

wayahead

Safeway plc Annual Report and Accounts 1999

easier for everyone
delivering our promise

when, where, how?

how do we get products into stores?

as easy as ABC

outstanding value for customers

toning up

further improving our product ranges

SAFewayplc



**The hard
part is choosing
my reward.**



SAFEWAY
Lightening the load

Our Customer Promise

Our Goal

wayahead

**Safeway plc Annual Report
and Accounts 1999**

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Ready made ideas – crispy duck



Outstanding family value

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Take a look at our financial health.

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Stores list

Where to find us From Abbeydale to Strabane, Aberdeen to Wood Green, this is a definitive list of where you can find your nearest Safeway store.

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



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

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

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

Our targets

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

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

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

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

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

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

The Competition Commission

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

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

The Board

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

Industry outlook

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

Kosovo

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

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



DGC Webster

26 May 1999



- Sales growth 1.3% ahead of the industry average
- £40 million investment programme to strengthen our brand
- Improving product ranges through Category Management

Our performance in a tough market place, reflected in our sales, is being driven by the growing strength of the Safeway brand. Ever since we started repositioning our brand five years ago, we've been targeting young families as the customer group who offer us the best opportunity for profitable growth. We measure our success by the total spend we are attracting from family shoppers – up by 22% since 1996; the trips they make to our stores are up 7% and the average size of their weekly shopping basket is up 14% over the same period. We're attracting more families and those who shop with us are spending more because we're listening to them and giving them what they want in terms of product range and quality, availability, value for money and service.

Over the past few years we've been working hard to meet their expectations –

which, like much else in our industry, are always rising. Today's bright idea is tomorrow's 'must have'. And over the past 18 months we've invested extra resources in our brand because we want our offer to be as good as the best in the industry.

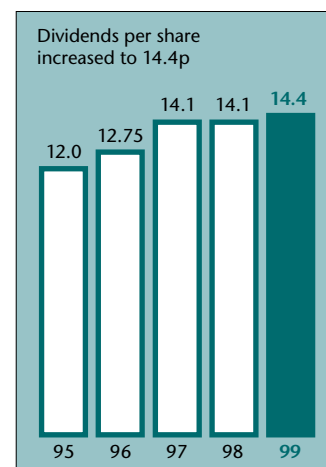
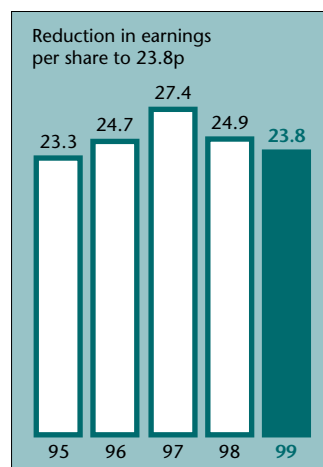
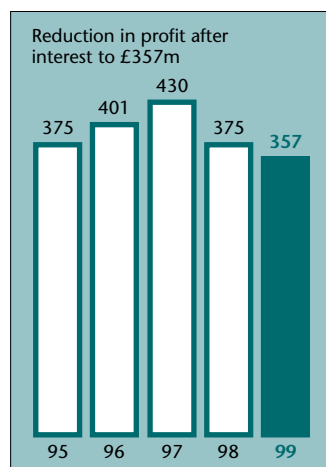
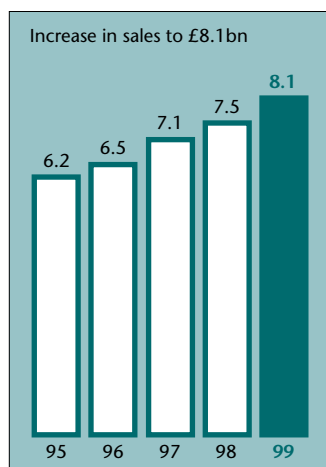
Products

Our priority is to extend and upgrade the quality of our product ranges, particularly those that are critical to family shoppers.

We've increased the number of lines we carry in an average superstore by over 1,200 through a competitive benchmarking programme we introduced last year. Alongside this, we've been testing and are now starting to roll out Category Management. We're using Category Management to make Safeway more distinctive by developing a really compelling offer in those key product ranges which influence where family shoppers do their big weekly shops. We launched this programme a year ago with a series of end-to-end reviews of these key ranges, bringing together improved quality, availability, value, merchandising and communications to deliver a much improved offer to our target customers.

During the year we covered fruit and vegetables, bakery, meat, wine and Christmas seasonal lines. The results were very encouraging. For example, our sales of fruit and vegetables increased by 17%, our bakery sales went up by 10% and our share of the declining meat market has also started to grow. The success we've achieved so far has helped us develop a template which we're now using in a full roll-out of Category Management.

making shopping



Before property, exceptional items and the costs of the 1998 store portfolio review and redundancy programme. 1999 was a 53 week year.

Availability

Putting more and better products on our shelves doesn't give us higher sales unless we keep those shelves full. Through an internal initiative called 'Fill that Gap', we've raised availability on our biggest selling lines to a consistent level of 96% on our internal measure, which we believe to be in line with the industry norm. This year we're aiming to go one better by extending 'Fill that Gap' to 600 mainly fresh lines, which are important for family shoppers.

Value

Over the past four years we've steadily improved our customers' perception of the value we offer. We're also using our ABC card to reward those customers who spend most money with us. Our double and triple ABC points promotion, which ran from April to October last year, both encouraged our existing customers to spend more and brought us an additional one million ABC cardholders. It also strengthened our customers' perception of the value we offer. Since the start of the current year we have relaunched this promotion, with slightly higher customer spending thresholds for a period of three months.

The benefits of better product availability, improved ranges and sharper value all came together at Christmas and Easter to give us our best ever performance during these peak trading periods.

Making our brand different

Much of this activity has been focused on doing what our major competitors are doing, but doing it better. However, the key to building longer-term competitiveness is also to be different. Our customer promise captures this difference by focusing on making shopping **easier** for young families. Taking the hassle out of shopping isn't just about cutting the length of queues at the check-out. It's about making the whole shopping experience as easy as possible – including what happens when our customers return home and prepare their next meal. 'Ease' is about the quality and design of our products as well as the obvious features of customer service.

Customer care is a well-established point of difference for Safeway and we are working hard to make it even more distinctive. We now have Shop & Go in 166 stores and provide crèches in over 100 stores. Meanwhile, our Mystery Shopper results have improved significantly since our Customer Care Performance Share Option Plan was launched in November 1997.

Offering really good customer service makes the food shopping trip a much more enjoyable experience. This, of course, underlines the importance of our people in stores. Over the past year we've done several things to help our people become more involved in delivering our customer promise and improve every aspect of our

business. For example, in the autumn we launched 'Food For Thought', an initiative to encourage our people to send in their ideas for generating more sales, cutting costs or doing things more effectively. We received over 4,000 ideas in three months – many of them with significant potential to improve our performance in some way or other. We're also developing better ways of running our stores, giving store management teams more authority and information to help increase their share of their local market. We're very pleased with the results in our trial stores so far and we are now extending the trial to more stores.

Raising our game

The initial results of the many initiatives we've taken should enable us to maintain our sales growth and improve our sales per square foot. The food retail market is growing very slowly, with low inflation and fierce competition. But I believe we can achieve our objectives by continuing to focus on rolling out Category Management as fast as we can; matching the market leader for availability; and continuing to improve the customers' belief in the value of our offer. We will achieve these targets with more decentralised decision making, bringing both our stores and support divisions closer to our customers and giving our people more opportunity to deliver Safeway's customer promise. It's thanks to our people that we have made real progress in a difficult year and I'm confident that together we can do even better this year.

Colin Smith

CD Smith
26 May 1999

easier



toning up



Our programme of upgrading and relaunching our products is gathering pace. We are developing a compelling and distinctive Safeway offer in those ranges which lead family shoppers to choose one superstore over another

Improving ranges by **Ian Fraser,** Trading Director



We are pressing ahead with improving and relaunching our product ranges. We want to develop the best offer in those ranges which are so important for family

shoppers that they can make the difference to which superstore they choose for their main shop.

We adopted a three-stage approach to doing this back in January 1998 when we announced our accelerated investment programme. First, we completed a rapid benchmark exercise against our competitors. Second, and in parallel, we started a series of end to end reviews of our key product ranges. Here, we went well beyond a basic range review by making major changes to product quality, availability, value, merchandising and communications. Third, we are now rolling Category Management out across key product ranges.

Produce was the first of these reviews. We've been re-equipping our produce departments with new, easy-to-operate fixtures. We redesigned our packaging and introduced wider ranges of pre-packed products, some of which are specifically aimed at children. We also trialled link-save offers to encourage customers to buy more exotic products. These improvements were backed up by an intensive programme to train 5,000 Safeway staff as traditional greengrocers. With all this activity, our sales have increased considerably – growing at nearly twice the average of our three major competitors.

In **Bakery**, which we tackled second, the approach was similar. We gave the department a completely new look, including layout, merchandising and signage, and launched several new lines in bread and cakes. We also reduced prices of selected products. Again, the results have been excellent.

The third review, in **Meat**, was launched in the autumn. It included new in-store signage to highlight the meat aisles; a complete review of quality; and an aggressive promotional programme including targeted direct mail using our ABC database. We also launched a new training programme sponsored by the Meat and Livestock Commission for all our fresh meat counter staff. Among the new products we introduced were a range of oven-ready joints and pork loin steaks which can be cooked in a microwave – all designed to make meals easier and quicker to prepare.

Through our customers' eyes

These reviews have helped us develop the templates which we are now deploying in the third, current phase of our programme – the full roll-out of Category Management. We have recently completed trials in eight product ranges, including baby products, soft drinks and meal ingredients, where sales gains of between 4% and 14% and similar profit increases have been achieved. These improvements are now being rolled out across our superstores.

Our experience so far gives us the confidence that we can make Category Management a real driver of sales and profits over the next few years. Success depends on:

– Having really good information about our customers and their buying patterns – much better than retailers or suppliers have traditionally had. Our ABC database has given us a head start by enabling us to build up a detailed picture of who's buying what, which in turn shapes the way we improve the range and how we promote products.



– Looking at products through our customers' eyes instead of from the traditional supplier perspective. In our baby ranges, for example, the trial has revealed a clear hierarchy of customer priorities which are different from those assumed by both our suppliers and, up to now, ourselves. The success of Category Management, therefore, depends on the development of a much closer relationship between ourselves as retailers and the leading manufacturers who supply us, based on common information about our market place.

Baby care by **Konrad Borkowy,** Store Manager, Wolverhampton



For customers with babies, stress is very high, particularly if their chosen range and pack sizes are out of stock. As part of Category Management we are trying to reassure

customers through availability guarantees on nappies and milk.

We are also introducing trained Babycare Assistants to offer help and advice... after all parenthood is a new and nerve-racking experience for all of us!

The sales gains in baby products are really showing the merits of rolling out Category Management.



Who is buying what?

The success of Category Management depends on having really good information about our customers' shopping patterns

Driving sales

Sales of fruit and vegetables have increased strongly as a result of Category Management



+17%

Category Management has created real customer enthusiasm for our outstanding quality and freshness in fruit and vegetables and, as a result, we have enjoyed tremendous success with our new season products.



+30%

Ready meals have responded well to Category Management. Improved presentation and 75 new lines have helped deliver a substantial sales increase.



+10%

Talking to customers is a critical part of Category Management. As a result, we have launched over 100 new bakery lines and run some of our most exciting promotions ever.

Category Management is a whole new way of deciding which products to stock and how to display them best. Look at some of the sales increases we've achieved!

Category Management



Customers benefit from Category Management
as we've developed a bigger and better range of
ready meals

ea



In our range of meal ingredients, our aim is to offer help and ideas to customers when they are choosing a complete meal. By merchandising these products in a more attractive way and encouraging customers to try new ideas and recipes, we've increased our sales significantly.

Put simply, good information from ABC data, backed by close partnerships with our best suppliers is helping us to improve our product ranges in key areas. So they become a reason for family shoppers to choose to drive past competitors' outlets to our stores.

During the year we launched 1,250 new and 1,000 redesigned or reformulated products. Everything we do in our product development programme is driven by making shopping easier for families. We are continuing to improve our range of ready meals, where we have added 75 new lines over the year and achieved a 30% increase in sales. All of these new lines significantly speed up preparing meals in the home.

The Safeway Product Evaluation Centre, our own test kitchen, opened in 1997 and continues to make a big difference to our development programme. The centre tests between 1,500 and 2,000 Safeway and competitors' products every week, involving hundreds of our own people as members of tasting panels.

Safe and sound standards

In our business, only the most demanding standards of safety – consistently enforced throughout the supply chain – are good enough. Investing in safety is part of our basic obligation to protect our customers and, with this in mind, we currently spend over £6 million a year in maintaining a strong team of trained specialists to deliver this objective.

It goes without saying that we would never take risks with the safety of our products. In common with all the major food retailers, we are concerned by the uncertainty surrounding the safety of Genetically Modified foods and

ingredients. Our position is that GM soya and maize fail to offer any tangible benefits to our customers. For this reason, we are currently working to eliminate these ingredients from our own-brand products. We began this programme back in 1997 but have accelerated it in response to the concerns of our customers.



The Safeway test kitchen

Product quality is a high priority at Safeway and at our Product Evaluation Centre between 1,500 and 2,000 products are tested each week

Quality control

We regularly review our products to make sure that they continue to meet our standards



Inspiring our customers

Crispy duck and plum sauce – just one of 75 new lines in our ready meals range

ting in

Category Management

Last summer we launched our new range of Easy Roast joints including poultry, pork, lamb, beef and gammon.

Lifestyles have changed dramatically over the past 20 years, increasing the demand for meals that are easy to prepare. Our new range of Safeway joints helps people find time to sit down to a family meal, however busy their schedule.

Each joint comes in a convenient container ready to go straight into the oven – cutting out the need for a roasting tin and for washing-up. It couldn't be easier – no preparation is needed, the joint is simply placed in a preheated oven and is ready to eat in under an hour, leaving no bones or wastage. The joints are an ideal alternative to traditional Sunday roasts but can be used for all meal occasions. For example, they can be served with pasta or rice instead of the more usual roast potatoes and vegetables.

Market research shows that many customers regard lamb as inconvenient to cook and eat. New Safeway lamb joints dispel this perception as our customers are finding the range both convenient and good value for money.

→ Lamb mash and veg

- 1 Take one pack of Safeway Easy Roast leg of lamb joint, in a rich red wine sauce and cook for 50 minutes to 1 hour.
- 2 20 minutes before the lamb is cooked, boil 2lbs of Safeway White potatoes for 15 minutes or until soft. Drain off the water, retaining potatoes in the pan. Add a generous knob of butter and a splash of Safeway semi-skimmed milk. Mash away, adding seasoning to taste.
- 3 Six minutes before the lamb is cooked place one packet of fine beans in a pan of salted, boiling water, adding one packet of mangetout after 3 minutes. Cook together for a further 3 minutes and drain off the water.
- 4 After allowing the cooked lamb to stand for 5 minutes, carve and serve with the mashed potato and vegetables.

And for the wine...

We suggest, to accompany your meal, a bottle of Errazuriz Cabernet Sauvignon 1997 El Cebo Estate Aconcagua.



Safeway wants to see a growing market for processors and retailers alike, while also deliv



meat in the UK which supports farmers,
ering good value to its customers



Wine and beer **Can we help?**

Our pre-Christmas initiative to have specially trained staff on duty in the wine and beer aisle throughout all licensed hours in all major stores, is a commitment to a new level of customer service unmatched by anyone else. The programme will reach completion by the beginning of August 1999.

Wearing a badge entitled 'Wine and Beer – Can I help?' – our advisers know the product ranges, are able to offer food matching advice and will answer most customer queries.



Champagne for the Millennium

Our champagne range now includes over 20 different brands, some of which are shown here, ranging from Safeway's own reliable, elegantly flavoured Albert Etienne to the more luxurious, rich, biscuity styles of vintage Champagnes, like Piper Heidsieck 1990 and Veuve Clicquot 1991.

With the Millennium in mind, we have extended our range to include exclusive products such as a new exciting joint-venture between Champagne's Nicolas Feuillatte and Australia's Andrew Garrett, called Champagne Signe, which conveys restrained elegance from a high Chardonnay content.

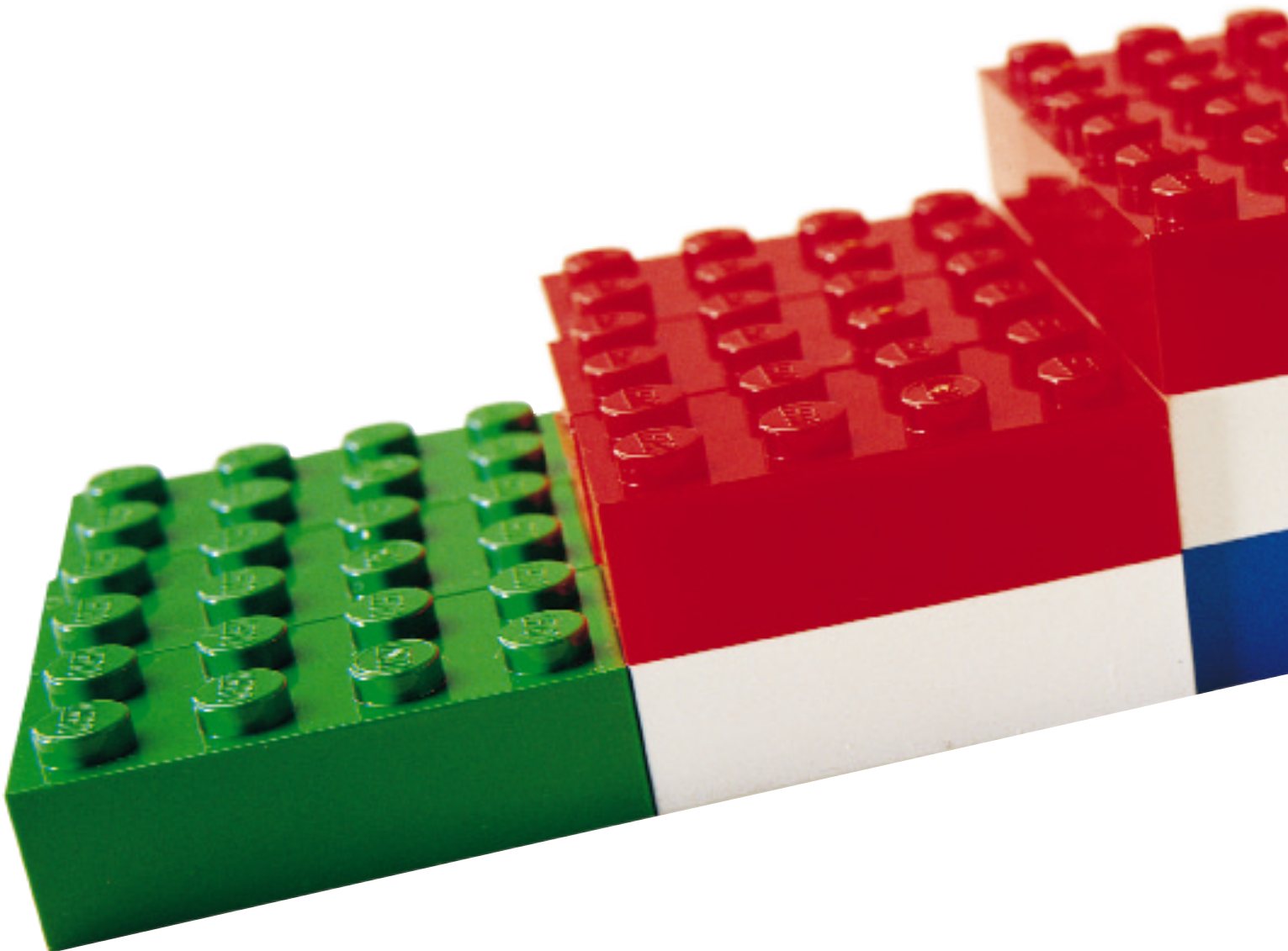
Classic NV styles are now on offer ranging from Moët & Chandon through Taittinger to Bollinger and Louis Roederer.



Value

it's as easy

With Safeway's ABC card, value comes in all shapes and sizes. Whether it's special offers on LEGO toys, offering Price Protected products or Baby Discount schemes, we make sure our customers get the best deal



as abc





Triple points means triple value. Through our ABC card, we offer our value offer, attracts new ABC cardholders, and encourages our

Sharpening value by **Roger Ramsden,** **Brand Marketing** **Director**



Safeway's value offer is constructed around four elements – Savers' lines, Known Value Items (KVIs), promotions and loyalty initiatives, reinforced by everything we are doing

in our stores to make shopping easier for families.

Safeway has a national pricing policy but, to make sure that customers are not disadvantaged by local competition, we adjust prices locally.

Our value strategy comprises:

- 120 Savers' lines, which represent economy value;
- keen pricing on Known Value Items (KVIs) where we pledge, through our Price Protected initiative, that if a customer finds one of these products cheaper locally, we will give them another one free of charge;
- promotions focused on making fewer but deeper price cuts, linked to Category Management; and
- loyalty initiatives, which offer incentives to specific groups of customers.

During the year, we were particularly successful in our loyalty initiatives. Our Baby Discount scheme, for example, offers ABC card-holding mothers with babies under a year old a 10% discount on their shopping for up to 6 months. It has attracted over 200,000 customers since we launched it two years ago. Similarly, our ABC 'triple points' promotion, which ran from April to October, not only gave

existing customers an incentive to spend more of their grocery shop with us but attracted thousands of new customers into Safeway – many of whom stayed with us after the promotion ended. Recently, we re-introduced our ABC points promotion for 3 months. This time we are offering customers double points on all of their shopping if they spend £200 or more in a month and triple points if they spend over £300. Customers who redeem their points for cash, therefore, automatically receive a discount of up to 3% off all their shopping. If, however, they redeem their points against products, Safeway services or third party offers, they can get up to 35% off the normal price.



In addition, we have a continuing programme of special offers which give our ABC cardholders extraordinarily good value. Details are regularly featured in our Safeway Magazine which, with 3.8 million readers, is now the most popular women's monthly



reward customers who spend money with us. It strengthens existing customers to buy more

magazine in the UK. A particularly successful offer, which ran from September to January, was on three ranges of LEGO toys. One range was aimed at pre-school children and the other two at the 6-10 age group. All were offered free in exchange for ABC points, which ranged from 100 to 2,500 depending on the retail value of the product. Sales from this offer exceeded £1 million in retail value.



All round family value

ABC card-holding mothers with babies under a year old can obtain a 10% discount at Safeway for up to six months



Competitive pricing

We have 600 Price Protected products, and if a customer finds one of these cheaper locally, we'll give them another one free



easier for

Meeting customers' needs isn't just about products on shelves, it's about providing consistent, friendly, easy-to-shop facilities, such as coffee shops, in-store dry cleaners, crèches, pharmacies and family parking



everyone

Stores

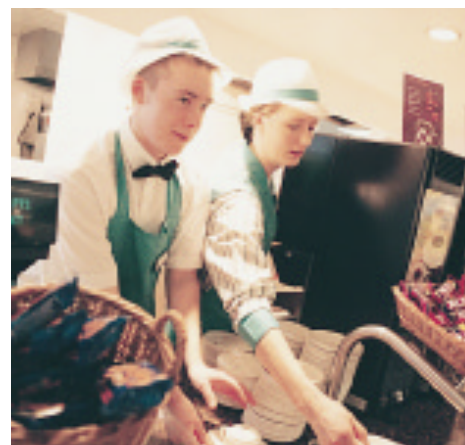


So much to offer

We provide a wide range of facilities and services. Dry cleaners, pharmacies and petrol stations all in one location make sense. Serve-over meat and fish counters with specially trained staff, ensure our customer service is second to none

Specialist Departments

	1998	1999	2000 (Est.)
Coffee shops	203	226	240
Petrol stations	158	170	181
Pharmacies	93	107	117
Crèches	79	102	117
Dry cleaners	93	100	106



Partnerships & Facilities by Helen Buck, Director of Stores Marketing



Making shopping easier means continuing to improve both stores and customer service. This year we will open 12 new stores, extend 6 more and carry out 33 major refits.

As we extend and refit stores, wherever possible we try to add the range of extra facilities which we offer and customers increasingly expect. In addition to the specialist departments listed above, at the end of March we had serve-over meat counters in 128 stores and 93 wet-fish counters. This year we'll add another 24 meat and 20 wet-fish counters.

Making the most of a partnership

Our joint venture with BP to develop a new convenience store offer on petrol stations is growing fast. In July, following successful trials on 7 sites, we announced the roll-out of our new convenience store concept to 100 BP forecourts over the next three to four years, creating over 2,000 new jobs.

By the end of March 1999, we had opened a total of 10 stores, each offering more than 3,000 product lines, including a wide range of fresh produce, meat and dairy products. We are aiming to open 35 more stores this year.

All round financial gains

Our financial services partnership with Abbey National is also going well. The Safeway Direct Savings Account, which has regularly featured in 'best buy' league tables, celebrated its first anniversary in January with £1 billion in deposits (against an initial annual target of £400 million). In April of this year we became the first supermarket to launch a CAT standard Cash Mini ISA. Meanwhile we continue

to roll-out in-store banks. At the end of the year we had 10 in-store branches and we plan to open another 20 by April 2000.

Northern Ireland

Through our joint venture with Fitzwillton, we have made significant progress in building Safeway's presence in Northern Ireland. We opened three new superstores at Cookstown, Omagh and Downpatrick. Our conversion programme is nearly complete with one extension opening this summer. We will then have 12 stores, with an average size of 27,000 square feet, seven of them with crèches, five with petrol stations and 10 with integral beer, wine and spirit aisles. We closed stores at Portadown, Londonderry, Armagh, and at Lisburn this April, which were not trading well.

We beat our target of sourcing products worth £200 million from Irish suppliers nine months ahead of schedule. In addition, we opened a distribution depot at Larne and a regional office in Dundonald.



Easi-Order

With IBM, we have developed Easi-Order, a palm-sized organiser through which you can order your groceries from anywhere



The Board of Safeway Stores plc

Day to day operational management is conducted through the Safeway Stores Board

Colin Smith, Chief Executive
(Age 52; 20 years' service)

Simon Laffin, Finance
(Age 39; 9 years' service)

Roger Partington, Customer Development
(Age 43; 5 years' service)

Gordon Wotherspoon, Property and Development
(Age 51; 29 years' service)

John Kinch, Company Secretary
(Age 55; 27 years' service)

Lawrence Christensen, Logistics
(Age 55; 25 years' service)

Ian Fraser, Trading
(Age 42; 10 years' service)

Roger Ramsden, Brand Marketing
(Age 39; 4 years' service)

Richard Williams, Supply Chain Strategy and Human Resources
(Age 42; 8 years' service)

Mike Winch, Information Technology
(Age 54; 15 years' service)

New Technology by Mike Winch, IT Director



For the past two years we have been trialling our 'Collect and Go' home ordering service in our Basingstoke store and learning a great deal about it in the process.

Shortly before Christmas, in partnership with IBM, we launched the world's first personalised remote shopping service which allows customers to use a hand-held device to order their groceries from wherever they are! This device is a palm-sized electronic organiser called 'Easi-Order'. Customers select their weekly groceries from individually tailored, computerised shopping lists compiled from their own usual weekly shopping purchases. It also doubles as a fully-functioning personal organiser.

Customers at Basingstoke are now testing this technology. Linked to our ABC database, the electronic organiser gives customers personalised suggestions and promotions based on their previous orders, as well as information on new products, special offers and recipes. Whether at home, at work or on the move, customers can select their choice of groceries, and choose what day and time they want to pick up their shopping. They then plug the device straight into a telephone line. The order is sent to Safeway's Collect and Go computer. The goods are then collated in store and packed ready for collection.

This initiative effectively bridges the gap between our self-scanning system, Shop and Go (now in 166 stores) and our Collect and Go home ordering service. We can now deliver an intelligent, portable shopping service uniquely designed for each individual customer's needs. What's more, you don't need a PC – it's faster and easier than the Internet!





More than just a store

Plymstock Safeway has many facilities all under one roof – a crèche, fresh meat and fish counters, film processing and a coffee shop

Safeway New Store Openings 1999

	Opening date	Sales area (sq ft)
Bideford	June	28,700
Cookstown (N. Ireland)	August	28,700
Towcester	August	18,000
Alloa	September	26,800
Plymstock	September	28,200
Denbigh	October	18,000
Lutterworth	October	18,000
Cramlington	November	29,800
Omagh (N. Ireland)	November	28,000
Annan	November	12,000
Chester	December	30,000
Chapel-en-le-Frith	December	18,300
Arbroath	February	26,800
Longridge	February	12,000
Hedon	February	15,000
Newton-le-Willows	March	18,000
Downpatrick (N. Ireland)	March	26,500
Total: 17 stores		382,800
Average size		22,500

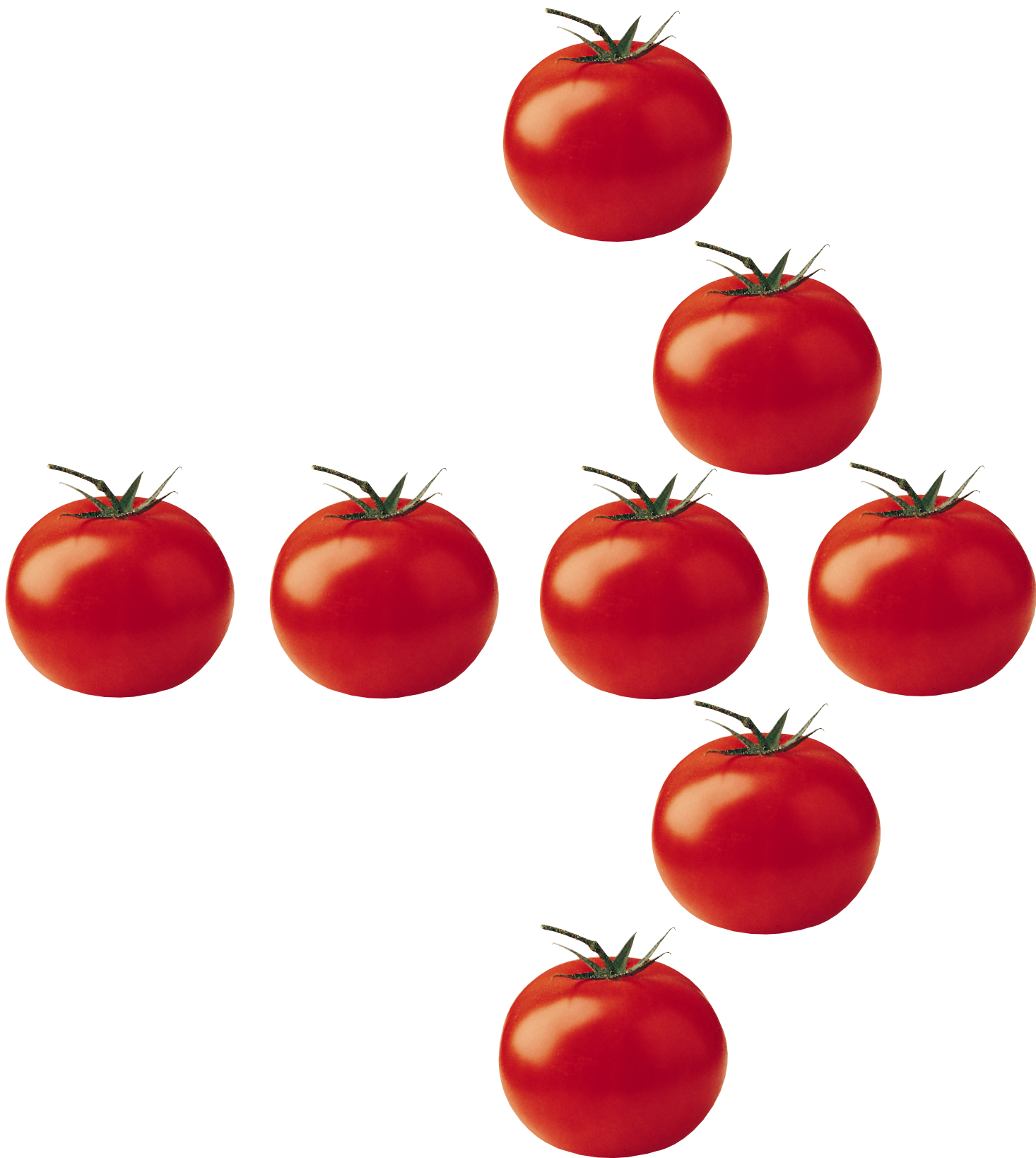
Planned Safeway New Store Openings 2000

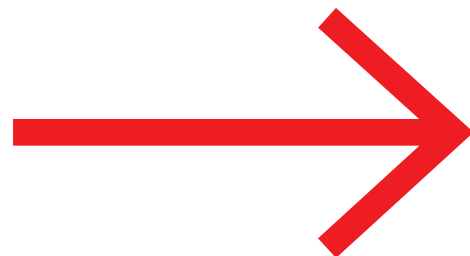
	Sales area (sq ft)
Stone	22,800
Welshpool	15,300
Ryton	14,000
Dinnington	18,000
Meltham	15,000
Stratford	28,200
Barnard Castle	15,000
Brecon	18,000
Inverness	37,400
Greenock	28,700
Bath	25,000
Edinburgh (Moredun)	28,700
Total: 12 stores	266,100
Average size	22,200

when where how?



We have an ongoing campaign to guarantee that our products are always available. The Fill that Gap! initiative extends from our staff on the shop floor to our suppliers, many of whom access our supply chain databases via the Internet





chainofevents

Better communication with suppliers, extra investment and more supply chain information have improved daily availability levels

In the six weeks running up to Christmas 1998, independent surveys showed our product availability to be as good as that of the market leader and significantly ahead of other competitors. This really helped our sales over Christmas and cut our wastage bill significantly over the previous year.

Managing availability

How have we achieved this success in an area which, in the past, has proved to be a problem for Safeway?

– Over the past year we have been creating a new emphasis on the need for great product availability. ‘Fill that Gap!’ was launched as an internal Safeway campaign in 1997 to increase everyone’s awareness of the importance of product availability. Since then it has focused the entire business on a common performance yardstick, which

is both tougher than that traditionally used in our industry and more sophisticated because it’s based on what customers see on shelves. It detects gaps in availability during the trading day but also exposes quality issues because it tells us when customers are not buying popular lines. Store Managers get a clear understanding of their store’s performance and are able to improve it. There’s been a substantial improvement in hour by hour availability, which is now running consistently at 96%.

– We’ve improved our supply chain systems so that in the event of a technical problem, our back-up arrangements prevent serious disruption. We now have much better information about what’s going on in any part of our supply chain. We’ve also greatly improved our ability to

manage the peak seasonal trading times.

– Store Managers now feel much more responsible for availability. We have reviewed our replenishment and stock management methods in store. As a result, we’ve developed a replenishment programme for all our stores which we launched in 1998 and which will be in every store by September of this year.

– Finally, we have integrated our supply chain operations more closely with those of our suppliers. For example, we have developed a Supplier Information System (SIS) which gives our suppliers a direct window into our supply chain via internet technology. They can view sales, order and sales forecasts and Safeway depot and store stocks and, therefore, plan their own production and stockholding better. Around 300 suppliers are now using SIS.

The Meat supply chain



Supply chain by **Richard Williams,** Supply Chain Strategy Director



These improvements represent a real advance in our performance, but we are aiming to go one better this year by achieving a further increase in average daily availability levels to at least 97%. We will do this by completing the roll-out of the store replenishment programme, achieving wider usage of SIS by our suppliers, reducing costs by improving our effectiveness and developing a real time stock file for our stores. Moving to a real time system, in which all sales, deliveries and stock transactions will be processed as soon as they actually happen, is part of a longer-term strategy which will ultimately produce our next big improvement in product availability. This in turn will reinforce our strategy of making Sainsbury's more distinctive by further improving our customers' trust in our product availability and their appreciation of our service.

Keeping the market moving

A lot of nonsense has been written over the past few months about the alleged refusal of supermarkets to 'pass on' the dramatic reductions in the market values of pigs and sheep to their customers in the form of lower prices.

So let's get a few facts straight:

We, like our competitors, don't buy our supplies of pork and lamb direct from farmers. For several years now, we have bought all our pork and lamb from selected processors under our Farm Assured scheme. Meat processing companies buy livestock on the open market from farmers and from that point onwards manage the entire process until they sell the finished, packaged product to us and deliver it to our depots. The price we charge our customers is driven by what we have to pay those processors who supply us and by competition from other supermarkets.

We therefore need to understand what has been happening to the processors' business. Over the last three years, renewed concerns about safety have encouraged customers to trade up to the better quality cuts of lamb and pork. As a result, only 22-30% of the carcass of an animal sold on the open market actually finds its way, packaged and ready to cook, to shoppers. The rest has to be disposed of by the processor.

Until approximately two years ago, processors could normally find overseas markets for the bulk of the carcass in Russia, Eastern Europe and the Far East. But since these markets collapsed, the processors have had to pay to dispose of a lot of unwanted lower grade meat. To cover this additional cost, they have had to charge more for the better quality cuts. As a result, the decline in livestock prices has not found its way through to the final consumer. Retail prices have fallen significantly, however, because supermarkets still promote fresh meat and often sell it at little or no profit in order to keep the market moving. This is in addition to everything we have done as part of Category Management to upgrade our fresh meat offer and increase our sales. We want to see a growing market for meat in the UK which will support farmers, processors and retailers alike and deliver good value to our customers. Virtually all the fresh meat we sell is reared, slaughtered and processed in the UK and we will continue to support British producers to the hilt as long as they continue to meet our quality and safety standards.

Logistics by **Lawrence Christensen,** **Logistics Director**



Logistics is in some respects one of the least visible parts of Safeway. While Safeway lorries are a familiar sight on our roads, they are only one element in our logistics operation. This covers the entire supply chain and its efficiency is critical to the success of our business.

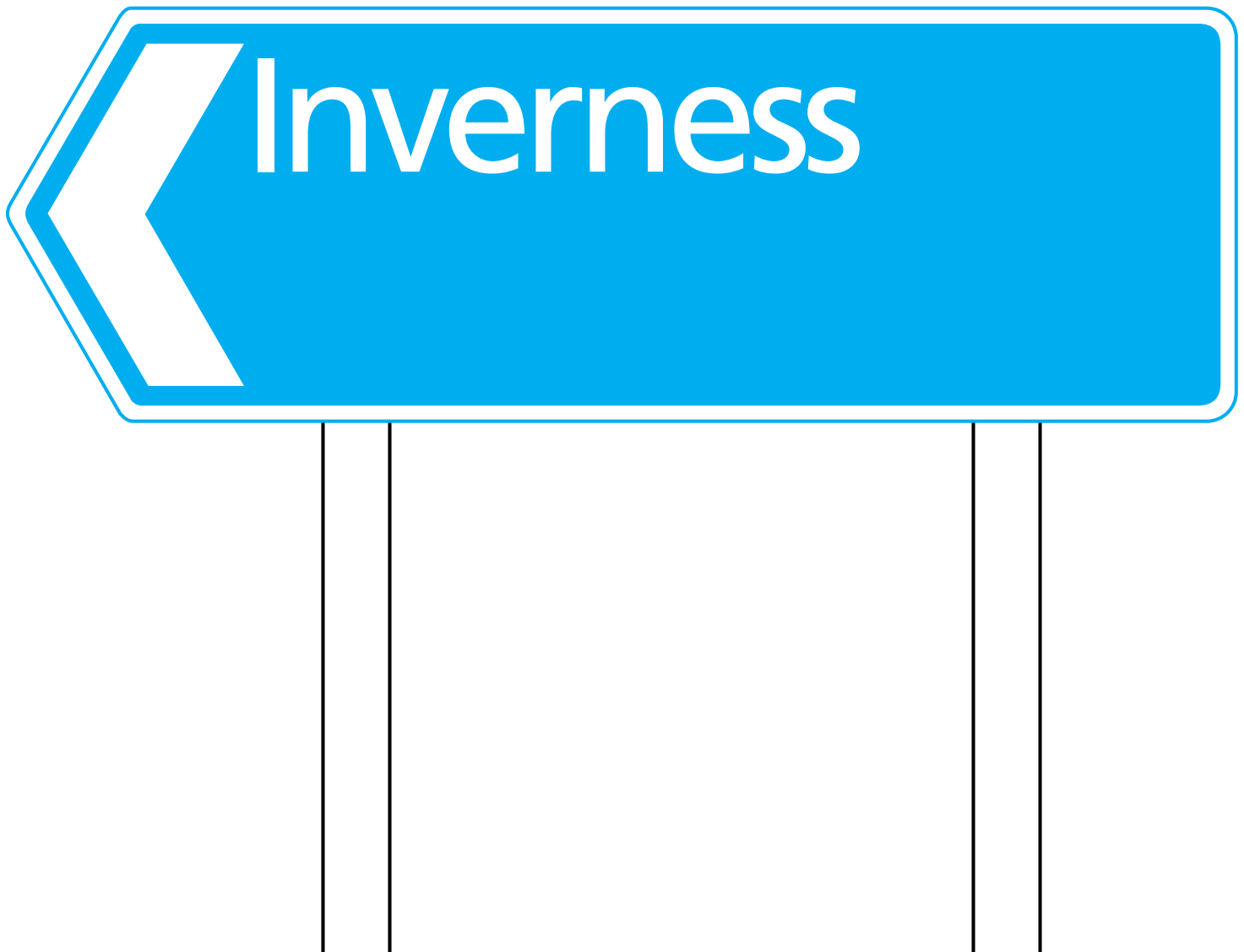
Supply Chain Operations

Supply Chain Operations, which employs 200 people at our head office, forms the nerve centre of our supply chain and is responsible for the flow of products from our suppliers to our stores. In this sense it represents the 'software' of our logistics system. Distribution forms the 'hardware' – its job is to deliver products from our regional distribution centres to our stores. Our 600 strong transport fleet delivers a total of 9 million cases every week to our stores, representing around 17,000 orders from 2,000 suppliers. This represents a total annual distance travelled of around 100 million kilometres.

The cost and environmental impact of our logistics operation makes energy conservation a high priority. Several initiatives have been launched in recent years to cut our transport costs and, equally important, reduce both vehicle emissions and traffic congestion. For example:

– In the early 1990's Safeway pioneered 'backhauling', the shorthand term describing how we use our lorries to carry suppliers' products on their return journey from stores to depots, when they would otherwise be empty. During the year Safeway backhauled around 73 million cases of products, thereby avoiding nearly

Getting the goods on our shelves is not just about loading up lorries our priorities, as is cutting costs, reducing emissions and easing traffic



16 million supplier road kilometres.

– Since 1997 we have been using alternative fuels such as Compressed Natural Gas to deliver to 50 stores in the London and Home Counties area.

– An exciting initiative was the launch, in 1997, of our partnership with EWS (English, Welsh and Scottish Railway) to deliver 2,500 cases of Safeway products by rail everyday between Wakefield in Yorkshire and Gravesend in Kent. This effectively reduced lorry journeys by 130,000 kilometres a year. In November 1998 we extended this trial to begin rail deliveries to five Safeway stores in Scotland. This was made possible by a grant of up to

£0.7 million from the Scottish Office. It will mean that over 9,000 lorry journeys will be taken off the road over the next three years, avoiding some 2.3 million road kilometres and easing congestion on the A9 route from Perth to Inverness. Good news for long-suffering car drivers!

Over the past few years we have reorganised our distribution network to achieve greater efficiency and operational flexibility.

Earlier this year we leased the former Booker distribution centre near the M1 at Northampton. This will enable us to take on more range, increase our capacity to cope with peaks in demand – for example,

the Millennium – and further improve the efficiency of our network.

The main focus of our future investment in Logistics will be to deliver products from our suppliers to our stores in even shorter timescales. This will reduce costs by shortening the time which our products, especially fresh foods, spend in our supply chain and ensure that they are as fresh as possible. The more money we can save by shortening these lead times and continuing to reduce vehicle running costs, the more we can invest in delivering our customer promise and building the distinctiveness of Safeway.

and driving from a to b. Energy conservation is high on the list of congestion



a few of our favourite things...

The Board of Directors tell you why they shop at Safeway for their



"It's tasty, easy to prepare and great with my favourite pasta."

G Wotherspoon



"With a young family at home, tasty, quick meals that everyone enjoys are essential. Our range of fresh pasta and sauces fits the bill perfectly."

R E Partington



"I love food which is seasoned with herbs and Safeway's range is always fresh and sharp – giving a meal more character."

H R Collum*





"Simply beautiful."

D G C Webster



"I love them – as a special treat."

C D Smith
Colin Smith jo



"I am particularly fond of shortbread and these are really buttery."

S T Laffin



must-have-goods and why they wouldn't shop anywhere else



"My favourites are fruit, vegetables and salad ingredients that are always fresh, wholesome and more tempting than elsewhere."

M J Allen*



"They are so succulent. You get three plump sardines to a can – delicious."

Ms J A Burdus*



"A rich, thick foam that gives an excellent shave and is very reasonably priced."

N C Bain*



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

Long-term performance targets set 18 months ago.

Over three years we aimed to:

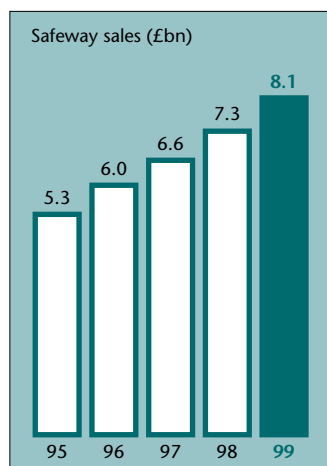
- Generate £1 billion of additional sales in existing stores.*
- Deliver further efficiency savings of at least £60million.*
- Deliver £600million of cash to shareholders by dividend or buy-back.*

The progress so far:

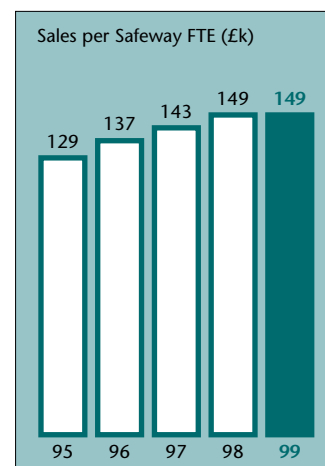
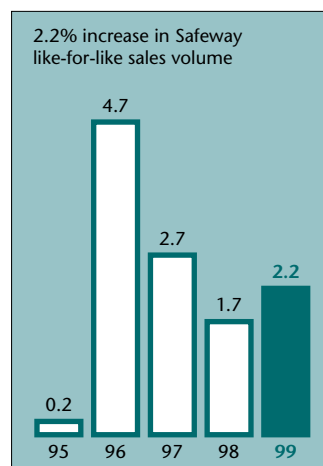
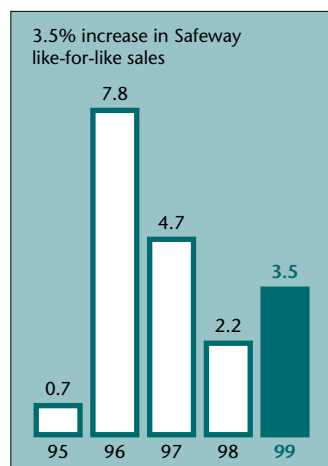
Lower inflation and volume growth across the sector will mean that we'll need an extra year to achieve our £1 billion of sales, but we'll beat the £60 million cost saving and £600 million cash targets!



getting to the



1999 was a 53 week year.



1999 was a 53 week year.

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

Group sales

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

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

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

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

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

Group operating profit

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

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

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

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

Net margin

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

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

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

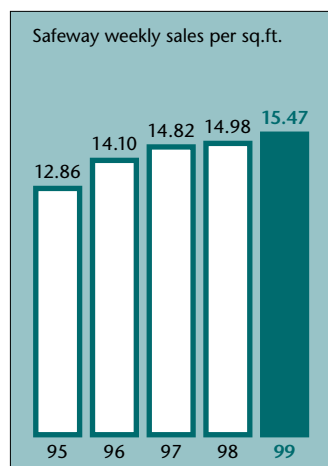
Our ABC 'Triple Points' promotion in the first half, drove strong sales, but cost 0.4% of net margin. Our efficiency gains of £25 million gathered pace during the year, helping net margin by 0.3%. Ireland's performance also improved.

Northern Ireland

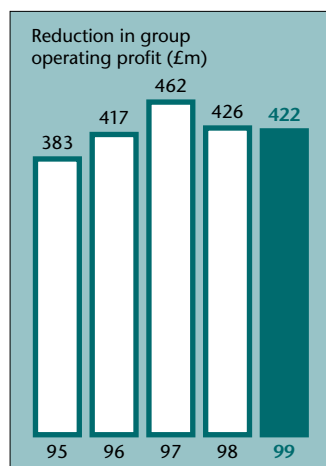
With the recent opening of three new stores, at Cookstown, Omagh and Downpatrick, to complement our now

bottom line

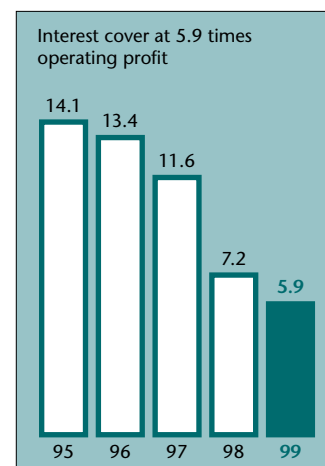
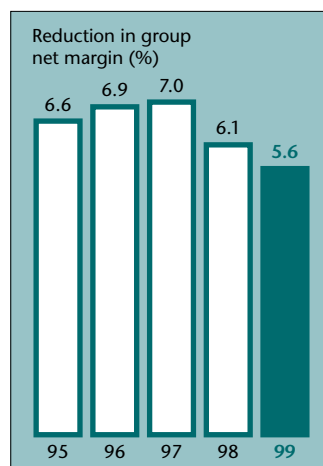
Financial review



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



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



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

Profit before taxation

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

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

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

BP joint venture

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

Interest

On a 53 week basis, the net interest charge increased by £14 million to £65 million. Over 52 weeks, the increase was £13 million to £64 million. The increase reflects the group's average net usage of

cash throughout the year and is despite the reduction in floating interest rates during the year from 7.5% to 7.2%, resulting from the general reduction in UK interest rates mainly during the second half of the year.

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

Property

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

Taxation

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

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

Minority interest

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





17

new stores were opened during the year

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

Earnings and dividends

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

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

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

Dividend

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

Store development

During the year, 17 new Safeway stores were opened, including three in Northern Ireland, with a total sales area of 383,000 square feet. We expect to open 12 new

stores this year and, in future, the new store programme is expected to add around 10 new freehold stores and 250,000 square feet of sales area annually.

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

Return on capital employed

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

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

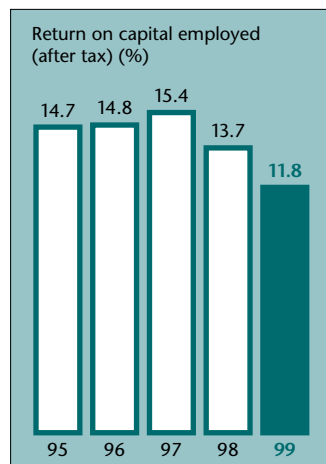
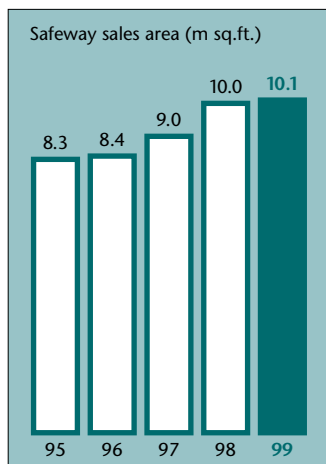
Cash flow

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

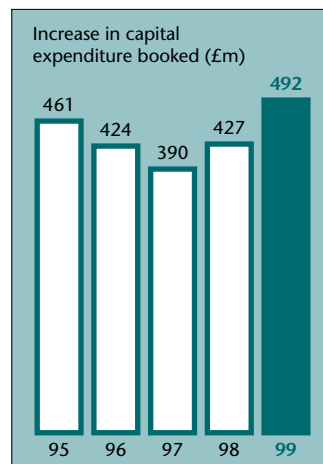
Cash Flow	1999 £m	Change £m
Operating profit	422	12*
Property/depreciation	168	17
Working capital investment	(10)	(52)
Capital spend	(460)	5
Fixed asset disposals	3	(6)
Investment in joint venture with BP	(2)	4
Taxation paid	(93)	(3)
Net interest paid	(68)	(9)
Net investment in own shares	(34)	(9)
Cash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

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





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



Capital expenditure

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

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

Net debt and funding

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

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

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

Treasury policies

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

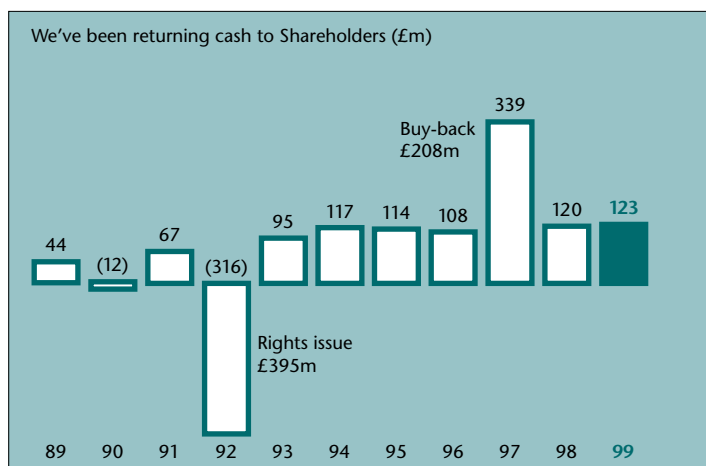
The main controls are (i) regular reports to the Board, (ii) periodic reviews by our internal Business Controls department and our external auditors, (iii) approved investment limits and financial instruments, after taking into account Moody's or Standard and Poors' credit ratings and (iv) dealing mandates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

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

Year 2000

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





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

Shareholder returns

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

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

Accounting standards

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

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

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

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

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

The future

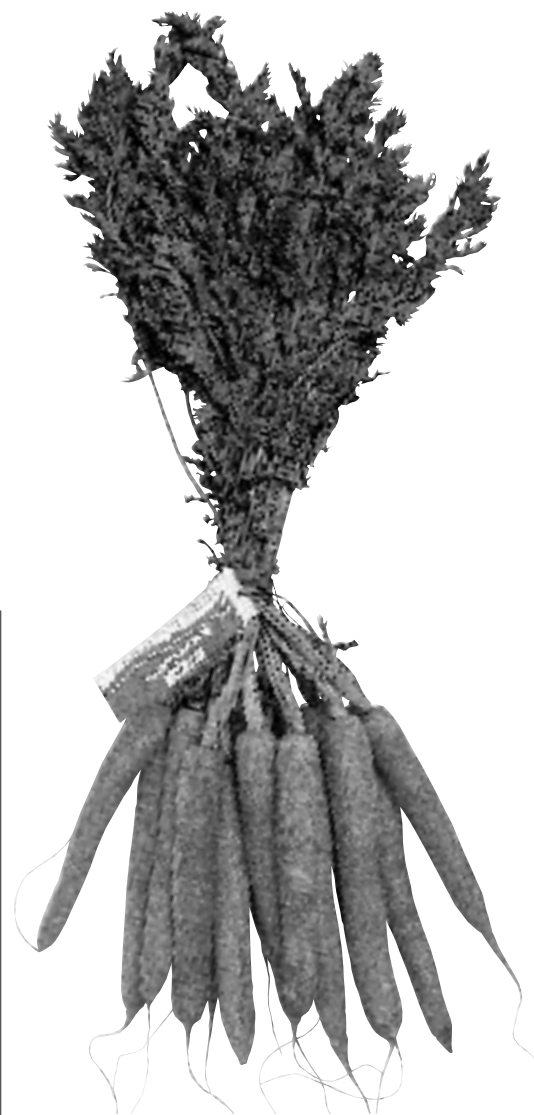
The group is committed to enhancing shareholder value. We only invest where

the return is expected to be higher than our cost of capital.

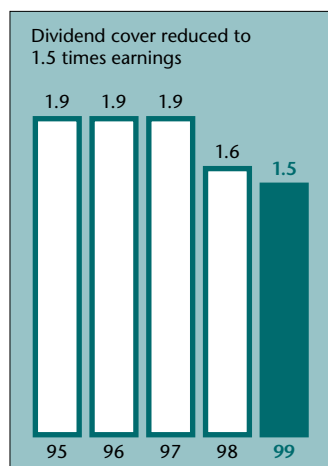
On 12 May 1999 we announced that we would start a share repurchase programme up to our authority of buying 10% of our issued shares. Our dividend yield (dividend payable as a percentage of a share's market value) is 5.6%. However, our current cost of debt is some 6.7% before tax and 4.7% after tax. So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

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

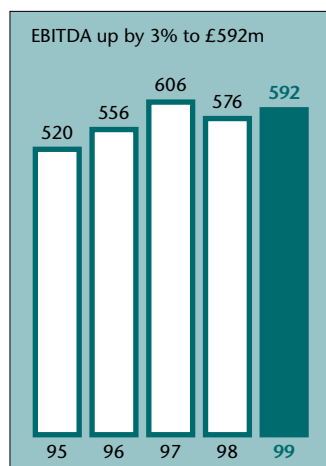
We will continue actively to manage our capital structure (ie. the mix between debt, property and equity funding) as we believe this plays an important role in reducing our cost of capital and so delivering value to our shareholders.



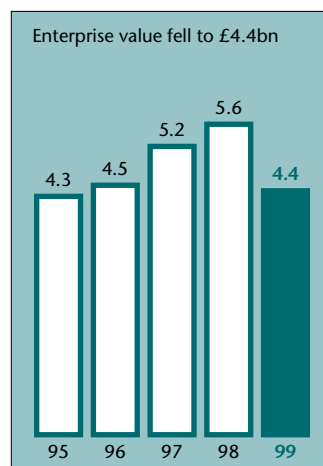
Financial review



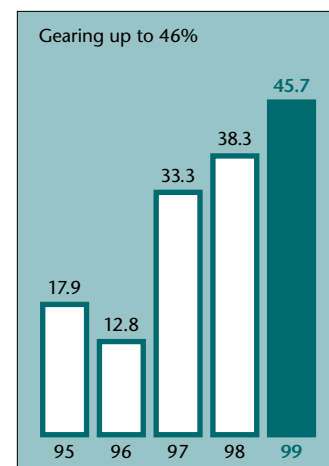
Dividend cover (times): Profit for the financial year (before exceptionals) divided by dividends payable.



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



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



Gearing: Net debt divided by total capital employed.

Other financial ratios

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

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



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

www.safeway.co.uk



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		Company	
		1999 £m	1998 £m	1999 £m	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 6¹/₈% 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.

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.



11.1 Group

	Land and buildings		Plant, equipment and vehicles		Total
	Freehold £m	Long leasehold £m	Short leasehold £m	£m	£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.

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		Last date when options exercisable
		At 3 April 1999	At 28 March 1998	
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.

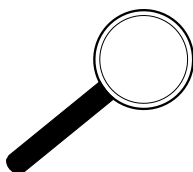
13.0 Stocks

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:

		Group		Company	
	Interest rate %	1999 £m	1998 £m	1999 £m	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	8½	150.0	150.0	150.0	150.0
Sterling Bonds 2002	8½	150.0	150.0	150.0	150.0
Sterling Bonds 2004	7½	150.0	150.0	150.0	150.0
Sterling Bonds 2018	6½	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 8½% 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 6½% 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 8½% 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	1998	1999	1998
	£m	£m	£m	£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	1998	1999	1998
	£m	£m	£m	£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	1998
	£m	£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	At 3 April 1999	Number of shares 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	1998
	£m	£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

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.



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 3½% per annum, that the investment return would be 7½% per annum, that salary increases would average 5½% per annum, that pensions (in excess of the Guaranteed Minimum Pension) would increase at the rate of 3½% per annum and that dividends on United Kingdom equity investments would increase at 3½% 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.

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).

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.



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.

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.

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 |

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.



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.

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.



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).

Report of the directors

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.

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.



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:

- the Company's Total Shareholder Return compared to that of a basket of competitor companies; and
- 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	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.

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.

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:

	Age at year end	Years of service	Directors' contributions in the year (Note 1) £'000	Safeway Pension Scheme			FURB Company contribution including related payment £'000
				Increase in accrued pension during the year (Note 2) £'000	Accumulated total pension at year end (Note 3) £'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:

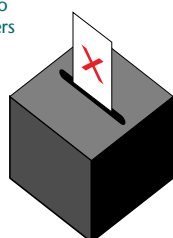
- These are the contributions paid in the year by the directors under the terms of the Safeway Pension Scheme.
- The increase in accrued pension during the year excludes any increase for inflation.
- The pension entitlement shown is that which would be paid annually on retirement at age 60, based on service at 3 April 1999.
- 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.
- 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.

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.



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.

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.

Report of the directors

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	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.



Number of options					
	At 28 March 1998	Granted during the year	Exercised during the year	At 3 April 1999	Exercise price
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.

Number of options					
	At 28 March 1998	Granted during the year	Exercised during the year	At 3 April 1999	Exercise price
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

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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.

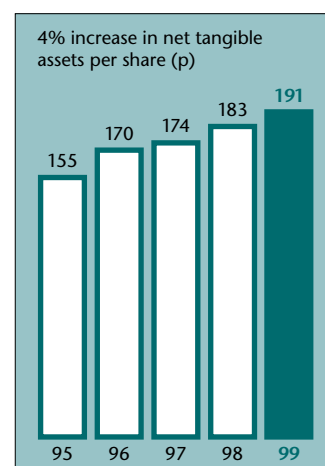
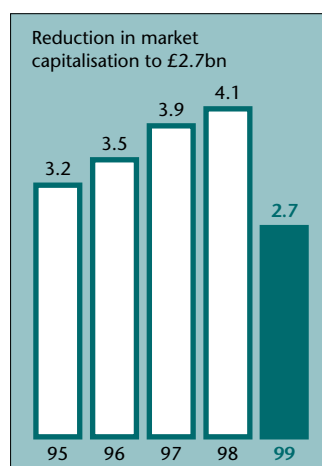
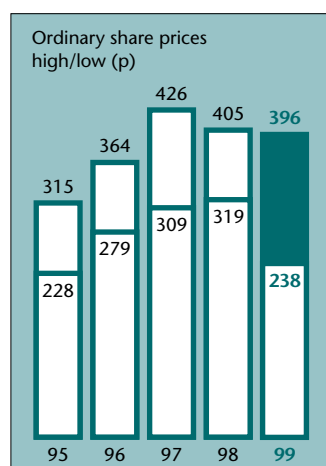
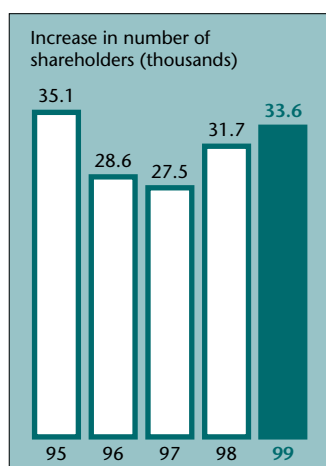
Arthur Andersen

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%
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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

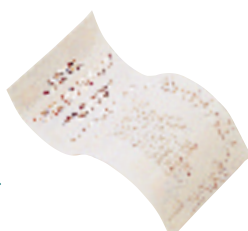
	Year ended 1 April 1995 £m	Year ended 30 March 1996 £m	Year ended 29 March 1997 £m	Year ended 28 March 1998 £m	Year ended 3 April 1999 £m
Sales	6,217.7	6,500.0	7,066.4	7,493.6	8,071.2
Operating profit	382.9	417.5	461.8	409.9	421.8
Share of joint venture operating profit/(loss)	–	–	–	(0.2)	0.2
Net property 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 Sainsbury shareholders in respect of the profits from the five years to 3 April 1999.

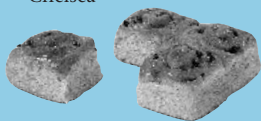
The group has generated sales of over £35 billion in the five years to 3 April 1999 and earned operating profits of £2.1 billion with an average margin (excl. VAT) of 6.4%.



Where to find us

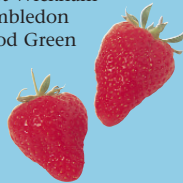
London (within M25)

Acton
Addlestone
Balham
Barbican
Beckenham
Becontree Heath
Bexleyheath
Biggin Hill
Blackfen
Blackheath
Bloomsbury
Bow
Brent Cross
Camberwell Green
Camden
Caterham
Chelsea



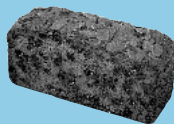
Croydon
Dartford
Ealing
East Sheen
Edgware Road
Enfield
Fulham
Hammersmith
Hatch End
Hersham
Holloway
Hounslow
Kensington
Kilburn
Loughton
Morden
New Malden
North Harrow
Palmers Green
Peckham
Petts Wood
Queensbury
Shepherds Bush
South Norwood

Southwark
Stamford Hill (2)
Streatham
Sutton
Sydenham
Thamesmead
Upper Norwood
Walton on Thames
Wapping
West Wickham
Wimbledon
Wood Green



Scotland

Aberdeen (4)
Airdrie
Alexandria
Alloa
Annan
Arbroath
Ayr
Banchory
Bathgate
Bellshill
Brechin
Bridge of Weir
Broughty Ferry
Buckie
Carlisle
Cumnock
Dumbarton
Dumfries
Dundee



Dunfermline
Dunoon
East Kilbride (2)
Elgin
Ellon
Erskine
Fort William
Fraserburgh
Girvan
Glenrothes
Hamilton
Hawick
Inverness (2)
Inverurie
Irvine
Johnstone
Kelso
Kilbirnie
Kilmarnock
Kilsyth
Kilwinning
Kinross



Kirkcudbright
Kirkwall
Largs
Lerwick
Livingston (2)
Lockerbie
Maybole
Nairn
Newton Stewart
North Berwick
Paisley (2)
Peebles
Penicuik
Perth
Peterhead
Port Glasgow
Portree
Prestonpans
Prestwick
Renfrew
Rothsay
St. Andrews
St. Leonards
Saltcoats
Selkirk
Stevenston
Stewartfield
Stewarton
Stirling
Stornaway
Stranraer
Thurso
Troon
Turiff
Uddingston
Ullapool
Whitburn
Wick
Wishaw



Edinburgh

Comely Bank
Davidsons Main
East Craigs
Ferry Road
Gyle
Hunters Tryst
Morningside
Portobello Road
St. James Centre
Westerhailes

Glasgow

Anniesland
Baillieston
Bishopbriggs
Burnside
Byres Road
Cambuslang
Clydebank
Crossmyloof
Giffnock
Knightswood
Muirend
Newlands
Paisley Road West
Partick
Rutherglen
Springburn

Wales

Abergavenny
Aberystwyth
Bangor
Barry
Caernarfon
Caerphilly



Cardiff
Carmarthen
Colwyn Bay
Denbigh
Haverfordwest
Neath
Newtown

Isle of Man
Douglas
Ramsey

Guernsey
St. Peter Port

Jersey
St. Helier

Gibraltar
Westside

Northern Ireland

Ballyclare
Belfast (2)
Coleraine
Cookstown
Downpatrick
Dundonald
Enniskillen
Kilkeel
Newtownards
Omagh
Strabane

England

Abbeydale
Acocks Green
Acomb
Aldridge
Alnwick
Andover
Armthorpe
Ashington
Aylesbury
Barnard Castle
Basingstoke
Bearwood
Beccles
Bedlington
Belper
Berwick
Beverley (2)
Bideford
Bingley
Birtley
Bitterne
Blandford
Blyth
Bodmin
Bognor Regis
Bolton
Borrowash
Bracknell
Bredbury
Bridgwater
Bridlington (2)
Bridport
Brigg
Brighton
Bristol
Bromsgrove
Brough
Bude
Burntwood
Burton upon Trent
Buxton
Cannock
Canterbury (2)
Canvey Island
Castle Bromwich
Chafford Hundred
Chandlers Ford

Chapel-en-le-Frith
Chester
Chesterfield
Chippenham
Chorlton cum Hardy
Clacton (2)
Clevedon
Cockerton
Congleton
Consett
Corby
Cottingham
Coulby Newham
Coventry (2)
Cowgate
Cramlington
Crewe
Cromer



Crowborough
Darlington (2)
Devizes
Dewsbury
Diss
Droitwich
Durham
Eastbourne
East Grinstead
Eastleigh
Eastwood (Essex)
Eastwood (Notts.)
Ellesmere Port
Evesham
Fakenham
Farnham
Felixstowe
Ferryhill
Filey
Folkestone
Formby
Frome
Gamston
Garforth

Garstang
Glastonbury
Gosport
Grantham
Gravesend
Grimsby
Guisborough
Hadleigh
Hale
Halesowen
Harborne
Harrogate
Harwich
Harwood
Hastings
Haxby
Heaton
Hedon
Hereford
Herne Bay
Hexham
High Wycombe
Hinckley
Hitchin
Horndean
Hucknall
Ilkeston
Ingleby Barwick
Kidderminster
Kings Heath
Kingswinford
Kirkham
Lake (Isle of Wight)
Larkfield
Leeds (5)
Leek
Leicester



Leigh-on-Sea
Leighton Buzzard
Leominster
Lewes
Lichfield

Lincoln
Linthorpe
Liskeard
Littlehampton
Loftus
Longridge
Loughborough
Lowestoft
Lutterworth
Lymington
Lytham St. Annes
Maidstone
Maldon
Malton
Malvern
Mansfield
Market Drayton
Melton Mowbray
Midsomer Norton
Millom
Milton Keynes
Morpeth
Nantwich
Newark
Newcastle-under-Lyme
Newcastle upon Tyne (2)
New Milton
Newport (Isle of Wight)
Newport (Shropshire)
Newquay
Newton-le-Willows
Northallerton
Northampton (2)
Norton
Ormesby
Ormskirk
Otley
Oxted
Paignton
Parkstone
Pendeford
Penrith
Penzance
Peterborough
Peterlee
Pickering
Plymouth
Plymstock

Pocklington
Ponteland
Portsmouth (2)
Reading
Redcar
Redditch
Redruth
Reigate
Ringwood
Ripon
Ross-on-Wye
Rubery
Rugeley
Rushden
St. Albans
St. Helens
Sandbach
Sandhurst
Scarborough
Scunthorpe
Seaford
Sedgley
Selby
Sheffield (3)
Sheldon
Shirley
Shrewsbury
Skegness
Slough
Smethwick
Solihull
Southampton
Southport
South Shields
Southwood
Spalding
Stokesley
Stourbridge
Stratford-upon-Avon
Strood
Sunderland
Swaffham
Swindon
Swinton
Tadcaster
Taunton
Tavistock
Team Valley



Tewkesbury
Thornbury
Thornton Cleveleys



Tiverton
Tadmorden
Totnes
Totton
Towcester
Tunbridge Wells
Up Hatherley
Verwood
Walderslade
Walsall
Warminster
Welwyn
West Bromwich
West Kirby
Weston-Super-Mare
Weymouth
Whickham
Whitby
Whitehaven
Whitehouse Farm
Whitley Bay
Willerby
Wilmslow
Wimborne
Wincanton
Witham
Wokingham
Wolverhampton
Workington
Worthing
Yarm
Yate
Yeovil

PRICE PROTECTED

We guarantee if you find a
Price Protected product cheaper,
we'll give you an extra one free*.

YOUR GUARANTEE OF THE BEST PRICES.

SAFeway

Lightening the load