0**	150.0
Sterling Bonds 2018	$6^{1}/_{8}$	**200.0**	–	**200.0**	–
Lease loan capital	Various	**5.7**	8.7	–	–
		671.7	475.3	**650.0**	450.0
		1,066.4	869.4	**936.7**	797.1
Less: Amount repayable within one year		**(249.2)**	(47.1)	**(246.7)**	(43.5)
		817.2	822.3	**690.0**	753.6

Further borrowing facilities have been negotiated with our relationship banks since the year end in order to ensure the group has sufficient facilities to fund our new share buy-back programme.

The final dividend of 10.0p per share will be payable on Monday 9 August 1999 to shareholders on the register on 28 May 1999.

10.0p

At 3 April 1999, the weighted average interest rate of fixed rate borrowings, after taking account of interest swaps, was 7.7% (1998 – 8.0%). The weighted average period for which these borrowings are fixed is 4.7 years (1998 – 3.9 years).

The floating rate borrowings of £410.7 million (1998 – £410.1 million) bear interest at rates based on the London Interbank Offered Rate ("LIBOR"). These rates are fixed in advance normally for periods ranging from one month to six months.

At 28 March 1998, the Company had swapped £50 million of $8^{1}/_{8}$% fixed term debt into floating rate debt based on LIBOR. This swap was unwound during the year (Note 5.0 above).

At 3 April 1999, the Company had swapped £150 million of $6^{1}/_{8}$% fixed term debt into floating rate debt based on LIBOR, subject to a minimum of 4%.

In 1993, the Company issued £150 million of unsecured seven year $8^{1}/_{8}$% bonds which are redeemable in full on 10 March 2000. There is an event risk clause which provides for early redemption to protect bondholders in the event of the Company being taken over; disposing of substantially the whole of its assets; granting substantial financial assistance to third parties; purchasing 50% or more of its own shares in any 12 month period; or distributing to shareholders over 50% of its consolidated tangible net worth as disclosed in the most recently published accounts.

The Company's other three Sterling Bond issues do not contain any event risk clauses similar to that in the 1993 issue.

17.2 Borrowing facilities:
The group has the following undrawn committed borrowing facilities available:

	1999 £m	1998 £m
Expiring within one year	**45.0**	40.0
Expiring after two years	**162.0**	53.0
	207.0	93.0

17.3 Loans are repayable as follows:

	Group		Company	
	1999 £m	1998 £m	1999 £m	1998 £m
Due within one year:				
Bank	**96.7**	43.5	**96.7**	43.5
Lease	**2.5**	3.0	–	–
Other	–	0.6	–	–
Sterling Bonds	**150.0**	–	**150.0**	–
Due within one to two years:				
Bank	–	3.6	–	3.6
Lease	**1.6**	2.5	–	–
Sterling Bonds	–	150.0	–	150.0
Due within two to five years:				
Bank	**298.0**	347.0	**190.0**	300.0
Lease	**1.6**	3.2	–	–
Other	**16.0**	16.0	–	–
Sterling Bonds	**300.0**	150.0	**300.0**	150.0
	866.4	719.4	**736.7**	647.1
Due otherwise than by instalments after five years:				
Sterling Bonds	**200.0**	150.0	**200.0**	150.0
	1,066.4	869.4	**936.7**	797.1

There are no group borrowings repayable by instalments, any part of which is repayable after five years (1998 – £Nil).

17.4 A discussion of the group's objectives, policies and strategies with regard to FRS 13 – Derivatives and Other Financial Instruments, is shown in the financial review (sections on "Net debt and funding" and "Treasury policies") on page 36.

17.5 Currency analysis of net monetary assets and liabilities:
The functional currency of the group is Sterling. At 3 April 1999, the group had net monetary liabilities denominated in European currencies of £1.6 million and net monetary assets denominated in US and Canadian dollars of £1.1 million. These amounts are stated after taking into account the effect of forward contracts to purchase foreign currency totalling £8.3 million to manage these currency exposures.

17.6 At 3 April 1999, the aggregate fair value of the Company's Sterling Bonds was £669.8 million compared with the carrying value of £650.0 million. If the interest rate swaps were to be unwound as at 3 April 1999, a loss of £3.5 million would be realised. The fair value for other financial assets and liabilities of the group equates to their carrying values at the year end. Fair values have been estimated using market values where available, or by discounting cash flows at prevailing interest and exchange rates where market prices are not available.

18.0 Deferred taxation

Deferred taxation is provided, using the liability method, in respect of tax allowances for fixed assets in excess of depreciation provided in the accounts and other timing differences, only to the extent that it is probable that a liability will crystallize.

18.1 The movement on deferred taxation during the year was:

	Group		Company	
	1999 £m	1998 £m	**1999 £m**	1998 £m
Beginning of year	**10.2**	10.2	**–**	–
Tax on profit on ordinary activities	**–**	–	**–**	–
End of year	**10.2**	10.2	**–**	–

18.2 The total potential group liability for deferred taxation calculated at 30% (1998 – 31%) and the amounts provided are as follows:

	Total		Provided	
	1999 £m	1998 £m	**1999 £m**	1998 £m
Tax allowances in excess of recorded depreciation	**173.4**	164.0	**10.2**	10.2
Other timing differences	**(12.0)**	(2.7)	**–**	–
Capital gains deferred by roll-over relief	**18.6**	19.2	**–**	–
	180.0	180.5	**10.2**	10.2

19.0 Called-up share capital

19.1 Authorised:

	1999 £m	1998 £m
1,500,000,000 ordinary shares of 25p each (1998 – 1,500,000,000)	**375.0**	375.0

19.2 Allotted, called-up and fully-paid:

	Ordinary shares	£m
Beginning of year	1,098,677,668	274.7
Scrip dividend issues	6,490,253	1.6
Share options exercised	2,625,598	0.6
End of year	**1,107,793,519**	**276.9**

Since the end of the year, a further 21,203 ordinary shares with an aggregate nominal value of £5,301 have been issued as a result of the exercise of options under the Company's share option schemes. The proceeds of issue amounted to £41,736.

Following the announcement on 12 May 1999 of our new share buy-back programme, as at the latest practicable date prior to the printing of this Annual Report, the Company has repurchased for cancellation 50.1 million ordinary shares with an aggregate nominal value of £12.5 million for a total cost of £129.5 million.

19.3 The Safeway Share Option Schemes
Share options to subscribe for ordinary shares in the Company under the Safeway Executive Share Option Scheme ("Executive Scheme") and the Safeway Sharesave Scheme ("Sharesave") were as follows:

Date of grant	Subscription price	Number of shares At **3 April 1999**	At 28 March 1998	Last date when options exercisable
Executive Scheme:				
15.12.1988	157.72p	**–**	15,405	14.12.1998
18.12.1989	196.66p	**–**	6,000	17.12.1999
29.11.1990	234.63p	**91,080**	173,375	28.11.2000
23.12.1991	272.00p	**334,000**	449,000	22.12.2001
26.11.1992	363.00p	**994,000**	1,172,000	25.11.2002
6.12.1993	255.00p	**608,500**	769,000	5.12.2003
13.12.1994	237.00p	**1,226,000**	1,794,000	12.12.2004
19.12.1995	308.00p	**3,156,000**	3,506,000	18.12.2005
9.12.1996	375.50p	**3,749,000**	4,091,500	8.12.2006
21.11.1997	318.75p	**3,960,400**	4,276,550	20.11.2007
8.12.1998	283.00p	**4,133,800**	–	7.12.2008
		18,252,780	16,252,830	
Sharesave:				
18.6.1992	279.00p	**–**	124,524	31.8.1998
15.7.1993	264.00p	**22,099**	1,458,093	31.8.1999
23.6.1994	194.00p	**3,276,241**	3,564,265	29.2.2000
15.6.1995	260.00p	**1,934,175**	2,283,083	28.2.2001
29.7.1996	271.00p	**3,462,890**	4,329,877	28.2.2002
26.6.1997	286.00p	**4,667,269**	6,680,040	28.2.2003
25.6.1998	307.00p	**5,043,017**	–	29.2.2004
		36,658,471	34,692,712	

Subject to the rules of the Executive Scheme, options are normally exercisable at any time after the expiration of three years from the date of the grant. During the year, options in respect of 1,022,055 ordinary shares granted under the Executive Scheme lapsed.

The Executive Scheme options granted prior to 19 December 1995 are all available for exercise as all relevant performance criteria have been met.

The Executive Scheme options granted on and since 19 December 1995 will become exercisable normally only when the earnings per share growth of the Company, over a three year period, has exceeded the increase in the Retail Prices Index over that same three year period by an average of at least 2% per annum.

20.0 Share premium account

	1999 £m	1998 £m
Beginning of year	**639.2**	609.4
Scrip dividend issues	**22.1**	15.1
Share options exercised	**6.3**	14.7
End of year	**667.6**	639.2

Our Sharesave scheme allows employees to save regularly, up to the Government maximum of £250 per month, and use those savings after either three or five years to buy shares in Safeway at a 20% discount to the share price when the option was granted.

The potential group liability for deferred taxation represents the maximum amount payable if, for example, the group ceased to make further capital investment or ceased to trade.

21.0 Capital redemption reserve
In July 1996, 60 million ordinary shares with a nominal value of £15.0 million were repurchased and subsequently cancelled by the Company. 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.

22.0 Capital 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.

23.0 Profit and loss account
No profit and loss account is presented for the Company, as permitted by Section 230 of the Companies Act 1985.

23.1 The movement on the Company's profit and loss account comprises:

	1999 £m	1998 £m
Beginning of year	**366.2**	358.8
Profit for the financial year	**160.1**	161.5
Dividends paid and proposed	**(157.6)**	(154.1)
End of year	**368.7**	366.2

23.2 The cumulative amount of goodwill resulting from acquisitions in earlier financial years, principally due to the acquisition in 1987 of Safeway Food Stores Limited, which has been written off against the group's reserves is £608.0 million (1998 – £608.0 million).

24.0 Commitments and contingencies

24.1 Capital commitments authorised and contracted for at the year end totalled £37.3 million (1998 – £56.3 million).

24.2 Lease commitments
The group's aggregate minimum annual rentals under non-cancellable leases inclusive of unconditional future obligations are as follows:

	1999		1998	
	Property £m	Plant and equipment £m	Property £m	Plant and equipment £m
Operating leases which expire:				
Within one year	**0.1**	**11.6**	0.2	5.0
Within two to five years	**4.9**	**13.3**	5.2	15.9
After five years	**45.3**	**–**	50.2	–
	50.3	**24.9**	55.6	20.9

24.3 Pension schemes
The group maintains pension schemes for all eligible full-time and part-time employees. Scheme funds are administered by Trustees and are independent of group finances. Investment of pension scheme assets in group companies is not permitted by the Trustees.

The principal scheme, the Safeway Pension Scheme, is a defined benefit scheme. The pension cost relating to the scheme is assessed in accordance with the advice of independent actuaries and is such as to spread the cost of pensions over the working lives of the employees who are scheme members.

The latest valuation of the scheme was carried out as at 1 April 1998 using the projected unit method. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries, pensions and dividends. It was assumed that retail price inflation would be 3$^1/_2$% per annum, that the investment return would be 7$^1/_2$% per annum, that salary increases would average 5$^1/_2$% per annum, that pensions (in excess of the Guaranteed Minimum Pension) would increase at the rate of 3$^1/_2$% per annum and that dividends on United Kingdom equity investments would increase at 3$^1/_2$% per annum.

The actuarial value of the assets was assessed by assuming that 60% of the market value of the assets was invested in the FTSE Actuaries All Share Index with the remaining 40% invested in the securities underlying the FTSE Actuaries Over 5 years Index Linked Gilt Index. Anticipated future dividend income, coupon payments, sale and redemption proceeds were then discounted to the valuation date at the valuation rate of return.

At the date of the latest actuarial valuation, the market value of the assets of the scheme (excluding members' Additional Voluntary Contributions) was £786.5 million and the actuarial value of the assets was sufficient to cover 114% of the benefits that had accrued to members, after allowing for expected future increases in earnings. The excess is being eliminated as a uniform annual percentage of pensionable pay over 11 years, this being the approximate average remaining service life of scheme members.

Contributions to group pension schemes are charged to the profit and loss account so as to spread the cost of pensions at a substantially level percentage of payroll costs over employees' working lives with the group.

The total pension cost for the year amounted to £19.2 million (1998 – £17.1 million). This reflected a regular cost of £26.0 million (1998 – £23.4 million) and a credit of £6.8 million (1998 – £6.3 million). The credit relates primarily to the amortisation of the excess of assets over liabilities in the principal scheme, as described above. The pensionable payroll for the year in the principal scheme was £213.6 million (1998 – £190.3 million).

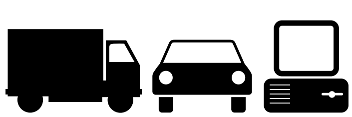
25.0 Net cash inflow from operating activities

	1999 £m	1998 £m
Operating profit	**421.8**	409.9
Net property losses	**(16.5)**	(18.5)
Depreciation	**169.9**	166.3
Loss on disposal of tangible fixed assets	**14.4**	2.5
Decrease/(increase) in stock	**10.3**	(41.9)
Increase in debtors	**(3.1)**	(17.3)
(Decrease)/increase in creditors	**(17.0)**	101.5
	579.8	602.5

26.0 Safeway Stores (Ireland) Limited
During the year ended 28 March 1998, both the group and Fitzwilton each invested £10 million of share capital in Safeway Stores (Ireland) Limited. A further £40 million was also then initially raised through loan financing by Safeway Stores (Ireland) Limited. This initial investment of £60 million was used to purchase tangible fixed assets of £55 million and stock of £5 million which also represented the fair value of the assets acquired. Accordingly, no goodwill arose on the transaction.

The Safeway Pension Scheme was revalued at 1 April 1998. We currently have some 6,000 pensioners and nearly 16,000 employees in the Scheme. 242 people retired during the year.

Plant and equipment operating leases mainly comprise rentals on lorries, motor cars and our mainframe computers.



Report of the directors

The directors present their Annual Report on the affairs of the group together with the accounts and auditors' report for the year ended 3 April 1999.

Principal activities and business review

The principal activity of the group continues to be grocery retailing in the United Kingdom. During the year, the group extended its grocery retail interests through its Safeway new store opening programme.

The Chairman's Statement and the Chief Executive's review of operations on pages 2 to 29, together with the financial review of the year on pages 32 to 38 describe fully the activities and future developments of the group and the trading results for the year.

Results and dividends

The profit of the group before taxation and net property losses amounted to £357.1 million. After deducting net property losses of £16.5 million and taxation of £107.1 million and adding back a minority interest credit of £9.7 million, the profit for the financial year amounted to £243.2 million. The directors propose the payment of dividends totalling £157.6 million.

The final dividend recommended by the directors is 10.0p per ordinary share which, together with the interim dividend already paid of 4.4p per ordinary share, makes a total dividend for the year of 14.4p.

Directors

The directors of the Company at the date of this Annual Report are shown on pages 30 and 31.

Ms J A Burdus is retiring as a director of the Company after the Annual General Meeting on 13 July 1999.

In accordance with Article 97 of the Company's Articles of Association, Mr D G C Webster, Mr C D Smith and Dr N C Bain retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election. Mr D G C Webster and Mr C D Smith have service agreements which may be terminated by the Company on giving two years' notice.

Details of the directors' interests are set out on pages 56 and 57.

Acquisition of the Company's shares

At last year's Annual General Meeting, shareholders granted their consent to the Company purchasing up to 10% of the Company's issued share capital. No such purchases were made during the year. Renewal of this authority, which expires at the conclusion of the forthcoming Annual General Meeting of the Company, will be sought at that meeting.

Since the year end and as at the latest practicable date prior to the printing of this Annual Report, the Company has purchased for cancellation 50.1 million shares representing 4.5% of the Company's issued share capital, for a total cost of £129.5 million at an average price of 258.4p per share.

Purchases will only be made if and when the Board believes that they would result both in an increase in earnings per share and total shareholder value.

Share capital

Details of share capital issued during the year are set out in Note 19.2 on page 49.

Charitable and political contributions

During the year, the group donated £68,000 to charities (1998 – £74,000). No political contributions were made during the year (1998 – £Nil).

Suppliers' payment policy

A strategic objective of the group is to have mutually beneficial long-term relationships with our suppliers and we seek to settle, in advance, the terms of payment with suppliers and abide by those terms. The average number of days credit taken by the group for trade purchases at 3 April 1999 was 44 days (1998 – 46 days), whereas the average during the year was 38 days (1998 – 39 days).

Employment policies

We are committed to promoting policies to ensure that employees and those who seek to work for us are treated equally regardless of sex, marital status, age, creed, colour, race or ethnic origin.

It is the group's policy to give full and fair consideration to applications for employment by people who are disabled, to continue wherever possible the employment of staff who become disabled and to provide equal opportunities for the career development of disabled employees.

The health and safety of the group's employees, customers and members of the general public who may be affected by the group's activities is a matter of primary concern. Accordingly, it is the group's policy to manage its activities so as to avoid causing any unnecessary or unacceptable risk to the health and safety of employees and members of the public.

The number and wide geographic distribution of the group's operating locations make it essential to communicate effectively with employees. Communications and consultation within the group's retail activities are principally through the operational structure of store, area and regional management, with particular use being made of Company magazines. Copies of the Company's Annual Report are made available at the group's principal office and operating locations.

Substantial interests

At the date of this Annual Report, the following substantial interests (3% or more) in the Company's share capital had been notified to the Company:

Shareholder	Ordinary shares	% holding
Franklin Resources Inc. (USA)	100,055,569	9.4
The Capital Group Inc. (USA)	45,561,801	4.3

Auditors

Arthur Andersen have indicated their willingness to continue in office and a resolution to re-appoint them as auditors will be proposed at the forthcoming Annual General Meeting.

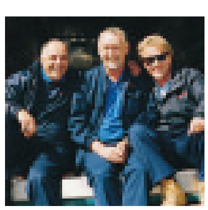
Pension fund

Full details of the group's pension schemes are set out in Note 24.3 on page 50. Pension scheme funds are administered by Trustees and are independent of group finances. There is no investment in the shares of the Company nor do the pension schemes own any property occupied by the group.

The Safeway Pension Scheme is open to all permanent full-time and part-time employees of the group. The Scheme provides benefits additional to those from the State Basic Pension Scheme, whilst enabling members to be contracted-out of the State Earnings Related Pension Scheme. In addition to the normal retirement pension based on pay and length of service at retirement, there are further benefits payable when members die in service.

On 12 May 1999, we announced a new share buy-back programme to purchase up to 10% of our issued share capital.

Safeway supports many charities on a local basis and has provided help for International relief agencies, such as our recent Kosovo appeal where our drivers (right) were amongst the volunteers to deliver seven lorry loads of much needed supplies.



Report of the directors

General

The directors have been advised that the Company is not a close company within the meaning of the provisions of the Income and Corporation Taxes Act 1988.

Combined Code on Corporate Governance

In June 1998 the Listing Rules of the London Stock Exchange were revised requiring listed companies to disclose how they comply with the Code Provisions set out in Section 1 of the Combined Code on Corporate Governance. This Code consolidates the principles of the earlier Cadbury, Greenbury and Hampel Committees. A Committee of the Board has conducted a formal review of the principles contained in the Combined Code and considers that it has complied, in the main, throughout the year with the Code Provisions. Those areas with which the Board feels it is inappropriate to comply are explained below but relate to (i) appointment of a senior non-executive director, (ii) service agreements and (iii) pensionability of incentive payments.

The Board has decided that until guidance on the scope, extent, nature and review of internal control to which the Combined Code refers is produced, it will report on internal financial control following the guidance for directors on internal control and financial reporting issued by the Rutteman Working Group in December 1994.

The Board

The Board leads and maintains full and effective control over the Company's activities. The Company has separate posts of Chairman and Chief Executive and, in addition, the Board comprises three other executive and four non-executive directors. Accordingly, over one third of the Board is made up of independent non-executive directors. All directors are subject to election by shareholders at the first opportunity after their appointment and to re-election by rotation at General Meetings at least every three years.

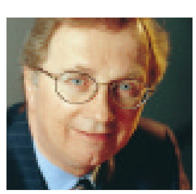
The directors have approved a schedule of matters which are reserved for the Board. They include, amongst other matters, approval of results announcements, material agreements, major capital expenditure, annual and medium term business plans, risk management strategy and treasury policies and are reviewed periodically. Directors are briefed on the issues that will arise at Board and Committee meetings. Board papers, including regular financial reports and other necessary papers, are normally circulated seven days prior to a meeting being held. The Board meets formally at least seven times a year and the executive directors meet regularly to monitor and guide the group's performance.

The Board has not identified a senior independent non-executive director because it considers such an appointment is unnecessary at the present time but the matter will be kept under review.

All directors have access to the advice and services of the Company Secretary, and the Board has established a procedure whereby directors may take independent professional advice at the expense of the Company. The Company Secretary ensures that Board procedures are followed and he may only be removed with the approval of the Board as a whole.

Safeway's independent non-executive directors provide valuable advice to the Board.

John Kinch has been the Company Secretary for nearly 14 years. He is a member of the Council of the Institute of Chartered Secretaries and Administrators.



All executive directors have service agreements, which are terminable by the Company on not more than two years' notice and by the individual directors on one year's notice. Certain directors previously had service agreements determinable on three years' notice and, having regard to prevailing market conditions and current practice, the Remuneration Committee considers that notice periods of two years are not unreasonable and that they are in the interests of both the Company and its executive directors enabling it to retain and recruit directors of calibre.

Board Committees

The Board maintains three Standing Committees, all of which operate within written terms of reference. These Committees report back to the Board on decisions made and issues raised at meetings to ensure that all directors are kept informed of their activities. The Committees are:

1 Audit Committee. Consists wholly of non-executive directors and chaired by Dr N C Bain. It meets at least three times a year and assists the Board in meeting its responsibilities for ensuring that accounting, financial reporting, internal financial controls and compliance procedures are in place.
2 Remuneration Committee. Consists wholly of non-executive directors and chaired by Ms J A Burdus. It meets at least three times a year and its terms of reference include the review and recommendation of remuneration policy for executive directors, the terms of service agreements for executive directors, their pay and bonus arrangements, determination of participation in the Company's long-term incentive plan and grants of options under the Company's Executive Share Option Scheme. Details of individual directors' remuneration are contained on page 56.
3 Nomination Committee. Comprising the four non-executive directors together with Mr D G C Webster who chairs the Committee. It reviews and makes proposals to the Board on each occasion when consideration is given to the appointment of a replacement or additional director.

The members of each Committee are listed below. Their biographies are shown on pages 30 and 31.

1 Audit Committee –	N C Bain (Chairman) M J Allen J A Burdus H R Collum
2 Remuneration Committee –	J A Burdus (Chairman) M J Allen N C Bain H R Collum
3 Nomination Committee –	D G C Webster (Chairman) M J Allen N C Bain J A Burdus H R Collum

Investor relations and Annual General Meeting

The directors meet regularly with institutional investors and analysts. Investors, particularly private investors, are encouraged to participate at the Annual General Meeting at which the Chairman and the Chief Executive present a review of the Company's results and comment on current business activity. The Chairmen of the Company's Standing Committees will be available to answer any shareholder questions.

The separate notice convening the Annual General Meeting to be held at The Royal Lancaster Hotel, Lancaster Terrace, London, W2 2TY on Tuesday 13 July 1999 at 11 a.m. is sent to shareholders with this Annual Report and includes an explanation of the items of Special Business.

As now required by the Combined Code, the Notice has been circulated more than 20 working days before the meeting and the Board will announce the proxy votes at the end of the meeting.

Internal financial control

The Board has overall responsibility for the group's system of internal financial control. It recognises that such a system can provide only reasonable and not absolute assurance against material misstatement or loss. The directors have established an organisation structure with clearly defined levels of responsibility and authority and with appropriate reporting procedures.
The key features of the internal financial control system operated throughout the year are:

1 Performance reporting. There is a comprehensive planning system with quarterly plans approved by the Board. Activities and results are reported against quarterly plan every four weeks in sufficient detail to allow the directors and senior management to monitor the financial and non-financial key performance indicators, business activities, risks and progress towards objectives.

2 Investment appraisal. The group has a clearly defined strategy and also authorisation procedures for all investment expenditure. These include detailed plans, frequent formal appraisal and review procedures, well communicated levels of authority and regular re-forecasts. In addition, post expenditure reviews are conducted regularly.

3 Business risks. The Safeway Stores Board has reviewed all significant business risks. These have also been reviewed with the Audit Committee and form a key part of both external audit and Business Controls department work plans.

4 Business Controls. This department is responsible for ensuring that effective control systems have been designed and are implemented throughout the business that balance the need for control with efficiency.

5 Audit Committee. Reviews the operation and effectiveness of the overall control framework. It receives regular reports from both the Business Controls department and the external auditors.

The directors confirm that a review of the effectiveness of the system of internal financial control was carried out during the year.

Going concern

The directors have reviewed the group's plans for 1999/2000 and for the following two years. After taking into account the cash flow implications of the plans and after comparing these with the group's borrowing facilities and reviewing projected gearing ratios, the directors are satisfied that it is appropriate to produce the accounts on a going concern basis.

Remuneration

The Board seeks to establish remuneration policies which reflect the need to provide a competitive compensation package designed to attract, retain and motivate members of the senior management team, having regard to the best interests of the Company and the shareholders.

The Remuneration Committee reviews and recommends overall policy together with all aspects of remuneration and terms and conditions of service of individual executive directors. The remuneration of the Company's non-executive directors is determined by the Board as a whole, with non-executive directors exempting themselves from voting as appropriate.

The key policy objectives of the Remuneration Committee in respect of the Company's executive directors are:

(a) to ensure that the Company attracts and retains high quality executives who are fairly rewarded for their personal contribution to the Company's overall performance; and

(b) to act as an independent Committee ensuring that due regard, in respect of remuneration matters, is given to the interests of the Company's shareholders and to the financial and commercial health of the Company.

Remuneration of executive directors is, by design, a mixture of salary and incentives which together form an appropriate total package. As such it comprises (i) basic salary, (ii) an annual incentive award based on the performance of the group and on the attainment of pre-set key objectives, (iii) participation in the Company's Executive Share Option Scheme and (iv) participation in a long-term incentive plan as described more fully below.

Basic salary and taxable benefits

The level of basic salary and taxable benefits is established drawing upon annual market comparison surveys, conducted by external remuneration consultants, with positions of similar responsibility and scope in the retail sector. Individual salaries of directors are reviewed annually by the Remuneration Committee and adjusted by reference to performance and market factors. Taxable benefits comprise, in the main, a fully expensed company car and medical benefits insurance.

Annual incentive awards

The Company operates an annual incentive award scheme in which all executive directors (except the Chairman) and senior executives of the group participate. The scheme provides for payments based on the achievement of pre-set annual profit targets and strategic goals. The maximum bonus opportunity for executive directors, for significant outperformance of the pre-set objectives, is 50% of basic salary. Bonus payments over the last few years have ranged from Nil up to 26%. Annual incentive awards are paid in cash within three months of the Company's year end but are included in directors' emoluments in the year to which they relate. An incentive award of 12.5% is proposed to be paid in respect of the year ended 3 April 1999 (1998 – £Nil).

We held meetings with 88 institutions during the year, representing some 60% of our issued share capital. We also held a conference for investors and analysts at our Tamworth depot in February.

We will be holding our Annual General Meeting at The Royal Lancaster Hotel (Bayswater, London) for the third year running on Tuesday 13 July starting at 11 a.m. We hope as many shareholders as possible will attend.

Share option schemes

Executive directors are eligible for grants of options to acquire shares under both the Safeway 1993 Executive Share Option Scheme ("Executive Scheme") and the Safeway Sharesave Scheme ("Sharesave"). Approximately 300 senior executives (including executive directors) participate in the Executive Scheme, under which options are granted at the market price on the day of grant. In December 1998, options over 4,203,800 shares were granted (313,900 to executive directors of the Company).

Grants under the Executive Scheme for executive directors are phased, usually over four or more years, subject to the cumulative value (at the date of grant of options) not exceeding four times pay, and all grants are controlled by the Remuneration Committee. Executive Scheme options granted on and since 19 December 1995 will become exercisable normally only when the earnings per share growth of the Company, over a three year period, has exceeded the increase in the Retail Prices Index over that same three year period by an average of at least 2% per annum. Executive Scheme options granted prior to 19 December 1995 are all available for exercise as all relevant performance criteria have been met. Executive Scheme options granted in December 1995 and 1996 will not normally be exercisable on their third (or subsequent) anniversary in December 1999 as the performance criterion has not been achieved.

The number of options held by executive directors in the Company is set out on page 57.

Long-term incentive plan

The Company's long-term incentive plan is designed to align the efforts of key executives with the Company's objective of creating shareholder value in the longer term. Executives are selected to participate on the basis that they are in a position to influence significantly the performance of the Company.

The plan is a performance share plan. Under the terms of the plan, executives receive a conditional award of shares at the beginning of a three year cycle. The actual number of shares to which executives obtain vested rights depends on the Company's performance over that same period. Executives have no rights or entitlements to an award of shares and no awards are made if a participant has left the Company's employment prior to the end of the performance period.

Shares for use in the plan are ordinary shares in the Company which are transferred out of the Safeway plc Employee Share Ownership Plan ("ESOP"), a discretionary trust, set up to administer the plan (Note 12.1 on page 47). In order to hedge the Company's liability to payments under the plan, the Company funds the anticipated payout over each three year cycle by ensuring that the Trustee has sufficient funds to purchase the Company's ordinary shares through the ESOP.

Cycles:
1994 cycle – The 1994 cycle matured in March 1997 following which 75% of the award was vested to participants in May 1997 and the balance vested in May 1998. Awards under the 1994 cycle, covering the three financial years ended 29 March 1997, were determined by comparing the Company's Total Shareholder Return to that of a weighted, by market capitalisation, basket of competitor companies (comprising Asda, Budgens, Iceland, Kwik Save, Wm. Morrison, J. Sainsbury and Tesco) based on the average three month period up to both the 1994 and 1997 year ends.

Over the three year period from April 1994 to March 1997, the Company's Total Shareholder Return increased on average by 17.77% per annum compared to the basket of competitor companies which increased by 9.41% per annum. Over the same period, the FTSE 100 Index increased by 13.5% per annum and the FTSE All Share Index by 12.3% per annum. Accordingly, the Company out-performed the index of competitor companies by 8.36% per annum.

The following awards to current executive directors have been made under this cycle:

	Vested May 1997	Vested May 1998	Total Shares awarded
D G C Webster	239,287	79,763	319,050
C D Smith	233,970	125,980	359,950
S T Laffin	74,445	24,815	99,260
R E Partington	74,445	24,815	99,260
G Wotherspoon	132,937	29,313	162,250
Total	755,084	284,686	1,039,770

Awards made to two former directors, Sir Alistair Grant and Mr R G B Charters, totalled 382,860 and 53,175 shares respectively vested in them in May 1997 and 127,620 and 17,725 shares respectively vested in them in May 1998.

Mr D G C Webster and Mr C D Smith have confirmed that the shares vested in them in May 1997 will be retained in full (net of any sales necessary to pay the income tax liability) for a minimum period of three years.

1996, 1997, 1998 and 1999 cycles – In July 1996, the Company obtained the approval of shareholders to its long-term incentive plan as explained more fully above. Cycles of the plan are now annual and the Remuneration Committee believes that the plan will serve the Company well. Accordingly, the Remuneration Committee initiated a 1996, a 1997, a 1998 and a 1999 cycle which cover the three financial years ending in 1999, 2000, 2001 and 2002 respectively. Awards will be determined by reference to the Company's performance in respect of:

(a) the Company's Total Shareholder Return compared to that of a basket of competitor companies; and
(b) the increase in Earnings per Share of the Company.

Both measures are determined independently and each may provide up to 50% of an individual's personal maximum award. The performance objectives under the 1996 cycle, which covered the three financial years ended 3 April 1999, were not achieved and accordingly, no awards will be made.

The maximum award that any executive director could receive under these cycles is:

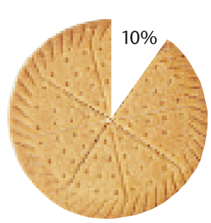
	Maximum possible share award				
	1996 Cycle Maximum	1996 Cycle Actual	1997 Cycle	1998 Cycle	1999 Cycle
D G C Webster	120,000	Nil	138,000	138,000	210,000
C D Smith	140,000	Nil	140,000	138,000	210,000
S T Laffin	57,500	Nil	58,000	58,000	87,000
R E Partington	45,000	Nil	52,500	58,000	89,000
G Wotherspoon	65,000	Nil	63,000	62,000	94,000
	427,500	Nil	451,500	454,000	690,000

The actual award in respect of the 1997 and subsequent cycles will not be known until the end of the relevant three year period and could, dependent upon performance, be a nil award or up to a maximum of the number of shares shown in the table above. Details of the actual awards will be reported in future Annual Reports.

A charge of £0.2 million was made in this year's accounts in respect of awards made under the 1994 cycle and was included in staff costs (Note 7.2 on page 45). A provision of £1.1 million (including £0.1 million of estimated National Insurance payable) in respect of the 1996 cycle was released during the year ended 28 March 1998 and credited to staff costs. No provisions have been charged in these accounts for any other cycle.

Our long-term incentive plan aims to align the efforts of key executives with the objective of creating long-term shareholder value.

Executive directors are required to hold the equivalent of 10% of their annual salary in the Company's shares as a condition of their participation in the long-term incentive plan.



Pensions

All executive directors are members of the Safeway Pension Scheme which is a funded, Inland Revenue approved, final salary, occupational pension scheme (Note 24.3 on page 50).

The Finance Act 1989 introduced a restriction ("Cap") for employees joining the Company after 31 May 1989, on earnings that could be pensioned through an Inland Revenue approved pension scheme. The limit is based on a maximum annual pensionable salary (currently £90,600). Accordingly, the Company has established a Funded Unapproved Retirement Benefits Plan ("FURB") for executive directors (currently two) subject to the Cap and pays a defined annual contribution to this Plan which is based on a percentage of their basic salary over the Cap. The Company also makes a discretionary annual pension related payment to executive directors subject to the Cap. This payment is sufficient to meet the income tax liability that executive directors suffer on the Company's contributions to the FURB, and is fixed such that the combination of the FURB contributions and this payment is 24% of pensionable salary over the Cap.

Executive directors, conditional upon commencement date and length of service, are entitled to a maximum pension from the Safeway Pension Scheme of up to two thirds of pensionable salary on retirement at normal retirement age (age 60). An actuarially reduced pension is payable on early retirement after age 50. The pensions of executive directors and their spouses are eligible for regular increases each year after retirement in line either with inflation or 8.5% per annum, whichever is the lower. Additional increases may be payable at the discretion of the Pension Scheme Trustees subject to the approval of the Company.

Pensionable salary for executive directors appointed to the Board prior to 21 September 1995 has, under the terms of their service agreements, been based on basic salary and any annual incentive award. The basis for pension provision for these executive directors was settled in 1986 since which time they have paid contributions at the rate of 5% of their pensionable salary (inclusive of annual incentive award). The Remuneration Committee believes it to be both inequitable and inappropriate to amend the current basis of pension provision for these executive directors but the annual incentive award to executive directors appointed to the Board since 21 September 1995 is not pensionable.

For the directors who held office during the year, the pension benefits earned in the Safeway Pension Scheme and the Company's contributions to the FURB (and related payments) were as follows:

			Safeway Pension Scheme			FURB
	Age at year end	Years of service	Directors' contributions in the year (Note 1) £'000	Increase in accrued pension during the year (Note 2) £'000	Accumulated total pension at year end (Note 3) £'000	Company contribution including related payment £'000
D G C Webster	54	22	29	18	281	–
C D Smith	51	20	32	41	274	–
S T Laffin	39	9	4	2	18	36
R E Partington	42	5	4	2	10	37
G Wotherspoon	51	29	16	17	153	–

Notes:

1 These are the contributions paid in the year by the directors under the terms of the Safeway Pension Scheme.

2 The increase in accrued pension during the year excludes any increase for inflation.

3 The pension entitlement shown is that which would be paid annually on retirement at age 60, based on service at 3 April 1999.

4 The method of calculating transfer values from the Safeway Pension Scheme includes allowance for discretionary pension increases after retirement. Total pension increases after retirement are assumed to be at the full rate of inflation.

5 Directors have the option to pay Additional Voluntary Contributions to the Safeway Pension Scheme. Neither the contributions nor the resulting benefits are included in the above table.

External appointments policy

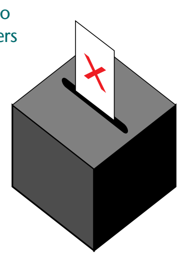
The Company recognises the value of the appointment of executive directors to the Boards of other major companies as non-executive directors, dependent upon time commitments, since this can broaden experience and knowledge. All such appointments are subject to the Board's approval. The fees receivable are retained by the director concerned.

Non-executive directors

Non-executive directors are appointed initially for a three year term after which their appointment may be extended upon mutual agreement. Non-executive directors' fees comprise a basic amount and additional fees for Chairmanship and membership of Board Committees. Non-executive directors do not have contracts of service, are not eligible for pension scheme membership and do not participate in any of the group's bonus, share option or other incentive schemes.

Mr D G C Webster is a non-executive director of Reed International PLC and Elsevier NV.

Each director is subject to re-election by shareholders at a General Meeting at least every three years.



Directors' emoluments

The table below analyses the emoluments of individual directors who held office during the year:

	Basic Salary/ Fees £'000	Salary/ Fees Increase %	Taxable Benefits £'000	Annual Incentive Awards £'000	**1999 Total £'000**	1998 Total £'000	Long-Term Incentive Plan **1999 £'000**	Long-Term Incentive Plan 1998 £'000
Chairman –								
D G C Webster	580	3.5	17	–	**597**	567	**307***	879*#
Executive –								
C D Smith	527	3.5	23	65	**615**	522	**599***	860*#
S T Laffin	243	3.5	13	30	**286**	243	**95***	274*
R E Partington	248	3.4	11	30	**289**	113+	**95***	274*
G Wotherspoon	263	3.2	15	32	**310**	264	**170***	489*
Non-executive –								
M J Allen	28	–	–	–	**28**	27	**–**	–
N C Bain	32	–	–	–	**32**	32	**–**	–
Ms J A Burdus	32	–	–	–	**32**	32	**–**	–
H R Collum	28	–	–	–	**28**	12+	**–**	–

* Representing the value of the tranche of shares vested under the 1994 cycle in May 1997 and May 1998. As provided in the rules of the long-term incentive plan, this includes £115,200 and £57,600 paid in cash in respect of the value vested in May 1998 for Mr C D Smith and Mr G Wotherspoon respectively.

Mr D G C Webster and Mr C D Smith have undertaken, in respect of this award (net of any sales necessary to pay their income tax liability), to retain in full the shares vested in May 1997 for a minimum period of three years.

+ Part year.

Pension contributions paid by the Company in respect of the Chairman amounted to £50,470 (1998 – £48,000). Mr R G B Charters received a total of £450,000 during the year ended 3 April 1999 as compensation on the termination of his employment during the year ended 28 March 1998. The aggregate profit made by directors on their exercise of share options during the year was £1,000 (1998 – £19,000).

Directors' interests

The interests of the directors including family interests (all beneficial) in the share capital of the Company are set out below:

	3 April 1999 Ordinary shares	28 March 1998 Ordinary shares
D G C Webster	**559,211**	511,356
C D Smith	**341,300**	265,667
S T Laffin	**73,393**	56,481
R E Partington	**15,495**	–
G Wotherspoon	**103,086**	102,618
M J Allen	**5,690**	5,466
N C Bain	**10,000**	10,000
J A Burdus	–	–
H R Collum	**5,000**	5,000

Executive directors of the Company, as possible beneficiaries, are additionally deemed to be interested in the Company's ESOP. At 3 April 1999, the Trustee of the ESOP held 1,292,704 (1998 – 1,988,205) ordinary shares of the Company. Since the year end and as at the latest practicable date prior to the printing of this Annual Report, the Trustee has purchased an additional 1,000,000 ordinary shares of the Company.

The directors have no other interest in group securities.

At no time during the year or subsequently has any director had 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.

The movement in share options held by directors during the year together with their exercise price and the middle market price and gain on date of exercise, if applicable, is set out on page 57. Share options issued under the Executive Scheme normally expire ten years after date of grant and those issued under the Sharesave scheme normally expire six years after date of grant.

The directors hold 1,113,175 of the Company's shares in total, representing 0.1% of our issued share capital. They also have options over a further 2,505,595 shares.

Our annual bonus targets are stretching and designed to enhance the performance of the business.

	At 28 March 1998	Granted during the year	Exercised during the year	**At 3 April 1999**	Exercise price
	Number of options				
D G C Webster					
29.11.1990	50,000	–	–	**50,000**	234.63p
23.12.1991	100,000	–	–	**100,000**	272.00p
26.11.1992	100,000	–	–	**100,000**	363.00p
6.12.1993	100,000	–	–	**100,000**	255.00p
13.12.1994	100,000	–	–	**100,000**	237.00p
19.12.1995	100,000	–	–	**100,000**	308.00p
29.7.1996	1,273	–	–	**1,273**	271.00p
9.12.1996	100,000	–	–	**100,000**	375.50p
26.6.1997	2,727	–	–	**2,727**	286.00p
21.11.1997	75,000	–	–	**75,000**	318.75p
8.12.1998	–	38,900	–	**38,900**	283.00p
	729,000	38,900	–	**767,900**	
C D Smith					
23.12.1991	75,000	–	–	**75,000**	272.00p
26.11.1992	75,000	–	–	**75,000**	363.00p
6.12.1993	75,000	–	–	**75,000**	255.00p
13.12.1994	125,000	–	–	**125,000**	237.00p
15.6.1995	1,326	–	–	**1,326**	260.00p
19.12.1995	100,000	–	–	**100,000**	308.00p
9.12.1996	100,000	–	–	**100,000**	375.50p
26.6.1997	4,825	–	–	**4,825**	286.00p
21.11.1997	75,000	–	–	**75,000**	318.75p
8.12.1998	–	100,000	–	**100,000**	283.00p
	631,151	100,000	–	**731,151**	
S T Laffin					
23.12.1991	17,000	–	–	**17,000**	272.00p
26.11.1992	12,000	–	–	**12,000**	363.00p
15.7.1993	1,960	–	(1,960)	–	264.00p*
6.12.1993	20,000	–	–	**20,000**	255.00p
23.6.1994	2,667	–	–	**2,667**	194.00p
13.12.1994	50,000	–	–	**50,000**	237.00p
15.6.1995	1,326	–	–	**1,326**	260.00p
19.12.1995	50,000	–	–	**50,000**	308.00p
9.12.1996	75,000	–	–	**75,000**	375.50p
26.6.1997	1,206	–	–	**1,206**	286.00p
21.11.1997	56,250	–	–	**56,250**	318.75p
25.6.1998	–	952	–	**952**	307.00p
8.12.1998	–	27,500	–	**27,500**	283.00p
	287,409	28,452	(1,960)	**313,901**	

*The market price on date of exercise of the 15.7.1993 Sharesave options was 313.50p and the gain on date of exercise was £1,000.

	At 28 March 1998	Granted during the year	Exercised during the year	**At 3 April 1999**	Exercise price
	Number of options				
R E Partington					
13.12.1994	50,000	–	–	**50,000**	237.00p
15.6.1995	6,634	–	–	**6,634**	260.00p
19.12.1995	50,000	–	–	**50,000**	308.00p
9.12.1996	50,000	–	–	**50,000**	375.50p
21.11.1997	56,250	–	–	**56,250**	318.75p
8.12.1998	–	75,000	–	**75,000**	283.00p
	212,884	75,000	–	**287,884**	
G Wotherspoon					
26.11.1992	70,000	–	–	**70,000**	363.00p
6.12.1993	75,000	–	–	**75,000**	255.00p
13.12.1994	–	–	–	–	–
15.6.1995	1,326	–	–	**1,326**	260.00p
19.12.1995	75,000	–	–	**75,000**	308.00p
9.12.1996	75,000	–	–	**75,000**	375.50p
26.6.1997	4,825	–	–	**4,825**	286.00p
21.11.1997	31,100	–	–	**31,100**	318.75p
8.12.1998	–	72,500	–	**72,500**	283.00p
	332,251	72,500	–	**404,751**	

The middle market price of the Company's ordinary shares at 3 April 1999 was 247.25p and the range during the year ended 3 April 1999 was 238.0p to 396.0p.

By Order of the Board

J P Kinch
Secretary
26 May 1999

The only share options exercised by directors during the year were due to the maturity of a Sharesave contract last September.

Executive share options normally expire ten years after date of grant whereas Sharesave options normally expire six years after date of grant.

Directors' responsibilities

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and the group and of the profit for that year. In preparing the accounts the directors are required:

(a) to select suitable accounting policies and then apply them consistently;
(b) to make judgements and estimates that are reasonable and prudent;
(c) to state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
(d) to prepare the accounts on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the group and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm that these accounts comply with these requirements.

Report of the auditors

To the Shareholders of Safeway plc

We have audited the accounts on pages 40 to 50 which have been prepared under the historical cost convention and the accounting policies set out on page 43. We have also examined the amounts disclosed relating to the emoluments, share options, long-term incentive plan interests and pension benefits of the directors which form part of the Directors' Report on pages 53 to 57.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report including, as described above, the accounts. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange, and by our profession's ethical guidance.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the Directors' Report is not consistent with the accounts, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the Company and the group is not disclosed.

We review whether the statement in the section entitled "Combined Code on Corporate Governance" on page 52 reflects the Company's compliance with those provisions of the Combined Code specified for our review by the Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the Company's corporate governance procedures or its internal controls.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Company and of the group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the accounts.

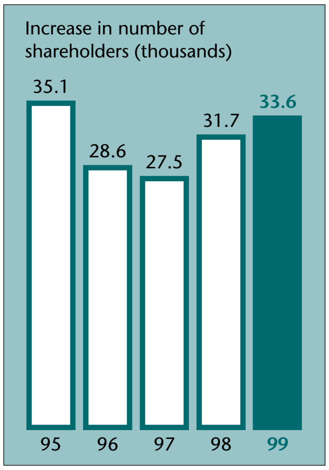
Opinion

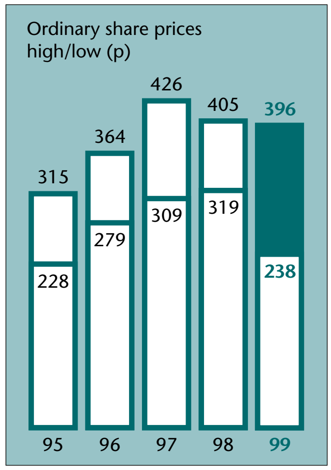
In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the group at 3 April 1999 and of the group's profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

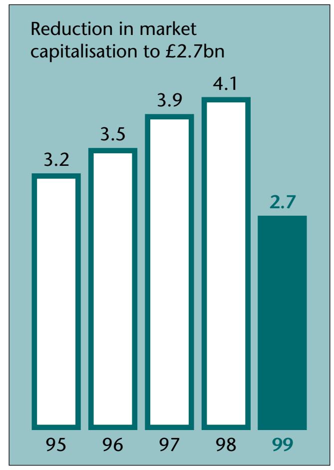
Arthur Andersen
Chartered Accountants and Registered Auditors
London
26 May 1999

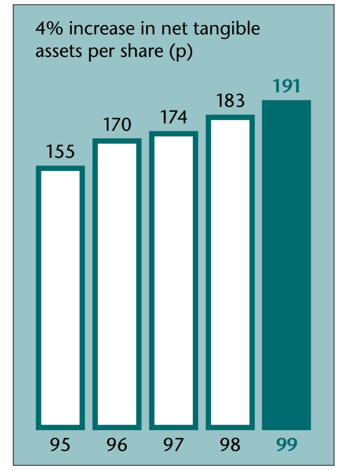
Arthur Andersen have been auditors to the Company since its formation in 1977.

Shareholder information









Analysis of ordinary shares at 3 April 1999

	Shareholders		Shares held (millions)		% of Total	
	1999	1998	**1999**	1998	**1999**	1998
By Category:						
Individuals	**26,142**	23,651	**49.7**	45.8	**4.5**	4.2
Banks and Nominee Accounts	**5,766**	6,908	**953.1**	984.1	**86.1**	89.5
Insurance Companies	**166**	14	**20.2**	7.2	**1.8**	0.7
Investment Companies	**107**	96	**3.6**	2.5	**0.3**	0.2
Other Companies	**1,313**	678	**68.9**	31.7	**6.2**	2.9
Pension Funds	**22**	22	**7.0**	9.8	**0.6**	0.9
Universities, Schools and Other Corporate Bodies	**56**	361	**5.3**	17.6	**0.5**	1.6
	33,572	31,730	**1,107.8**	1,098.7	**100.0**	100.0
By Size of Holding:						
1 – 1,000	**16,268**	14,564	**8.1**	7.4	**0.7**	0.7
1,001 – 5,000	**13,684**	13,232	**29.3**	28.5	**2.6**	2.6
5,001 – 10,000	**1,488**	1,527	**10.6**	10.7	**1.0**	1.0
10,001 – 100,000	**1,303**	1,469	**43.2**	51.1	**3.9**	4.6
100,001 – 500,000	**520**	602	**123.2**	136.6	**11.1**	12.4
500,001 – 1,000,000	**140**	146	**97.3**	101.3	**8.8**	9.2
1,000,001 and over	**169**	190	**796.1**	763.1	**71.9**	69.5
	33,572	31,730	**1,107.8**	1,098.7	**100.0**	100.0

The top 20 institutional shareholders in Safeway own nearly 600 million shares, representing some 54% of our issued share capital.

Since the year end, the number of shareholders in Safeway has increased by nearly 4,000 to over 37,000.

>37,000

Shareholder information

Financial calendar 1999/00

13 July 1999	Annual General Meeting at The Royal Lancaster Hotel, London
9 August 1999	Payment of final dividend for the year ended 3 April 1999 to shareholders on the register on 28 May 1999
November 1999	Interim announcement of results for the 28 week period ending 16 October 1999
February 2000	Trading statement in respect of Christmas and the New Year
February 2000	Anticipated payment of interim dividend for the year ending 1 April 2000
1 April 2000	Financial year end
May 2000	Preliminary announcement of results for the year ending 1 April 2000
June 2000	Circulation of Annual Report

Scrip dividend option

Safeway has previously offered shareholders the option to receive ordinary shares instead of cash dividends. However, following the announcement of our new share buy-back programme, the scrip dividend scheme has been suspended.
Shares have been issued in respect of scrip dividends at the following prices:

Financial year	Interim dividend payment date	Issue price	Final dividend payment date	Issue price
1990/91	25.2.1991	244.5p*	27.8.1991	286.2p
1991/92	24.2.1992	284.4p	25.8.1992	350.6p
1992/93	22.2.1993	383.2p	24.8.1993	329.2p
1993/94	21.2.1994	269.6p	23.8.1994	239.0p
1994/95	20.2.1995	243.8p	14.8.1995	325.2p
1995/96	19.2.1996	313.2p	5.8.1996	348.4p
1996/97	10.2.1997	378.9p	4.8.1997	357.6p
1997/98	9.2.1998	325.1p	3.8.1998	379.5p
1998/99	8.2.1999	293.6p		

*Adjusted for the effect of the rights issue in June 1991.

Dividend reinvestment plan

The Company has introduced a dividend reinvestment plan (“DRIP”). The DRIP enables shareholders to apply all of their cash dividends to buy additional ordinary shares in Safeway in the market at competitive dealing rates. Full details of the DRIP will be sent to shareholders shortly. Completed application forms for the DRIP, to apply for the final dividend payable on 9 August 1999, must be returned to the Registrars by 19 July 1999.

Registrars

Administrative enquiries concerning the holding of Safeway shares (including the payment of dividends) should be directed in the first instance to the Registrars at: Computershare Services PLC, PO Box 435, Owen House, 8 Bankhead Crossway North, Edinburgh, EH11 4BR. Telephone 0131 523 6666.

Share price information

The latest share price and Company information can be obtained by calling the Financial Times Cityline Service (calls from within the UK cost 60p per minute, excluding VAT). Telephone 0891 431 643.

Investor enquiries

Please contact: Investor Relations Department, Safeway plc, Safeway House, 6 Millington Road, Hayes, Middlesex, UB3 4AY. Telephone 0181 848 8744. Facsimile 0181 970 3986. E-mail investor_relations@safeway.co.uk.

Over 9,000 shareholders elected to take-up the scrip dividend alternatives during the year, representing some 15% of the total dividends paid.

The new dividend reinvestment plan will enable shareholders to use their cash dividends to buy additional shares in Safeway.

Corporate internet site – http://www.safeway.co.uk

Safeway's Annual Report and Preliminary Results Statement are now also available on-line via the Internet and can be found on our new corporate website. Split into three parts, the site comprises an 'Investor Information' section containing the latest financial announcements and a financial calendar. A 'News and Views' area gives access to current policy statements on issues such as genetically modified foods, the Competition Commission, the Food Standards Agency, the environment and organic foods. Recent major news announcements and a round-up of our latest press releases are also included. The final part of the website serves as an on-line illustrated corporate brochure containing facts and figures about our products, corporate structure, store development, trading in Scotland and Northern Ireland, Safeway people, ethical policies, our customer promise and a complete list of our stores. The site will be expanded to incorporate customer information later this year and also updated details on our graduate recruitment scheme.

CREST

Safeway entered the CREST system in October 1996 and our ordinary shares are available for settlement in CREST. The membership of this system is voluntary, so shareholders who do not wish to participate may continue to hold their own share certificates and deal in our shares outside CREST.

Dividends

Shareholders may have their dividends paid directly into their United Kingdom bank accounts if they so wish. Shareholders interested in this service should contact the Registrars in the first instance.

Personal equity plans (PEP)

Safeway operates both a General PEP and a Single Company PEP. The plans enable shareholders to receive dividends on the shares held free of income tax, or to reinvest dividends to increase the shareholding and to dispose of shares held without incurring any capital gains liability. These plans were closed to new investors with effect from 6 April 1999. If you wish to receive information regarding these plans, please contact the Plan Manager, Halifax plc, Trinity Road, Halifax, West Yorkshire, HX1 2RG or Telephone 0800 371 769 and ask for the Safeway PEPLINE.

Individual savings account (ISA)

Following the successful first year of the Safeway Direct Savings Account, on 6 April 1999 Safeway and our financial services partner Abbey National introduced a cash mini ISA. This permits an individual to invest without paying tax. Details are available from Abbey National. Telephone 0800 995 995.

Anyone who wants further information about Safeway may now do so via the Internet.

www.safeway.co.uk

Five year retail statistical summary

	Year ended 1 April 1995	Year ended 30 March 1996	Year ended 29 March 1997	Year ended 28 March 1998	**Year ended 3 April 1999**
Store numbers					
Safeway – 20,000 sq. ft. sales area and over	222	234	247	253	**256**
– 10,000 – 19,999 sq. ft. sales area	131	116	124	130	**139**
– under 10,000 sq. ft. sales area	25	20	29	68	**68**
	378	370	400	451	**463**
Safeway (Ireland)	–	–	–	15	**13**
Presto	169	109	90	20	**–**
	547	479	490	486	**476**
Sales area ('000 sq. ft.)					
Safeway	8,278	8,416	8,960	9,554	**9,775**
Net % increase on previous year	6.8%	1.7%	6.5%	6.6%	**2.3%**
Safeway (Ireland)	–	–	–	415	**340**
Presto	1,038	848	679	103	**–**
	9,316	9,264	9,639	10,072	**10,115**
New store openings					
Safeway	21	17	17	15	**14**
Safeway (Ireland)	–	–	–	15	**3**
Presto	4	3	–	–	**–**
New sales area ('000 sq. ft.) (excluding extensions)					
Safeway	626	520	447	386	**300**
Safeway (Ireland)	–	–	–	415	**83**
Presto	39	31	–	–	**–**
Average store sales area ('000 sq. ft.)					
Safeway	21.9	22.7	22.4	21.2	**21.1**
Safeway (Ireland)	–	–	–	27.7	**26.2**
Presto	6.1	7.8	7.5	5.2	**–**
Sales per sq.ft. per week (£)					
Safeway	12.86	14.10	14.82	14.98	**15.47**

The year ended 3 April 1999 comprised 53 weeks.
Based on weighted average sales area and sales including VAT (including petrol). Excludes Safeway (Ireland). The statistics for the year ended 28 March 1998 are affected by there being no Easter during the year compared with two Easters in the years ended 29 March 1997 and 3 April 1999.

Market share					
Safeway	6.6%	7.0%	7.3%	7.5%	**7.5%**

Based on sales including VAT (excluding petrol) and Office for National Statistics data. Excludes Safeway (Ireland).

At end May 1999, we had 332 stores in England, 113 in Scotland, 13 in Wales, 12 in Northern Ireland and five off-shore stores with a total sales area of 10.1 million square feet.

Safeway has stores from Lerwick in the Shetlands to Jersey and Guernsey in the Channel Islands and beyond to Gibraltar.

Five year financial summary

	Year ended 1 April 1995 £m	Year ended 30 March 1996 £m	Year ended 29 March 1997 £m	Year ended 28 March 1998 £m	**Year ended 3 April 1999 £m**
Sales	6,217.7	6,500.0	7,066.4	7,493.6	**8,071.2**
Operating profit	382.9	417.5	461.8	409.9	**421.8**
Share of joint venture operating profit/(loss)	–	–	–	(0.2)	**0.2**
Net property losses	(4.7)	(9.5)	(9.5)	(18.5)	**(16.5)**
Net interest and investment income	(7.6)	(16.3)	(31.7)	(51.0)	**(64.9)**
Profit before taxation and exceptional items	370.6	391.7	420.6	340.2	**340.6**
Exceptional items	(195.0)	37.7	–	–	**–**
Profit on ordinary activities before taxation	175.6	429.4	420.6	340.2	**340.6**
Tax on profit on ordinary activities	(82.2)	(128.8)	(126.2)	(104.0)	**(107.1)**
Minority interest	–	–	–	4.8	**9.7**
Profit for the financial year	93.4	300.6	294.4	241.0	**243.2**
Earnings per share					
Before exceptionals and net property losses	23.3p	24.7p	27.4p	24.9p	**23.8p**
Before exceptionals, after net property losses	23.0p	24.1p	26.8p	22.2p	**22.3p**
After exceptional items	8.3p	26.4p	26.8p	22.2p	**22.3p**
Dividends per share (net)	12.00p	12.75p	14.10p	14.10p	**14.40p**
Net tangible assets					
Fixed assets	2,795.5	2,987.7	3,221.8	3,506.5	**3,847.8**
Net current liabilities	(725.2)	(693.7)	(766.8)	(661.9)	**(901.8)**
Creditors (due after one year)	(305.4)	(344.6)	(557.4)	(822.3)	**(817.2)**
Deferred taxation	(10.2)	(10.2)	(10.2)	(10.2)	**(10.2)**
Total capital employed	1,754.7	1,939.2	1,887.4	2,012.1	**2,118.6**
Net debt	(314.1)	(248.2)	(628.0)	(771.6)	**(969.2)**
Net gearing	17.9%	12.8%	33.3%	38.3%	**45.7%**
Return on capital employed (after taxation)	14.7%	14.8%	15.4%	13.7%	**11.8%**
Net tangible assets per ordinary share	155.1p	169.8p	173.5p	183.1p	**191.2p**
Capital expenditure					
Booked in the year	461.0	423.5	389.5	426.7	**492.3**
Payments made in the year (FRS 1 basis)	427.0	357.9	396.2	464.7	**459.8**

Notes:

1 The year ended 3 April 1999 comprised 53 weeks.

2 Profit before taxation and exceptional items for the year ended 28 March 1998 was after charging £30.0 million for the costs of the store portfolio review and redundancy programme.

3 The £30.0 million costs of the store portfolio review and redundancy programme (less tax relief of £4.8 million), reduced earnings per share in the year ended 28 March 1998 by 2.3p.

4 Return on capital employed (after taxation) for the year ended 28 March 1998 was calculated before the costs (net of available tax relief) of the store portfolio review and redundancy programme.

Dividends (net) of 67.35p per share totalling £745.5 million have been or will be paid to Safeway shareholders in respect of the profits from the five years to 3 April 1999.

The group has generated sales of over £35 billion in the five years to 3 April 1999 and earned operating profits of £2.1 billion with an average margin (excl. VAT) of 6.4%.