Annual Report & Accounts 2003

Safeway plc

Contents

David Webster Chairman

Our results

Last year was one of mixed fortunes. Our first half performance was solid, with profit growth of 4% before tax and exceptional items, achieved in a very competitive marketplace. Our Christmas trading, which represented the emerging success of the second phase of our strategy based on our new formats, improved ranges and increasing customer spend, was encouraging and we looked forward therefore to delivering continued growth and pleasing results for the year as a whole.

However, the announcement in early January of our proposed merger with Morrisons and the subsequent expressions of interest in Safeway from other parties, together with the resulting process of scrutiny by the Office of Fair Trading and now the Competition Commission, created an uncertain environment for our customers, staff and suppliers. We took appropriate management action to limit the effect of these events on our short-term profitability, but our results for the second half and for the year as a whole were affected, despite the continuing support of many of our suppliers who are understandably concerned about the future ownership of the Company. As a result, profit before tax and exceptional items was 6% lower at £335 million. Given the disruptive effect of recent events we are pleased with this outcome. Earnings per share before exceptional items were 22.6 pence and the Board recommends a maintained final dividend for the year of 6.61 pence per share, bringing the full year payment to 9.66 pence, an increase of 1.5% over last year.

Our strategy

Scale is an important determinant of success in food retailing. However, it is not the only driver of improving performance. Safeway does not have the scale, the resources or the brand strength enjoyed by our larger competitors and yet under Carlos' leadership we have over the past three years managed to grow sales by 14% and profit by 37%, without these advantages through our focus on areas in which scale does not play a role: promotions, fresh foods, customer service and product availability.

There are four main sources of scale economies in food retailing: national scale, regional concentration, store size and sales density. First, at national level, market share drives buying power with suppliers as well as efficiencies in marketing, distribution and central costs. The Competition Commission reported in 2000 that branded suppliers charged the market leader prices on average more than 3% lower than Safeway. Since then, with the continued growth in their market share, the gap has almost certainly widened still further, and own brand lines are likely to have an even bigger differential given the greater production efficiencies.

Second, a strong concentration of market share in one or more regions of the UK can also drive substantial scale economies, particularly when reinforced by a homogeneous portfolio of large stores with relatively high sales densities. These factors are some of the reasons why Morrisons, which in national terms is a smaller company than Safeway, achieves one of the highest net margins to sales in the food retailing sector.

Awards won by Safeway
April 2002–2003

National Training Award 2002
for Customer Service

National Training Award 2002
for our Fishmonger Programme

Retail Interior Awards
Plymstock Megastore won
Best Edge of Town/Out of Town Store

Retail Interior Awards
Plymstock Megastore won
Best Food and Supermarket Design of the Year

2002 Meat & Poultry News Industry Awards
Safeway, Meat Retailer of the Year

Bake & Take Awards 2002
The Innovation Award – Safeway Country Bread

2002 Q Awards for:
The Best Unsmoked Prime Gammon Joint with Spiced Honey Glaze

"We will continue to work for an outcome which is in the best interests of our shareholders and other stakeholders."

Store size is also important. The Competition Commission's report recognised significant economies of store size, notably in store wage costs, and these economies arose particularly in stores over 30,000 square feet. For Safeway, with its more heterogeneous portfolio, only 33% is represented by stores of 30,000 square feet or more.

Scale economies at national, regional and store level, together with brand strength, all help in turn to drive sales intensities – that is sales per square foot of selling space. These scale economies can be reinvested in reducing prices, building new stores and improving other aspects of the brand offer. Safeway is a national grocer, with a national grocer's overheads, but our average sales density and turnover are lower than our major competitors and we have limited scope to drive sales by cutting our prices.

Since 1999 we have successfully pursued a strategy aimed at minimising these structural disadvantages. By focusing on price promotions, fresh foods and product innovation, customer service, product availability and new store formats, we have achieved strong rates of sales growth and profit recovery.

Sector consolidation
Morrisons' all share offer for Safeway, announced in January, represented a significant premium to our then share price and led to Sainsbury's, Asda Wal-Mart and Tesco each confirming its interest in making an offer for Safeway. All four companies are now being investigated by the Competition Commission whose report is expected to be submitted to the DTI by 12 August.

We will continue to work for an outcome which is in the best interests of our shareholders and other stakeholders.

The Board
I am pleased to report that last summer we appointed two new non-executive directors to our Board, Sharon Hintze and Peter Smith.

Sharon was with the Mars Corporation for over twenty years, latterly as an executive vice-president and more recently was senior vice-president of Nestlé. She is a non-executive director of HSBC Holdings plc. Peter is a non-executive director of NM Rothschild and Equitable Life and has recently been appointed Chairman of RAC plc. He spent over thirty years with Coopers & Lybrand, which became PricewaterhouseCoopers, where latterly he was UK Senior Partner.

Current trading
We are targeting an overall stable trading performance going forward. Like-for-like sales growth, adjusted for the different timing of Easter this year, was 0.8% in the first six weeks (2.8% growth unadjusted). We expect sales growth to slow during the remainder of the first quarter as we annualise on the second-generation megastore openings and the World Cup and Jubilee events last summer.

David Webster
Chairman

Carlos Criado-Perez Chief Executive

"Last year's results are a tribute to the commitment and skill of our people."

Everything we have achieved over the past four years has been inspired by implementing the four pillars of our strategy – best fresh foods, best promotional deals, best on-shelf product availability and best customer service. Going ahead, we will continue to pursue these goals with the same energy and determination as in the past to achieve and maintain the level of retail excellence we aim to deliver.

Last year's results are a tribute to the commitment and skill of our people, achieved against the extraordinary uncertainty which has surrounded our Company since early January. The common thread running through our results in recent years is innovation. Our strategy to drive sales and profits has focused during the last three years on attracting new and more customers to our stores. Going forward our focus will be on increasing customers' spend. To achieve this we will continue developing and rolling-out new, ground-breaking ideas in store formats, product ranges and in-store promotions – none of which in themselves rely on superior scale to succeed.

Innovation in store formats

We opened four second-generation megastores in May and June 2002, which built on the experience we gained with the prototype store at Plymstock, and created over 800 new jobs. Our megastore concept is, as yet, unequalled in our industry. It brings together our "Fresh to Go" offer, our expanding non-food ranges and our in-store catering in an imaginative and customer-friendly layout. Customers have reacted very positively and, as a result, we have grown both the number of transactions and the value of the average shopping basket in these stores.

We have just launched our first third-generation megastore in Reading, incorporating further refinements. We said at the outset of the megastore programme that we would reduce both the capital and other operational costs of successive generations and we have achieved this goal. The capital cost of the Reading store was around 40% lower than that of previous megastores, and significant reductions have been achieved in staffing costs.

At the other end of the scale, we have developed our convenience format and opened our first two "City" stores, in Glasgow and Edinburgh, during February. Aimed at the busy city consumer, these stores offer a wide variety of fast, fresh foods as well as all the usual essentials. We have also opened seven more convenience stores on BP forecourts since the beginning of last year, taking the total to 58 and creating around 250 new jobs. In developing this store format, we have entirely transformed what used to be a dull, limited and predictable forecourt offer. Initially we offered strong fresh and chilled food ranges in these stores but more recently we have added hot food and drinks to go, a combination which is very attractive to today's convenience-driven customer.

This once again underlines the core characteristic of the evolving Safeway format – the imaginative use of limited space to develop those elements in our offer which are now central to the changing lifestyles of our customers.

New products and ranges

Our own-brand development team continues to transform our ready meal and convenience ranges. They have forged strong partnerships with selected suppliers to develop great quality and

"Our industry-leading own-brand development team continues to transform our ranges."

value-for-money products across all our ranges. The resulting activities include launching new products, reformulating existing ranges, upgrading quality and repackaging – all of which have strengthened customers' perceptions of our own-brand offer as well as delivering success in the market place.

Important additions to our ready meals offer include American, Italian and Traditional ranges, plus the relaunch and extension of our "Eat Smart" healthy eating range. Our convenience offer has also been strengthened by the launch of "Eat Street", aimed at the rapidly growing demand for food on the go.

"Eat Smart" is a particularly innovative response to the demand for healthy food which is both tasty and quick to prepare. Boredom with conventional dieting frequently results in the premature abandonment of healthy eating regimes. By making low calorie, low fat meals attractive and enjoyable, "Eat Smart" aims to encourage people to start and stick to a healthy diet. Since relaunching the range in January, new products have accounted for over 30% of "Eat Smart" sales.

We have also been building our other sub-brands. We re-launched our premium range, "The Best", with the new positioning "Every Step of the Way". This represents new levels of attention to detail through every phase of product development, from procurement of best ingredients through to the best production methods. With over 300 products in the range and a very successful Christmas behind us, in April we added a further 100 products including many new "The Best" ready meals.

Seasonal events are a particularly powerful opportunity to improve customer perceptions and our Hallowe'en and Christmas ranges have been outstandingly successful in this respect. Sales of our chilled own brand ranges, for example, increased by 19% over the Christmas period.

Since the start of the new financial year we have launched a new range of vegetarian ready meals, and completely reformulated many other products. There is no let-up in the pace of innovation.

Non-food range development

In the home and leisure area, we opened 46 in-store entertainment centres, comprising electrical, audio, video and electronic entertainment products, together with CDs, DVDs and videos. These centres, converted mainly from former crèches, have been very successful and, together with our megastore development, have helped increase our electrical sales almost sevenfold and our homeware sales by 35%.

Our success in developing our non-food ranges has been recognised by the British Video Association, which awarded Safeway second place in its "Retail Success of the Year" competition, and also by Excellence in Housewares which conferred its "Excellence in Retail Initiatives" award on Safeway, beating competition from other leading supermarkets and department stores.

Our new Reading megastore includes a completely new range of home and leisure products and a new-style television department.

"Delivering the best customer service is a high priority."

Category development

There are still plenty of opportunities to develop our sales in the ambient grocery categories. For example, during the year we launched an extremely successful project with a major supplier to re-invigorate our soft drinks range. When we started it, Safeway was the weakest performer among the big five retailers in this category. Within a few months this position had been entirely reversed and our soft drinks sales growth was the strongest in our sector. Since then we have completed a similar project with another major supplier in the crisps and snacks category, which we believe will drive significant growth in our market share this year.

Meanwhile, across all ambient categories, we are making our stores easier to shop by reducing duplication in our ranges and supplementing our promotional activities by using mid-aisle "hotspots" and multi-save deals.

Promotional strategy

Three and a half years ago we introduced aggressive, locally-based flyer promotions to the UK market and their success has established Safeway's reputation for great offers. They also achieved their immediate objective, which was to increase the number of customers visiting our stores. Within 18 months of launching our flyers, our customer count had increased by 1.5 million.

While our promotions remain an important reason for many of our customers to shop in Safeway, over the past year, as our store reformatting and product development programmes have gained momentum, the focus of our promotional strategy has shifted towards encouraging customers to spend more when they shop with us, for example by introducing new and better products.

Safeway people

Our people have performed superbly well in driving our strategy forward, and never more so than in the exceptionally challenging circumstances of the past few months.

During the current bid period our priorities are to retain as many of our people as possible, especially those in key positions, and to continue to develop their talents and skills. Our retention strategy is based on three key elements – good leadership, strong financial incentives and effective communication.

During the course of the year, 132 of our managers have participated in our Leadership programme and 174 have attended our Coaching programme. Since January we have refocused our activities on managing change and over 120 colleagues have participated in these courses to date. In the meantime we have continued with our normal skills training for store staff, launching apprenticeship programmes for butchers, fishmongers and florists. Additionally, 210 bakers completed the craft baking NVQ, while over 7,000 of our people have now received craft skills and systems training at one of our three regional training centres.

Delivering the best customer service continues to be a high priority. During the year we extended our Star Service programme to include a new initiative designed to help Safeway become the "friendliest store in town". Our people in stores have been asked to concentrate on "smiling, greeting, helping and thanking" customers every time they have contact with them. High standards are expected and by the end of the year independent monitoring showed that over 90% of our stores were either meeting or close to meeting all of these targets.

"I am extremely proud of everything our people are doing under very difficult circumstances."

During periods of uncertainty, people want and expect more communication from senior management and we quickly responded to this need. In addition to our well-established "Meeting for Everyone" at our head office, video conferenced to 12 sites around the UK, we have made intensive use of focus groups and regular updates through our intranet ("Grapevine"). Senior managers have been actively seeking out concerns and questions from their teams. Our annual "Survey for Everyone" conducted by MORI, has also produced valuable feedback.

Whatever the future holds for Safeway, I am extremely proud of everything our people have done and are doing to deliver our strategy, day to day, under very difficult circumstances. It is a privilege to lead such a team and I am sure that whatever the outcome of the current uncertainty, their skills and experience will be recognised and needed.

Carlos Criado-Perez
Chief Executive

Lawrence Christensen Group Operations Director

"Our on-line CSR report allows readers to drill-down to the very latest information and access the degree of detail they require."

What we describe as CSR is a strategic framework within which we seek to understand and manage the relationship between our business and its various stakeholders. These include our shareholders, customers, colleagues, suppliers, the farming community, the media, special interest groups, devolved governments, local authorities and, of course, the Government itself. All have their own, sometimes conflicting demands which we do our best to meet. We have set targets for ourselves and we measure and record our progress both for the business and our other stakeholders through our CSR report, an up-to-date version of which can be found at www.safeway.co.uk.

The scope of our CSR strategy covers:

- Our behaviour as a business.
- The way we manage our impact on the environment.
- The integrity and safety of the products we sell.
- The working practices of our suppliers.
- The way we manage the people who work for Safeway, including their health and safety.
- Our role in those communities where we trade locally.
- Our relationship with our internal and external stakeholders.

Our CSR strategy is the responsibility of a dedicated Steering Group chaired by Group Operations Director, Lawrence Christensen, and comprises senior representatives from the relevant parts of the business.

Our key activities include:

Target setting and performance indicators

We have broadened the scope of our reporting beyond its customary focus on the environment. We now include issues such as ethical trading, nutrition, employment and training, our community role, engaging our stakeholders and health and safety.

Shareholder engagement

We regularly monitor the CSR-related interests of our stakeholders and act on the findings wherever practicable. These groups include our customers, colleagues, investors and suppliers, together with various regulatory bodies and non-governmental organisations. For example, we are continuing to develop a constructive dialogue with farmers and their representatives. When the OFT Suppliers' Code of Practice came into effect in March 2002, we announced that we would make observance of the Code a requirement for all our suppliers who have direct commercial relations with farmers and growers.

Environmental management

- A total of four regional distribution centres are now ISO14001 accredited, which means that we have systems in place to measure and improve our environmental performance. We will continue to roll this out across the Supply Division.
- By May 2003, 11.5% of our HGV fleet was fuelled by compressed natural gas and these vehicles now operate from our Welwyn, Aylesford and Bellshill depots.
- We are actively engaging with the Carbon Disclosure Project, which represents a group of institutional shareholders. Its purpose is to find out how companies measure and

reduce their usage of global warming gases. We have opened a carbon "trading account" and are seeking ways of increasing our use of renewable energy. During the year we sourced 18 million kWh of renewable energy, on which no climate change levy is payable.

Product sourcing and integrity

- We are continuing to work with suppliers, non-governmental organisations and trade unions to implement the Ethical Trading Initiative base code and, as a result, are starting to improve employees' welfare standards in our supply chains.
- Safeway came third from the top in Compassion in World Farming's 2002 survey of farm animal welfare.
- In August 2002 we announced that all organic beef, pork and lamb sold in our stores would be sourced in the UK.
- No ingredients used in our own brand cosmetic and toiletry products have been tested on animals by our suppliers or their ingredients suppliers since our fixed cut-off date of 1 January 1997. We are working towards accreditation by the Humane Cosmetic Standard.
- We are actively encouraging our customers to adopt healthier diets and we are the leading retailer in support of the Scottish Executive's healthy-eating campaign.
- We have extended our range of local and regional foods and are actively supporting the IGD's programme of workshops to help small suppliers who wish to trade with supermarkets.

Safeway people

Safeway employs approximately 85,000 people in stores, depots and offices across the UK. Through our employment policy we aim to provide fair treatment for all colleagues, invest in their development, protect their well-being and keep them both informed and involved. In 2002/03 we defined 12 employment and training targets to ensure that these aims were achieved. For example:

- We encourage open and honest communication through a range of initiatives. We conduct a 6-monthly survey of our colleagues, "Survey for Everyone", which allows every individual to give feedback on their job, their manager, their location, Safeway as a place to work and their perception of the Company's performance. At local level, teams of colleagues are empowered to take action on anything arising from the survey results. Other initiatives such as focus groups and our intranet facility ("Grapevine") are referred to in the Chief Executive's review. We have established a Colleague Council for the Hayes site, with representatives elected from all Head Office divisions. The meetings have opened up a valuable channel for two-way communication with employees to discuss how we can improve the way in which we work together. Such has been their success that we have already begun to roll this out to other areas of the business.
- Our centralised recruitment centre at Warrington is now fully operational and receives an average of over 11,000 hotline calls per week. We also receive over 800 job applications through our website every week.
- We have enjoyed ongoing success in working with the Investors in People framework, with several divisions achieving recognition and a significant proportion of our store colleagues working towards accreditation.

External performance measures

The work we have done has been recognised by:

- The Dow Jones Sustainability Index.
- The FTSE4Good UK index.
- The Morley Fund Management Sustainability Matrix.
- Business in the Environment's most recent annual index of Corporate Environmental Engagement which placed Safeway in its Premier League. Similarly, Business in the Community's Corporate Responsibility Index placed Safeway in its first quintile.
- Storebrand Investment's assessment of 86 retailers worldwide in 2002, which included Safeway in the top 30% "best in class" of its sample.

We are pleased with these results and will continue to work with all these organisations to develop their performance measures.

1. David Webster
David Webster has been a director of the Company since its formation in 1977 and was appointed Chairman at the end of March 1997. Prior to this, from April 1989 he was Deputy Chairman. He is a non-executive director of InterContinental Hotels Group PLC and a former President of the Institute of Grocery Distribution. Aged 58.

2. Carlos Criado-Perez
Carlos Criado-Perez joined the Company as Chief Operating Officer in August 1999 and became Chief Executive in November of that year. He joined the Dutch-based retailer SHV Makro in 1976 and, after a succession of international roles, became an executive director in 1990. When Makro was sold in 1997, he was appointed Chief Operating Officer of the International Division of Wal-Mart, a post he held until 1999. Aged 51.

3. Simon Laffin
Simon Laffin joined the Company in 1990. He joined the Board as Group Finance Director in May 1996 prior to which he was Chief Financial Officer and Finance Director of Safeway Stores. Following a four month secondment managing the Wokingham store, Simon additionally took on responsibility for Property and Development in January 2001. Aged 43.

4. Lawrence Christensen CBE
Lawrence Christensen has been with the Group since 1974, becoming a director of Safeway Stores in 1987. He was appointed to the Board as Supply Director in November 1999, and in May 2003 as Group Operations Director with responsibility for supply chain, logistics and retail operations. In October 1999 he was awarded the CBE in recognition of his long service to the freight transport and logistics industries. Aged 59.

5. Richard Williams
Richard Williams joined the Company in 1990 and was appointed to the Safeway Stores Board in 1994. In November 1998 he acquired responsibility for Human Resources and in February 2000 for Information Technology. He was appointed to the Board as Group Services Director in November 1999. Aged 46.

6. Jack Sinclair
Jack Sinclair joined the Company in 1990 and has held a number of senior positions within the trading division. In 1999 he was promoted to the Operations Board, becoming Managing Director – Operations in 2001. He was appointed to the Board as Group Trading and Marketing Director in May 2002. He is president of Caravan, the charitable organisation which assists needy retired members of the grocery trade. Aged 42.

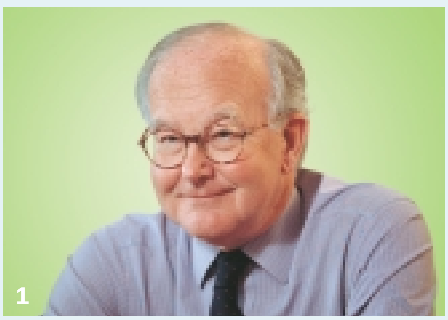
7. Michael Allen
Michael Allen joined the Board as an independent non-executive director in May 1995. He is a former Group Vice-President of the Procter and Gamble Company, a director of Alliance and Leicester plc and also of Fiske plc. Michael is Chairman of the Remuneration Committee and a member of the Board's Audit and Nomination Committees. Aged 65.

8. Hugh Collum
Hugh Collum joined the Board as an independent non-executive director in October 1997. He is Chairman of British Nuclear Fuels plc, a director of Whitehead Mann Group Plc and Deputy Chairman of Celltech Group PLC. He was previously Executive Vice-President and Chief Financial Officer at SmithKline Beecham plc. Hugh is the senior independent non-executive director, Chairman of the Audit Committee and a member of the Board's Remuneration and Nomination Committees. Aged 62.

9. Peter Foy
Peter Foy joined the Board as an independent non-executive director in August 1999. He is Chairman of Whitehead Mann Group Plc, a director of PepsiCo Inc and from 1982 to 1996 was Managing Director of McKinsey & Co in the UK. He is a member of the Board's Audit, Remuneration and Nomination Committees. Aged 62.

10. Sharon Hintze
Sharon Hintze joined the Board as an independent non-executive director in August 2002. She is a non-executive director of HSBC Holdings plc. Previously she was with the Mars Corporation for over 20 years, latterly as an executive vice-president and more recently was senior vice-president of Nestlé. She is a member of the Board's Remuneration and Nomination Committees. Aged 58.

11. Peter Smith
Peter Smith joined the Board as an independent non-executive director in August 2002. He is Chairman of RAC plc and a director of NM Rothschild & Sons Limited and The Equitable Life Assurance Society. Previously he spent over 30 years with Coopers & Lybrand, which became PricewaterhouseCoopers, where he was UK Senior Partner. He is a member of the Board's Audit and Nomination Committees. Aged 56.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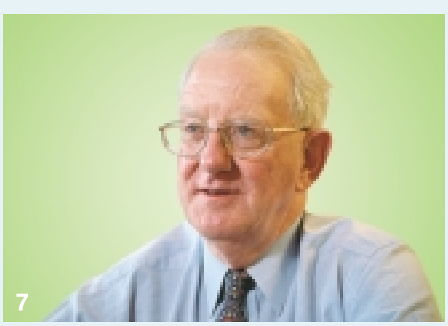
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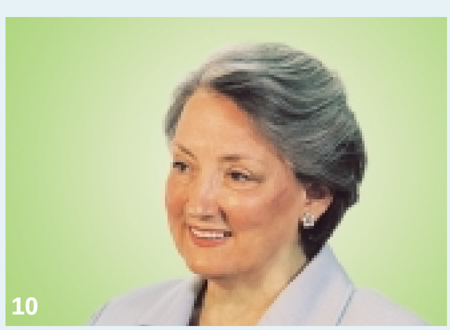
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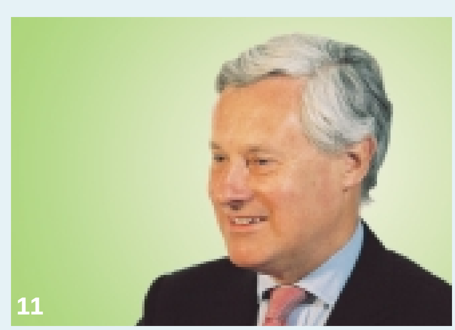
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Simon Laffin Group Finance and Property Director

- £335 million profit before tax and exceptional items, a small reduction from the previous year resulting from the uncertainty of the corporate situation.
- 2% like-for-like sales growth in the first half, and stable second half sales.
- Final dividend per share held, resulting in a full year increase of 1.5%.
- Profit before tax and exceptional items up 37% since the launch of our new commercial strategy in 1999/00.

Our first half performance was solid, with pre-exceptional profit growth of 4%, achieved in a very competitive marketplace. Our Christmas trading, which represented the emerging success of the second phase of our strategy, was encouraging and, given our progress with new formats and ranges, we looked forward then to delivering continued growth and good results for the year as a whole.

Our second half results were affected by the announcement on 9 January of our proposed merger with Morrisons, the subsequent expressions of interest in Safeway from other parties and the resulting process of regulatory scrutiny. These events created a very uncertain environment for our customers, staff and suppliers, but despite such clearly challenging circumstances, our trading performance has been resilient.

My financial review will look at how the year has evolved in a little more detail. As well as pinpointing some of the key factors affecting our results for the year, it will highlight the strength of Safeway's balance sheet, underpinned as it is by a strategically valuable property portfolio with opportunity for further development.

Sales

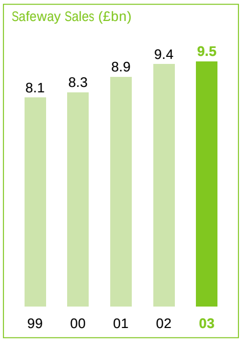
Sales grew by 1.3% in the year to £9,517 million. On a like-for-like basis, adjusting for the different timing of Easter, sales grew by 1.0%. Net new space contributed a further 0.7% of sales growth.

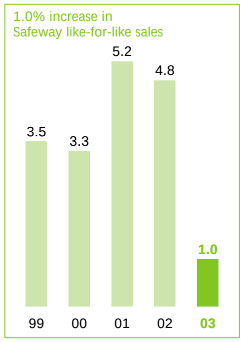
% Growth	1st half	2nd half	Full year
Like-for-like	1.9	–	1.0
Net new space	0.3	1.0	0.7
Timing of Easter	(0.2)	(0.5)	(0.4)
Total	2.0	0.5	1.3

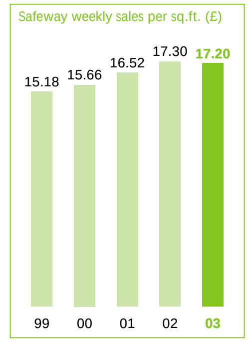
Sales in the first half grew by 2.0% to £5,117 million. On a like-for-like basis, sales grew by 1.9%. Net new space contributed 0.3% of sales growth, which was offset by 0.2% from the absence of an Easter trading period during the first half.

During the first half, the sales benefit from reformatted stores began, for the first time, to exceed the sales lost from stores undergoing transformation. Reformatted stores in their first year of trading delivered, on average, a double-digit sales increase, unless targeted, as a small number were, at new competitor store openings.

As our strategy evolved to target growing basket size rather than more transactions, the number of unprofitable transactions reduced. This caused our sales growth to slow in late October and November. However, helped by particularly strong demand for our seasonal lines and our new non-food lines, sales accelerated strongly in December with like-for-like growth over the four weeks ended 4 January 2003 of 4.2%, representing our best Christmas ever and also our strongest sales performance since we began the second phase of our strategy.







1999 was a 53 week year. Sales include share of Safeway/BP joint venture sales

In the fourth quarter, following the announcement of our proposed merger with Morrisons, we slowed the pace of store reformats and continued to rebalance our promotional investment towards growing average basket size. We were nevertheless able to deliver stable like-for-like sales in difficult circumstances. It is very encouraging to report that this stability has been maintained during the early weeks of the current financial year.

Profit before exceptional items

% Increase/(decrease)	1st half %	2nd half %	Full year %
EBITDA	4	(10)	(3)
Operating profit	4	(13)	(4)
Profit before tax	4	(15)	(6)

As previously mentioned, we delivered solid profit growth in the first half, despite incurring an additional £8 million of transitional revenue costs in reformatting stores, compared with the first half of the previous year. Operating profit increased by 7%, before charging the additional £8 million revenue costs. Including these costs, operating profit rose by 4% to £222 million and EBITDA also by 4% to £325 million.

For the year as a whole, operating profit decreased by 4% to £398 million, and EBITDA by 3% to £601 million. These decreases were largely a consequence of lower second half gross margin, reflecting lower than expected funding levels from some suppliers who were understandably concerned about the future ownership of the business. However the impact was mitigated by management action to limit its effect on our short term profitability. This action included slowing the pace of store reformatting and tight control of costs in all areas of the business.

Change in % sales	1st half %	2nd half %	Full Year %
Gross margin	0.4	(0.9)	(0.2)
Store wages	(0.6)	(0.6)	(0.6)
Effectiveness	0.6	0.6	0.6
Transitional costs	(0.2)	0.4	0.1
Other	(0.1)	(0.2)	(0.2)
Net margin movement	0.1	(0.7)	(0.3)

Having improved by 0.4% of sales in the first half, boosted by our rebalancing of promotional investment, growing fresh mix and new departments introduced as a consequence of the reformatting programme, gross margin fell by 0.9% of sales in the second half as supplier funding was lower than expected. There was an investment of 0.6% of sales in store wage costs consistently through the year as a result of wage inflation exceeding sales inflation, enhanced customer service and new departments added in the format programme. We offset this with significant benefits realised from our effectiveness programme, which continued to yield savings equivalent to 0.6% of sales, on top of the substantial progress achieved in the previous two years. In addition, as we slowed the pace of the store reformat programme in the fourth quarter, the related transitional revenue costs reduced by 0.1% of sales for the year. This, together with an increase in other costs amounting to 0.2% of sales, left net margin for the year down by 0.3% at 4.6%.

Interest payable was £68 million, up by £3 million on the previous year. Profit before tax and exceptional items reduced by 6% to £335 million (last year £355 million). Over the three years since our new commercial strategy was introduced, profit before tax and exceptional items has risen by 37%.

Our trading performance in Northern Ireland was pleasing, with our existing 12 stores growing sales and delivering strong profit growth. With the business now wholly owned by Safeway and with a number of new sites secured, we have a solid platform for future growth.

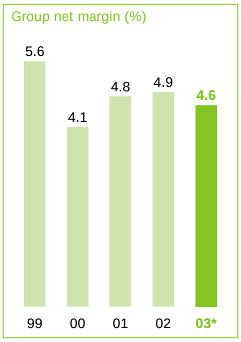
The Safeway/BP convenience store partnership has continued to make excellent progress, achieving total sales of £386 million (of which our share is £193 million) and profit of £11 million (up by 38% on last year's £8 million) of which our share is £5 million.

Exceptional items

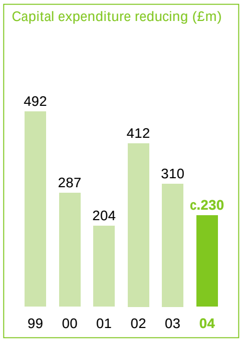
In July last year, Safeway purchased Fitzwilton's 50% share of our joint venture in Northern Ireland. Safeway paid Fitzwilton £14 million for its £10 million nominal value of equity. In addition, Fitzwilton also received £8 million of management fees due over the remaining five years of the original joint venture agreement. These payments, together with the write-off of £23 million, representing Fitzwilton's share of the accumulated losses in the joint venture at 30 March 2002, required a £45 million exceptional impairment charge in the first half. The £23 million was a non-cash item and effectively reversed the accumulated minority interest in the profit and loss account originally credited below profit before tax.

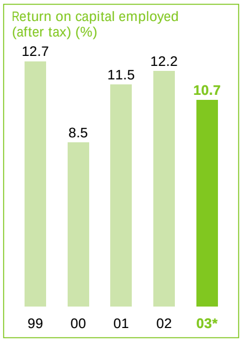
There was also an exceptional charge in the second half of £20 million, which included banking and other advisory fees relating to the current bid situation (£17 million), together with staff retention and other loyalty bonus costs incurred as a consequence (£6 million), offset by property profits (£3 million).

After exceptional items, profit before tax for the year totalled £270 million (last year £355 million).

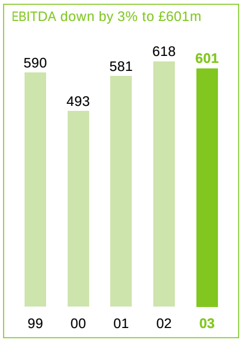


*2003 group net margin is before exceptional items





*ROCE for 2003 is before exceptional items



EBITDA calculated as operating profit (inc. share of BPJV), with depreciation and loss on disposal of fixed assets added back. 2003 EBITDA is before exceptional items.

Taxation, earnings and dividends

We have provided £104 million for corporation tax at a rate of 31% of our profit before exceptional items (2002 – 31%). In addition, tax relief of £1.7 million has been assumed on the allowable elements of the exceptional items.

Earnings per share, before exceptional items, fell by 8% to 22.6 pence (24.5 pence in 2002). Diluted earnings per share (which reflects the impact of outstanding share options) fell by 7% to 22.5 pence on a pre-exceptional basis.

The Board is recommending a maintained final dividend of 6.61 pence per share, bringing the full year payment to 9.66 pence (last year 9.52 pence), up by 1.5%.

Format roll-out

By the end of the first half of the year, we had reformatted stores representing 35% of our sales area. A further 40 stores, representing 9% of our sales area, were finished during the first half, including 27 superstores and the four second-generation megastores at Milton Keynes, Gamston, Anniesland and Rushden, which were successfully opened in May and June.

We completed a further 29 reformats, representing 8% of our sales area, in the second half, although we scaled down the reformat programme significantly in the final quarter.

Number of stores	2002 to date	2003 1st half	2003 2nd half	2003 Full year	2003 Total to date
Megastores	1	4	1	5	6
Superstores	37	27	22	49	86
Supermarkets	66	9	4	13	79
Convenience	17	–	2	2	19
Total	121	40	29	69	190
% Total sales area	26%	9%	8%	17%	43%

The performance of reformatted stores continued to be strong in the second half, with comparable sales in their first year 9% higher and, as a whole, delivering significantly improved profitability in comparison with the rest of the portfolio.

In total the group invested £310 million on capital expenditure last year (£339 million on a cash basis). In the current year, capital expenditure is planned to fall by 26% to £230 million.

Cash flow

We used £188 million of cash during the year as follows:

	2003 £m
Earnings	599
Exceptional items	(42)
Working capital	(155)
Capital spend	(339)
Tax paid	(114)
Interest paid	(76)
Other	8
Cash available to shareholders	(119)
Dividends paid	(98)
Share issues and disposal of own shares held	29
Net cash flow	(188)

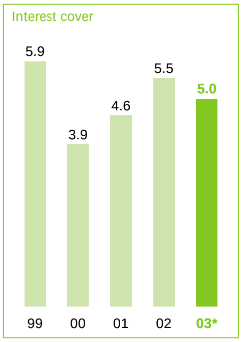
The group generated £599 million of earnings in the year, before exceptional costs of £42 million (the £23 million write-off of the Fitzwilton minority interest was a non-cash item). We used £155 million of working capital in the year due to significant investment in stock (£47 million), as well as £36 million in debtors and £73 million in creditors. The increase in stock was largely due to the timing of Easter and continued forward purchasing of our highly successful non-food ranges. As we become more skilled at retailing non-foods and continue to drive other initiatives to build higher average customer spend levels, we anticipate that stock levels will fall and this has a high degree of management focus. The increase in debtors was due to the late timing of supplier income. The lower creditors were largely due to the timing of Easter, the mix of stock held and VAT payments.

Capital expenditure totalled £339 million on a cash basis. Tax payments amounted to £114 million, interest paid totalled £76 million and dividend payments £98 million. With share issues and other cash inflows (mainly disposal proceeds) totalling £37 million, net debt increased by £188 million during the year.

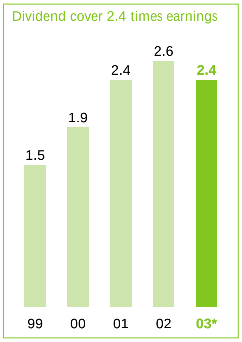
Balance sheet and net debt

Net debt has risen to £1,321 million, representing gearing (net debt divided by share capital and reserves) of 60%. Interest cover (the number of times operating profit is greater than the net interest charge before adjusting for capitalised interest and investment income) fell slightly to 5.0 times this year from 5.5 times last year. Post tax return on capital employed (before exceptional items) fell to 10.7% from 12.2% in the previous year.

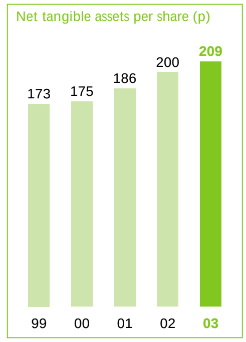
Our balance sheet remains very strong, and we expect this to be reinforced during 2004 as gearing is planned to reduce significantly, principally as a result of lower capital expenditure and improved working capital. As at the end of May 2003 we have 480 Safeway stores, comprising 10.5 million square feet of sales area and representing a strategically valuable portfolio which, given the current planning constraints on new store development, cannot now be replicated. Of this space, 77% is freehold (including ground leased) and 67% is in superstores and megastores of over 22,500 square feet sales area. During the year we opened six new stores, adding, net of two closures, a total of 87,000 square feet sales area and extended eight stores, adding a further 123,000 square feet.



*2003 interest cover is before exceptional items.



*2003 dividend cover is before exceptional items.



Gearing: Net debt divided by total capital employed

We continue to seek planning permission for extensions and now have 27 approvals or resolutions to grant consent for megastores (representing 500,000 square feet of additional sales area) and 34 for other extensions (180,000 square feet). Together these consents provide us with the opportunity to add a further 7% to our total space. We intend to develop up to six of these opportunities in the current year.

An external valuation of 201 stores, principally consisting of the larger stores, together with certain smaller stores which we considered among our most valuable, was commissioned by the Board in October 2002. DTZ Tie Leung, in accordance with the RICS Appraisal and Valuation Manual, undertook in respect of the 201 stores existing use valuations which were assessed by reference to the trading potential of each property. The value reported amounted to £4.5 billion for the 201 stores they examined (representing a total of 5.8 million square feet sales area), which was £1.9 billion above the aggregate net book value of these properties. The valuation report from DTZ summarising these valuations (which have an effective date of 21 November 2002) is included in our announcement dated 24 January 2003. It should be noted that no conclusion can be drawn from the DTZ valuation about the value of our other 279 stores, although our policy is to value stores in the balance sheet at the lower of net book value (these other stores have a net book value of £1.0 billion) and net realisable value. Therefore the existing use valuations performed by DTZ have not been incorporated in the balance sheet.

Our development agreement with London and Regional Properties has generated a number of potential attractive projects. Agreement has now been reached on two major store redevelopments, combining sales area extensions with residential developments, and planning permissions will be sought shortly. A number of similar opportunities are still being evaluated. None of these projects nor any of the planning permissions granted for extensions have been included in the valuations undertaken by DTZ.

New accounting standards

There are no significant changes to the accounts or their format this year. Additional disclosures have been included in the notes to the accounts in order to comply with the second year of transitional arrangements for the implementation of FRS 17, Retirement Benefits.

Pensions

Last year's accounts disclosed a surplus in the Safeway Pension Scheme under FRS 17 of £54 million, representing an FRS 17 funding level of 106%. This represented a net pension asset (after deferred tax) of £38 million. During May 2002, the final salary scheme was closed to new members and a new career average defined benefit section introduced.

Significant further deterioration in the value of equities over the subsequent period has reduced further the value of the Scheme's assets and a fall in real gilt yields has increased the value of its liabilities. On 29 March 2003, there was a deficit in the Scheme on an equivalent FRS 17 basis of approximately £217 million, corresponding to an FRS 17 funding level of 77%. Net of the associated deferred tax credit, the net pension liability was approximately £152 million. In advance of the next formal actuarial valuation of the Scheme, which will take place in early 2004, it was decided to take the following steps to improve the overall funding position of the Scheme:

- From April 2003 the Company increased the contributions it makes into the final salary section of the Scheme, including insurance premiums to the Permanent Health Scheme, from 9% of contribution salary to 15% of contribution salary.
- Members of the final salary section of the Scheme will increase their contribution by 1% of contribution salary, from 5% to 6%, with effect from 22 June 2003.
- If financial market conditions do not improve by April 2004 then member contributions to the final salary section of the Scheme will increase by a further 1% of salary.

It is estimated that the full annual cost to Safeway of the additional company contributions, in the year to March 2004, will be approximately £15 million. The Safeway Scheme remains strongly cash positive with income (ie. company and member contributions) significantly exceeding outgoings (mainly benefit payments and costs of administration).

Current trading

We are targeting an overall stable trading performance going forward. Like-for-like sales growth, adjusted for the different timing of Easter this year, was 0.8% in the first six weeks (2.8% growth unadjusted). We expect sales growth to slow during the remainder of the first quarter as we annualise on the second-generation megastore openings and the World Cup and Jubilee events last summer.

Group profit and loss account Year ended 29 March 2003

	Notes and page numbers	2003 Before exceptional items £m	2003 Exceptional items £m	2003 Total £m	2002 Total £m
Group and share of BP joint venture sales	1 (p21)	**9,516.6**	**–**	**9,516.6**	9,395.6
Less: Value Added Tax		**(709.2)**	**–**	**(709.2)**	(678.4)
Group and share of BP joint venture sales, excluding Value Added Tax	1 (p21)	**8,807.4**	**–**	**8,807.4**	8,717.2
Less: Share of BP joint venture sales, excluding Value Added Tax	1 (p21)	**(168.7)**	**–**	**(168.7)**	(157.2)
Group turnover, excluding Value Added Tax	1 (p21)	**8,638.7**	**–**	**8,638.7**	8,560.0
Cost of sales		**(6,806.4)**	**–**	**(6,806.4)**	(6,731.5)
Gross profit		**1,832.3**	**–**	**1,832.3**	1,828.5
Net operating expenses	2 (p21)	**(1,434.7)**	**(50.6)**	**(1,485.3)**	(1,412.0)
Group operating profit	1 (p21)	**397.6**	**(50.6)**	**347.0**	416.5
Share of operating profit of BP joint venture	3 (p21)	**5.4**	**–**	**5.4**	3.9
Total operating profit: Group and share of BP joint venture		**403.0**	**(50.6)**	**352.4**	420.4
Non-operating exceptional item	1 (p21)	**–**	**(17.0)**	**(17.0)**	–
Net property profits/(losses)	4 (p21)	**–**	**2.7**	**2.7**	(0.4)
Net interest payable and similar charges	5 (p21)	**(67.8)**	**–**	**(67.8)**	(65.2)
Profit on ordinary activities before taxation	6 (p21)	**335.2**	**(64.9)**	**270.3**	354.8
Tax on profit on ordinary activities	8 (p22)	**(103.9)**	**1.7**	**(102.2)**	(110.1)
Profit on ordinary activities after taxation		**231.3**	**(63.2)**	**168.1**	244.7
Equity minority interest		**–**	**–**	**–**	3.5
Profit for the financial year		**231.3**	**(63.2)**	**168.1**	248.2
Dividends paid and proposed	9 (p22)	**(98.6)**	**–**	**(98.6)**	(97.0)
Retained profit for the year		**132.7**	**(63.2)**	**69.5**	151.2
QUEST contribution to share capital	18 (p26)	**(0.3)**	**–**	**(0.3)**	(1.1)
Retained profit, beginning of the year		**1,149.7**	**–**	**1,149.7**	999.6
Retained profit, end of the year		**1,282.1**	**(63.2)**	**1,218.9**	1,149.7

Earnings per share	10 (p22)				
Before exceptional items				**22.6p**	24.5p
Exceptional items				**(6.1p)**	(0.1p)
Earnings per share				**16.5p**	24.4p
Diluted earnings per share				**16.4p**	24.0p

Earnings per share are disclosed before and after the effect of exceptional items. Exceptional items include net property profits and losses.
A summary of profit before taxation, including an analysis of exceptional items, is shown in Note 1.0 on page 21.
These accounts are for the 52 week period to 29 March 2003 compared with the 52 week period to 30 March 2002. All operations of the group continued throughout both periods and no operations were acquired or discontinued.

Group statement of total recognised gains and losses Year ended 29 March 2003

	2003 £m	2002 £m
Profit for the financial year	**168.1**	248.2
Prior year adjustment (see below)	**–**	(216.1)
Total gains since the last annual report	**168.1**	32.1

The adoption of FRS 19, Deferred Tax, in 2002 resulted in a £216.1 million reduction in the 2002 opening group profit and loss account reserves.

Reconciliations of movements in shareholders' funds Year ended 29 March 2003

	Group		Company	
	2003 £m	2002 £m	**2003 £m**	2002 £m
Profit for the financial year	**168.1**	248.2	**77.0**	76.9
Dividends paid and proposed	**(98.6)**	(97.0)	**(98.6)**	(97.0)
Retained profit/(loss) for the year	**69.5**	151.2	**(21.6)**	(20.1)
New share capital subscribed, including premium	**8.1**	9.4	**8.1**	9.4
QUEST contribution to share capital	**(0.3)**	(1.1)	**(0.3)**	(1.1)
Net addition to/(reduction in) shareholders' funds	**77.3**	159.5	**(13.8)**	(11.8)
Equity shareholders' funds, beginning of year	**2,133.7**	1,974.2	**1,704.9**	1,716.7
Equity shareholders' funds, end of year	**2,211.0**	2,133.7	**1,691.1**	1,704.9

Balance sheets at 29 March 2003

	Notes and page numbers	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
Fixed assets					
Tangible fixed assets	11 (p23)	**4,077.8**	3,992.1	**–**	–
Investment in BP joint venture					
Share of gross assets	12 (p23)	**77.8**	62.8	**–**	–
Less: Share of gross liabilities	12 (p23)	**(11.1)**	(10.2)	**–**	–
		66.7	52.6	**–**	–
Other investments	12 (p23)	**74.4**	95.3	**1,853.7**	1,874.6
		4,218.9	4,140.0	**1,853.7**	1,874.6
Current assets					
Stocks	13 (p24)	**426.5**	379.8	**–**	–
Debtors	14 (p24)	**201.5**	164.0	**700.6**	782.1
Money market investments and deposits	15 (p24)	**30.7**	21.9	**–**	–
Cash at bank and in hand	15 (p24)	**139.3**	193.3	**777.1**	383.4
		798.0	759.0	**1,477.7**	1,165.5
Creditors (due within one year)					
Bank overdrafts	15 (p24)	**(32.4)**	(46.1)	**–**	–
Loans	15 (p24)	**(256.3)**	(305.1)	**(253.3)**	(150.0)
Other creditors	16 (p25)	**(1,071.0)**	(1,210.6)	**(202.0)**	(205.2)
		(1,359.7)	(1,561.8)	**(455.3)**	(355.2)
Net current (liabilities)/assets		**(561.7)**	(802.8)	**1,022.4**	810.3
Total assets less current liabilities		**3,657.2**	3,337.2	**2,876.1**	2,684.9
Creditors (due after one year)					
Loans	15 (p24)	**(1,201.9)**	(996.8)	**(1,185.0)**	(980.0)
Provisions for liabilities and charges					
Deferred taxation	17 (p25)	**(244.3)**	(229.8)	**–**	–
Net assets		**2,211.0**	2,110.6	**1,691.1**	1,704.9
Capital and reserves					
Called-up share capital	18 (p26)	**264.4**	263.4	**264.4**	263.4
Share premium account	19 (p26)	**697.1**	690.0	**697.1**	690.0
Capital redemption reserve	20 (p26)	**30.6**	30.6	**30.6**	30.6
Merger reserve	21 (p26)	**–**	–	**572.5**	572.5
Profit and loss account	22 (p26)	**1,218.9**	1,149.7	**126.5**	148.4
Equity shareholders' funds		**2,211.0**	2,133.7	**1,691.1**	1,704.9
Equity minority interest		**–**	(23.1)	**–**	–
Total capital employed		**2,211.0**	2,110.6	**1,691.1**	1,704.9

Approved by the Board of Directors on 21 May 2003 and signed on its behalf by:

D.G.C. Webster, Director
S.T. Laffin, Director

Group cash flow statement Year ended 29 March 2003

	Notes and page numbers	2003 £m	2002 £m
Net cash inflow from operating activities	25 (p27)	**396.2**	591.8
Returns on investments and servicing of finance			
Interest received		**13.2**	9.6
Interest paid		**(87.9)**	(77.3)
Interest element of finance lease rental payments		**(0.8)**	(0.8)
Net cash outflow from returns on investments and servicing of finance		**(75.5)**	(68.5)
Taxation paid		**(113.8)**	(105.5)
Capital expenditure and financial investment			
Payments for tangible fixed assets		**(339.0)**	(359.8)
Proceeds received from disposal of tangible fixed assets		**26.4**	5.5
Decrease in own shares held by the Company	12 (p23)	**20.9**	5.3
Net cash outflow from capital expenditure and financial investment		**(291.7)**	(349.0)
Acquisitions and disposals			
Investment in joint venture		**(8.7)**	(0.5)
Net cash outflow from acquisitions and disposals		**(8.7)**	(0.5)
Equity dividends paid in cash		**(98.5)**	(93.4)
Net cash outflow before management of liquid resources and financing		**(192.0)**	(25.1)
Financing and management of liquid resources			
Proceeds received from issue of share capital		**7.8**	8.3
Net increase in unsecured bonds and loans		**155.3**	105.5
Capital element of finance lease rental payments		**(2.6)**	(2.7)
Net cash inflow from financing		**160.5**	111.1
Increase in money market investments and deposits		**(8.8)**	(21.9)
Net cash inflow from financing and management of liquid resources		**151.7**	89.2
(Decrease)/increase in net cash in the period		**(40.3)**	64.1

A summarised cash flow statement is also shown on page 14.

Reconciliation of net cash flow to movement in net debt Year ended 29 March 2003

	2003 £m	2002 £m
(Decrease)/increase in net cash in the period	**(40.3)**	64.1
Net cash outflow from increase in money market investments and deposits	**8.8**	21.9
New finance leases	**(3.6)**	(5.9)
Cash inflow from net movement in loans	**(152.7)**	(102.8)
Movement in net debt during the year	**(187.8)**	(22.7)
Net debt at beginning of year	**(1,132.8)**	(1,110.1)
Net debt at end of year	**(1,320.6)**	(1,132.8)

Analysis of movement in net debt during the year Year ended 29 March 2003

	At 30 March 2002 £m	Cash Flow £m	Non Cash Changes £m	**At 29 March 2003 £m**
Cash at bank and in hand	193.3	(54.0)	–	**139.3**
Bank overdrafts	(46.1)	13.7	–	**(32.4)**
Net cash	147.2	(40.3)	–	**106.9**
Money market investments and deposits	21.9	8.8	–	**30.7**
Bank and other loans:				
Due within one year	(303.0)	49.7	–	**(253.3)**
Due after one year	(983.7)	(205.0)	–	**(1,188.7)**
Finance leases	(15.2)	2.6	(3.6)	**(16.2)**
	(1,132.8)	(184.2)	(3.6)	**(1,320.6)**

General accounting policies Year ended 29 March 2003

Basis of accounting
The following principal accounting policies have been applied consistently in dealing with items which are considered material in relation to the group's financial statements. The accounts have been prepared under the historical cost convention and in accordance with all applicable United Kingdom accounting standards. They are prepared to the Saturday nearest to 31 March, the Company's accounting reference date. Accordingly, these accounts are for the 52 week period to 29 March 2003 compared with the 52 week period to 30 March 2002.

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 3 April 1999 has been written off against reserves and has not been 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.

After 3 April 1999 goodwill is capitalised and amortised over its useful life. Impairment reviews are undertaken if circumstances indicate that the carrying amount may not be recoverable and the carrying amount written down as appropriate.

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.

Other
In the normal course of business, Safeway receives payments from suppliers in accordance with negotiated trading terms. Such payments are recognised as a deduction against cost of sales to the extent that they are earned, not contingent on future events and not refundable.

All other accounting policies have been incorporated within the relevant notes on pages 21 to 27.

1.0 Sales and profit

Sales represent proceeds from external customers, including the free element of multibuy transactions, and are inclusive of excise duty and VAT.

Cost of sales represent the purchase cost of goods for resale and include the cost of transfer to the point of sale.

1.1 The group's 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 profit on ordinary activities before taxation have been analysed as set out below:

	2003 £m	2002 £m
Group and share of BP joint venture sales, including VAT:		
Group sales	**9,323.3**	9,215.4
Share of BP joint venture sales (50%)	**193.3**	180.2
Total	**9,516.6**	9,395.6
Group and share of BP joint venture sales, excluding VAT:		
Group turnover, excluding VAT	**8,638.7**	8,560.0
Share of BP joint venture sales, excluding VAT (50%)	**168.7**	157.2
Total	**8,807.4**	8,717.2
Group operating profit before exceptional items	**397.6**	416.5
Share of operating profit of BP joint venture	**5.4**	3.9
Net interest payable and similar charges	**(67.8)**	(65.2)
Profit before taxation and exceptional items	**335.2**	355.2
Exceptional items	**(64.9)**	(0.4)
Profit on ordinary activities before taxation	**270.3**	354.8

1.2 Exceptional items comprise:

	2003 £m	2002 £m
Operating exceptional items:		
Acquisition of Fitzwilton shareholding		
–Write down of investment	**(22.0)**	–
–Minority interest write-off	**(23.1)**	–
	(45.1)	–
Staff retention and loyalty bonus payments in connection with bid activity	**(5.5)**	–
	(50.6)	–
Non-operating exceptional items:		
Advisory fees in connection with bid activity	**(17.0)**	–
Net property profits/(losses)	**2.7**	(0.4)
Total exceptional items before tax	**(64.9)**	(0.4)
Tax relief on above	**1.7**	–
Total exceptional items	**(63.2)**	(0.4)

On 5 July 2002 Safeway acquired the 50% share of Safeway Stores (Ireland) Limited which it did not already own. Safeway paid Fitzwilton £13.7 million for its shareholding in Safeway Stores (Ireland) Limited and, under the terms of the joint venture agreement, a further £8.3 million as a termination payment. These payments, together with Safeway writing off the £23.1 million accumulated deficit attributable to Fitzwilton's minority interest in the joint venture as at 30 March 2002, have resulted in a £45.1 million exceptional impairment charge in the profit and loss account and as shown above.

The announcement on 9 January 2003 of Safeway's proposed merger with Morrisons and the subsequent expressions of interest in Safeway from other parties have resulted in a £22.5 million exceptional charge in the second half of the year. This included an operating element consisting of staff retention and loyalty bonus costs specific to the current situation (£5.5 million) and a non-operating element incurred on banking and other professional and advisory fees (£17.0 million). The cash outflow during the year in respect of these items was £2.5 million. These costs were offset by net property profits of £2.7 million during the year.

Tax relief at 30% has been assumed on the allowable items included above.

2.0 Net operating expenses

	2003 £m	2002 £m
Distribution costs	**(1,291.1)**	(1,264.6)
Administrative expenses	**(143.6)**	(147.4)
Operating exceptional items (note 1.2 above)	**(50.6)**	–
	(1,485.3)	(1,412.0)

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

Administrative expenses represent central and field support costs.

3.0 Share of operating profit of BP joint venture

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 12.1).

The total sales of £386.6 million (2002 – £360.4 million) during the year were generated from the 57 sites trading at the end of the year. The group's share of these sales was 50% i.e. £193.3 million (2002 – £180.2 million) (Note 1.1).

During the year, Safeway purchased products on behalf of the partnership totalling £88.0 million (2002 – £81.4 million) and provided distribution services for a fee of £5.1 million (2002 – £4.6 million).

4.0 Net property profits/(losses)

	2003 £m	2002 £m
Profits on property disposals	**3.6**	3.0
Losses on property disposals	**(0.9)**	(3.4)
	2.7	(0.4)

5.0 Net interest payable and similar charges

	2003 £m	2002 £m
Interest payable:		
Short term bank loans and overdrafts repayable within five years	**(14.4)**	(18.1)
Sterling and Euro bonds, net of interest rate swaps	**(68.7)**	(60.7)
Finance charges payable on finance leases	**(0.8)**	(0.6)
	(83.9)	(79.4)
Interest capitalised on freehold and long leasehold developments	**4.1**	3.8
	(79.8)	(75.6)
Interest receivable on money market investments and deposits and other items	**4.0**	3.0
Other	**8.0**	7.4
	(67.8)	(65.2)

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:

	2003 £m	2002 £m
Depreciation of tangible fixed assets	**195.7**	184.2
Hire charges under operating leases:		
Plant and equipment	**31.7**	27.7
Property	**56.1**	55.0
Auditors' remuneration	**0.3**	0.3
Staff costs, including directors' emoluments (Note 7.2 below)	**997.9**	958.8

Other fees paid to the auditors during 2003 amounted to £540,000 (2002 – £55,000). The fees in 2003 related mainly to accounting advice and assistance in connection with Safeway's proposed merger with Morrisons and the subsequent expressions of interest in Safeway from other parties.

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.

7.0 Staff costs and directors' emoluments

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

	2003 Number	2002 Number
Total employed	**89,745**	91,436
Full-time equivalent	**57,417**	57,769

At 29 March 2003, the total number of employees was 85,316 (2002 – 92,240) and the full-time equivalent number was 55,285 (2002 – 57,176).

7.2 Staff costs:

	2003 £m	2002 £m
Wages and salaries	**918.3**	880.4
Social security costs	**56.2**	56.5
Other pension costs	**23.4**	21.9
	997.9	958.8

7.3 The total amounts for directors' remuneration and other benefits were as follows:

	2003 £'000	2002 £'000
Fees	**144**	118
Fixed remuneration	**2,788**	2,320
Annual incentive payments	**393**	540
Gains on exercise of share options	**3**	114
Pension contributions to money purchase scheme	**310**	232
	3,638	3,324

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 Report on directors' remuneration on pages 32 to 39.

For money purchase schemes the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the year.

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.

8.1 Analysis of the charge in the year:

	2003 £m	2002 £m
United Kingdom corporation tax at 30% (2002 – 30%)	**90.5**	106.9
Overseas taxes	**2.0**	2.0
Adjustments in respect of prior years	**(3.1)**	(10.4)
Total current tax (see note 8.2)	**89.4**	98.5
Deferred tax	**13.7**	11.6
Adjustments in respect of prior years	**0.8**	–
Tax on profit on ordinary activities before exceptional items	**103.9**	110.1
Tax relief on exceptional items	**(1.7)**	–
Tax on profit on ordinary activities	**102.2**	110.1

Tax is provided on the profit before tax and exceptional items at an effective rate of 31% (2002 – 31%).

8.2 Reconciliation of the current tax charge:
The current tax charge for the year is lower than the standard rate of tax in the UK of 30% (2002 – 30%). The differences are explained below:

	2003 £m	2002 £m
Profit before taxation and exceptional items	**335.2**	355.2
Tax at standard rate of 30%	**100.6**	106.5
Effect of:		
Expenses not allowable for tax purposes		
Non allowable depreciation	**11.5**	11.7
Other expenses	**0.6**	4.9
Tax losses unrelieved	**–**	1.0
Tax losses utilised, but not previously recognised	**(2.9)**	–
Effect of overseas tax rates	**(3.6)**	(3.6)
Accelerated capital allowances	**(13.7)**	(11.6)
Prior year items	**(3.1)**	(10.4)
Tax charge for the year	**89.4**	98.5

The prior year credit of £3.1 million (2002 – £10.4 million) arose largely from a reassessment of tax provisions no longer required.

8.3 In subsequent years, the group's tax charge may be affected by the movement in the currently unrecognised deferred tax asset in respect of accumulated tax losses in Safeway Stores (Ireland) Limited amounting to £42 million.

9.0 Dividends paid and proposed

	2003 £m	2002 £m
Ordinary shares:		
Interim of 3.05p paid (2002 – 2.91p)	**32.2**	30.6
Final of 6.61p payable (2002 – 6.61p)	**69.9**	69.8
Dividends waived	**(3.5)**	(3.4)
	98.6	97.0

The total dividend for the year amounted to 9.66p per share (2002 – 9.52p).

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 2002 final dividend and the 2003 interim dividend was £363,748 (2002 – £339,383) and the maximum that could be waived in respect of the 2003 final dividend on shares currently held by the Trust is £210,849.

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 2002 final dividend and the 2003 interim dividend was £3,059,591 (2002 – £3,128,034) and the maximum that could be waived in respect of the 2003 final dividend on shares currently held by the Trust is £1,504,638.

10.0 Earnings per share

The calculation of earnings per share is based on the net profit attributable to ordinary shareholders of £168.1 million (2002 – £248.2 million) divided by the weighted average number of ordinary shares in issue during the year, excluding those owned by the Company, totalling 1,021,198,473 (2002 – 1,015,411,924).

In order to gain a clearer understanding of the group's underlying performance, earnings per share statistics are also shown excluding the effect of exceptional items.

As required by FRS 14 – Earnings Per Share, set out below is the calculation behind the disclosure of diluted earnings per share. Earnings continue to be based on net profit attributable to ordinary shareholders with the dilution effect of the exercise of share options granted by the Company being arrived at 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:

	2003	2002
Weighted average exercise price of dilutive share options in the year	**206.46p**	252.83p
Average daily share price in the year	**257.49p**	336.50p
Dilution ratio applied to share options	**19.82%**	24.86%
Weighted average number of dilutive share options (millions)	**6.0**	17.2
Weighted average number of shares in issue in the year (millions)	**1,021.2**	1,015.4
Total number of shares for calculating diluted earnings per share (millions)	**1,027.2**	1,032.6

11.0 Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and any provision for impairment. 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 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, provisions for impairment are made in accordance with FRS 11 – Impairment of Fixed Assets and Goodwill.

No depreciation is provided on assets in the course of construction.

11.1 Group

	Land and buildings			Plant, equipment and vehicles	
	Freehold £m	Long leasehold £m	Short leasehold £m	£m	Total £m
Cost:					
Beginning of year	3,359.7	347.6	233.5	1,404.5	5,345.3
Additions	121.5	7.7	4.4	176.2	309.8
Disposals	(28.5)	–	–	(120.4)	(148.9)
End of year	3,452.7	355.3	237.9	1,460.3	5,506.2
Depreciation:					
Beginning of year	344.4	56.2	78.7	873.9	1,353.2
Charged during the year	50.3	5.2	9.3	130.9	195.7
Disposals	(3.4)	–	–	(117.1)	(120.5)
Reclassification	2.6	(2.4)	(0.7)	0.5	–
End of year	393.9	59.0	87.3	888.2	1,428.4
Net book value:					
Beginning of year	3,015.3	291.4	154.8	530.6	3,992.1
End of year	3,058.8	296.3	150.6	572.1	4,077.8
Assets in course of construction included in cost above:					
Beginning of year	127.4	0.2	0.2	17.7	145.5
End of year	147.8	2.8	–	6.9	157.5

11.1.1 Freehold land included in the total cost above amounts to £1,438.8 million (2002 – £1,416.0 million).

11.1.2 At 29 March 2003, the cost and depreciation values for plant, equipment and vehicles included £421.7 million of fully depreciated fixed assets (2002 – £457.0 million).

11.1.3 At 29 March 2003, the net book value of tangible fixed assets included £16.2 million of leased plant, equipment and vehicles (2002 – £14.8 million).

11.1.4 The depreciation charged in respect of leased plant, equipment and vehicles during the year amounted to £2.2 million (2002 – £2.0 million).

11.1.5 Interest capitalised on freehold and long leasehold developments included in additions during the year amounted to £4.1 million (2002 – £3.8 million). The cumulative amount of interest capitalised in the total cost above amounts to £147.7 million (2002 – £143.6 million).

11.2 Company

The Company has no tangible fixed assets.

12.0 Investments

12.1 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). The investment of £66.7 million (2002 – £52.6 million) reflects the group's share of the cost of developing and fitting out these sites and our share of the profits or losses.

During the year, the increase in the investment of £14.1 million is explained by the group's share of the cost of developing and fitting out sites (£8.7 million) and its share of the profit (£5.4 million – Note 1.1).

At 29 March 2003, the group's share of the gross assets and the gross liabilities of the partnership are considered to be material to the group and are disclosed on the face of the balance sheet. They totalled £77.8 million (2002 – £62.8 million) and £11.1 million (2002 – £10.2 million) respectively.

12.2 Other fixed asset investments comprise:

	Group		Company	
	2003 £m	2002 £m	**2003 £m**	2002 £m
Own shares held by the Company's ESOP	**10.1**	12.3	**10.1**	12.3
Own shares held by the Company's CCPSOP	**64.3**	83.0	**64.3**	83.0
Subsidiaries	**–**	–	**111.0**	111.0
Loans to subsidiaries	**–**	–	**1,668.3**	1,668.3
	74.4	95.3	**1,853.7**	1,874.6

Own shares held by both the Company's ESOP and CCPSOP are included at cost less any provision for impairment.

12.3 Own shares held by the Safeway plc Employee Share Ownership Plan ("ESOP").

An independent Trustee, based in Jersey, holds shares in the Company in respect of the Company's Long Term Incentive Plan arrangements which are disclosed more fully in the Report on directors' remuneration. The annual administrative costs and funding costs of the ESOP 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 29 March 2003, the Trust held 3,244,677 (2002 – 3,958,405) ordinary shares of the Company at an aggregate cost of £10.1 million (2002 – £12.3 million). The market value of shares held by the Trust at 29 March 2003 was £8.4 million (2002 – £11.6 million).

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

CCPSOP awards under the Plan in 1997, 1998 and 1999 were based on the customer service performance at each store, depot or office, 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 the date of grant.

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

		Number of shares		
Date of grant	Subscription price	**At 29 March 2003**	At 30 March 2002	Last date when options exercisable
25.11.1997	333.00p	**3,428,188**	3,816,458	24.5.2004
02.12.1998	296.00p	**7,175,970**	8,573,454	01.6.2005
16.12.1999	205.00p	**3,817,818**	13,649,154	15.6.2006
		14,421,976	26,039,066	

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.

At 29 March 2003, the Trust held 22,902,911 (2002 – 31,700,970) ordinary shares of the Company at an aggregate cost of £64.3 million (2002 – £83.0 million). The market value of the shares held by the Trust at 29 March 2003 was £59.1 million (2002 – £93.1 million).

12.5 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. There was no movement on this account during the year or the preceding year.

Set out below are the Company's principal subsidiaries:

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

Advantage has been taken of the exception conferred by Regulation 7 of The Partnerships and Unlimited Companies (Accounts) Regulations 1993 from the requirement to deliver to the Registrar of Companies and publish the accounts of the BP and Safeway Partnership.

13.0 Stocks

Stocks for the group comprise finished goods for resale and 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.

14.0 Debtors

	Group		Company	
	2003 £m	2002 £m	**2003 £m**	2002 £m
Amounts falling due within one year:				
Trading debtors	**146.8**	105.3	**–**	–
Amounts owed by group undertakings	**–**	–	**691.5**	771.9
Interest receivable	**2.1**	2.3	**–**	0.2
Tangible fixed asset disposals	**4.6**	2.6	**–**	–
Other debtors	**24.7**	32.1	**9.1**	10.0
Prepayments and accrued income	**23.3**	21.7	**–**	–
	201.5	164.0	**700.6**	782.1

15.0 Derivatives and other financial instruments

The numerical disclosures in this note deal with financial assets and financial liabilities as defined in FRS 13 – Derivatives and Other Financial Instruments. As permitted by FRS 13, short term debtors and creditors have been excluded from the disclosures, other than those relating to currency exposures.

A discussion of the group's objectives, policies and strategies with regard to FRS 13 is shown in Note 15.8 below.

15.1 Financial assets:
The group and the Company hold the following investments in financial assets:

	Group		Company	
	2003 £m	2002 £m	**2003 £m**	2002 £m
Money market investments and deposits	**30.7**	21.9	**–**	–
Cash at bank and in hand	**139.3**	193.3	**777.1**	383.4
	170.0	215.2	**777.1**	383.4

In relation to cash balances held by group companies, there is a right of set-off where balances are held with the same bank.

The money market investments and deposits were in short term cash deposits.

Cash at bank and in hand represents cash in transit or amounts held on short term deposit at floating rates.

Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.

15.2 Financial liabilities
The group and the Company's borrowings comprise:

	Interest rate	Group		Company	
		2003 £m	2002 £m	**2003 £m**	2002 £m
Unsecured bank loans and overdrafts:					
2002	Floating	–	199.1	**–**	–
2003	Floating	**105.7**	30.0	**73.3**	30.0
2004	Floating	**30.0**	–	**30.0**	–
2006	Floating	**235.0**	100.0	**235.0**	100.0
		370.7	329.1	**338.3**	130.0
Debenture and other loans:					
Sterling Bonds 2002	Fixed	**–**	150.0	**–**	150.0
Sterling Bonds 2004	Fixed	**150.0**	150.0	**150.0**	150.0
Sterling Bonds 2007	Fixed	**250.0**	–	**250.0**	–
Sterling Bonds 2014	Fixed	**150.0**	150.0	**150.0**	150.0
Sterling Bonds 2017	Fixed	**200.0**	200.0	**200.0**	200.0
Sterling Bonds 2018	Fixed	**200.0**	200.0	**200.0**	200.0
Euro Bonds 2010	Fixed	**150.0**	150.0	**150.0**	150.0
Lease loan capital	Fixed	**16.2**	15.2	**–**	–
Other loan notes	Floating	**3.7**	3.7	**–**	–
		1,119.9	1,018.9	**1,100.0**	1,000.0
Total financial liabilities		**1,490.6**	1,348.0	**1,438.3**	1,130.0
Less: Amount repayable within one year		**(288.7)**	(351.2)	**(253.3)**	(150.0)
		1,201.9	996.8	**1,185.0**	980.0

The figures shown in the table above do not take into account various interest rate swaps used to manage the interest rate profile of financial liabilities. At 29 March 2003 the Company had swapped £150 million of fixed rate debt into floating rate debt based on LIBOR, subject to a minimum of 4% and maturing in 2008. The proceeds of the Euro Bonds (Euro 250 million) were swapped into fixed rate Sterling on receipt in April 2000.

During the year, £200 million of the Sterling bonds 2007, issued in August 2002, was swapped into floating rate debt based on LIBOR.

At 29 March 2003, the weighted average interest rate of fixed rate borrowings, after taking account of interest rate swaps, was 6.7% (2002 – 7.0%). The weighted average period for which these borrowings are fixed is 9.0 years (2002 – 9.8 years).

The floating rate borrowings bear interest at rates based on the London Interbank Offered Rate ("LIBOR").

15.3 Borrowing facilities
The group has the following undrawn committed borrowing facilities available in respect of which all conditions precedent have been met:

	2003 £m	2002 £m
Expiring within one year	**135.0**	97.0
Expiring after two years	**–**	135.0
	135.0	232.0

The group is in the process of negotiating replacement facilities for those which expire within the next twelve months.

15.4 Maturity profile of financial liabilities
Borrowings are repayable as follows:

	Group		Company	
	2003 £m	2002 £m	**2003 £m**	2002 £m
Due within one year:				
Bank	**135.7**	199.1	**103.3**	–
Lease	**3.0**	2.1	**–**	–
Sterling Bonds	**150.0**	150.0	**150.0**	150.0
Due within one to two years:				
Bank	**–**	30.0	**–**	30.0
Lease	**3.1**	2.0	**–**	–
Sterling Bonds	**–**	150.0	**–**	150.0
Due within two to five years:				
Bank	**235.0**	100.0	**235.0**	100.0
Lease	**7.2**	6.5	**–**	–
Sterling Bonds	**250.0**	–	**250.0**	–
Due after five years:				
Lease	**2.9**	4.6	**–**	–
Sterling Bonds	**550.0**	550.0	**550.0**	550.0
Euro Bonds	**150.0**	150.0	**150.0**	150.0
Other	**3.7**	3.7	**–**	–
	1,490.6	1,348.0	**1,438.3**	1,130.0

15.5 Currency analysis of net monetary assets and liabilities
The functional currency of the group is Sterling. The table below shows the group's currency exposures; in other words, those transactional exposures that give rise to the net currency gains and losses recognised in the profit and loss account. Such exposures comprise the monetary assets and liabilities of the group that are not denominated in Sterling.

	2003		2002	
	European currencies £m	**Other currencies £m**	European currencies £m	Other currencies £m
Sterling	**(0.4)**	**0.8**	–	0.8

The amounts shown in the table above are stated after taking into account the effect of forward contracts to purchase foreign currency to manage these currency exposures.

15.6 Fair values

Set out below is a comparison of book values and fair values of the group's financial assets and liabilities at 29 March 2003.

	2003		2002	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Primary financial instruments held or issued to finance the group's operations				
Loans repayable within one year	**288.7**	**291.1**	351.2	353.8
Loans repayable after one year	**1,201.9**	**1,178.0**	996.8	990.7
Derivative financial instruments held to manage the foreign currency and interest rate profile				
Interest rate swaps	**6.0**	**17.3**	0.9	(2.2)
Cross currency interest rate swaps	**4.9**	**27.2**	4.6	2.1

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. The fair values of forward foreign currency contracts equate to their carrying values at year end. The fair values of the financial assets also equate to their carrying values at year end.

15.7 Gains and losses on hedges

The group enters into forward foreign currency contracts to eliminate the currency exposures that arise on purchases denominated in foreign currencies immediately after those purchases are transacted. It also uses interest rate swaps to manage its interest rate profile. Changes in the fair value of instruments used as hedges are not recognised in the financial statements until the hedged position matures or the interest swap is unwound. An analysis of the movement in unrecognised gains and losses is as follows:

	2003			2002		
	Gains £m	**Losses £m**	**Net £m**	Gains £m	Losses £m	Net £m
Unrecognised, beginning of year	**1.0**	**(6.6)**	**(5.6)**	4.3	(3.5)	0.8
Arising in previous years and recognised during the year	**(1.0)**	**–**	**(1.0)**	(0.5)	0.4	(0.1)
Arising during the year and not recognised during the year	**33.6**	**6.6**	**40.2**	(2.8)	(3.5)	(6.3)
Unrecognised, end of year	**33.6**	**–**	**33.6**	1.0	(6.6)	(5.6)
Of which:						
Expected to be recognised within one year	**2.5**	**–**	**2.5**	0.5	(0.9)	(0.4)
Expected to be recognised after more than one year	**31.1**	**–**	**31.1**	0.5	(5.7)	(5.2)

15.8 Treasury Policies

The principal treasury objective is to provide sufficient liquidity to meet operational cash flows whilst maximising shareholder value within a tightly defined and controlled risk management framework. The department does not operate as a profit centre. Financial instruments, including derivatives, are used to manage the main financial risks that arise in the course of our business. These risks are liquidity (funding) risk, interest rate risk, and foreign exchange risk, and are discussed further below.

Over many years the group has established prudent, conservative treasury policies which are reviewed on a regular basis by the Board to ensure that they remain relevant to our business as it evolves. Treasury activity is monitored on an ongoing basis via a process of internal reviews, together with regular reports to the Board. It also operates within approved investment limits and is subject to dealing mandates issued to all financial institutions with which deals are authorised.

(i) Liquidity risk

The group's objective in managing funding risk is to ensure that it can meet its financial obligations as and when they fall due. The group's debt consists primarily of sterling Eurobonds and committed bank facilities. In total we have committed borrowing facilities of over £1.5 billion.

It is our policy to ensure that the maturity of our debt is spread evenly in order to avoid significant refinancing risk. During the year the principal source of new funds was a five-year £250 million Sterling bond issue in August 2002. As detailed in Note 15.4, 19% of the group's financial liabilities will mature in the next twelve months, 33% will mature in more than one year but less than five years, and 48% will mature in more than five years.

(ii) Interest rate risk

It remains the policy of the group to balance evenly fixed and floating rate funding. At the year end, after taking into account interest rate swaps, the proportion of our net borrowings at fixed interest rates was 43%. For this purpose, all fixed rate debt with a maturity of less than one year is regarded as floating. During the year the fixed rate debt proportion ranged from 53% at its highest to 43% at its lowest. It is our policy to use interest rate swaps on occasion to help the group attain its target level of fixed interest debt.

Details of the interest rate profile of our borrowings are provided in Note 15.2.

(iii) Foreign exchange risk

The group's transactional foreign exchange exposures arise primarily from trade purchases denominated in foreign currencies. Such exposures on product purchases are hedged by using forward contracts when the forecast exposure becomes reasonably certain. This policy was followed throughout the year.

16.0 Other creditors

	Group		Company	
	2003 £m	2002 £m	**2003 £m**	2002 £m
Amounts falling due within one year:				
Trade creditors	**613.9**	685.2	**–**	–
Amounts due to group undertakings	**–**	–	**110.9**	110.9
Amounts due to BP joint venture	**6.4**	3.6	**–**	–
Current taxation	**43.9**	70.0	**–**	–
Interest payable	**21.6**	25.4	**21.1**	24.4
Capital expenditure	**83.8**	120.7	**–**	–
Social security and PAYE	**16.7**	17.4	**–**	–
VAT	**10.8**	30.6	**–**	–
Other creditors	**144.5**	122.9	**0.1**	0.1
Accruals and deferred income	**57.7**	64.5	**–**	–
Accrued pension contributions	**1.8**	0.5	**–**	–
Proposed dividends	**69.9**	69.8	**69.9**	69.8
	1,071.0	1,210.6	**202.0**	205.2

17.0 Deferred taxation

In accordance with FRS19, deferred tax is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at rates expected to apply when they crystallise, based on tax laws enacted or substantially enacted at the balance sheet date. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements.

Deferred tax is provided on gains arising from the disposal of fixed assets that have been rolled over into replacement assets only where, at the balance sheet date, there is a commitment to dispose of the replacement asset. Deferred tax is not provided on unremitted earnings of overseas subsidiaries where there is no commitment to remit those earnings.

Deferred tax assets are only recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

17.1 The movement in deferred tax during the year was:

	Group		Company	
	2003 £m	2002 £m	**2003 £m**	2002 £m
Beginning of year	**229.8**	218.2	**–**	–
Charge to profit and loss account	**14.5**	11.6	**–**	–
End of year	**244.3**	229.8	**–**	–

The deferred tax liability above arises wholly in respect of tax allowances in excess of recorded depreciation. No deferred tax asset has been recognised in respect of unrelieved tax losses as there is insufficient certainty that these losses will be utilised within the immediate future.

18.0 Called-up share capital

18.1 Authorised:

	2003 £m	2002 £m
1,500,000,000 ordinary shares of 25p each (2002 – 1,500,000,000)	**375.0**	375.0

18.2 Allotted, called-up and fully-paid:

	Ordinary shares	£m
Beginning of year	1,053,823,902	263.4
Shares issued in respect of options exercised	3,744,377	1.0
End of year	1,057,568,279	264.4

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

Date of grant	Subscription price	Number of shares At 29 March 2003	At 30 March 2002	Last date when options exercisable
Executive Scheme:				
26.11.1992	363.00p	**–**	487,800	25.11.2002
06.12.1993	255.00p	**170,000**	190,000	05.12.2003
13.12.1994	237.00p	**298,500**	326,500	12.12.2004
19.12.1995	308.00p	**1,387,000**	1,488,000	18.12.2005
09.12.1996	375.50p	**1,624,000**	1,822,000	08.12.2006
21.11.1997	318.75p	**1,793,750**	1,958,750	20.11.2007
08.12.1998	283.00p	**1,834,600**	2,097,700	07.12.2008
17.08.1999	233.50p	**321,200**	321,200	16.08.2009
29.11.1999	182.75p	**3,517,150**	5,387,750	28.11.2009
12.06.2000	246.00p	**100,000**	100,000	11.06.2010
04.01.2001	296.00p	**4,870,000**	5,138,900	03.01.2011
22.11.2001	328.50p	**5,966,200**	6,361,700	21.11.2011
10.07.2002	257.25p	**68,000**	–	09.07.2012
22.11.2002	226.00p	**8,529,000**	–	21.11.2012
31.12.2002	213.25p	**22,300**	–	30.12.2012
		30,501,700	25,680,300	
Sharesave:				
15.06.1995	260.00p	**–**	13,264	28.02.2001
29.07.1996	271.00p	**–**	10,585	28.02.2002
26.06.1997	286.00p	**37,644**	1,471,381	28.02.2003
25.06.1998	307.00p	**1,043,344**	1,166,176	29.02.2004
23.06.1999	204.00p	**2,532,780**	5,525,959	28.02.2005
28.06.2000	197.00p	**5,790,707**	6,951,809	28.02.2006
27.06.2001	296.00p	**4,666,956**	6,583,490	28.02.2007
26.06.2002	222.00p	**7,800,024**	–	29.02.2008
		52,373,155	47,402,964	

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 3,954,870 ordinary shares granted under the Executive Scheme lapsed.

The Executive Scheme options granted on or prior to 29 November 1999 are all available for exercise as all relevant performance criteria have been met.

The Executive Scheme options granted since 29 November 1999 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.

During the year the Group had a Qualifying Share Ownership Trust (QUEST) for the purposes of the Safeway Sharesave Scheme. During the year, contributions of £3.9 million were made to the QUEST, reducing reserves of the group and of the Company by £0.3 million as outlined in Note 22.1.

19.0 Share premium account

	2003 £m	2002 £m
Beginning of year	**690.0**	681.3
Shares issued in respect of options exercised	**6.8**	7.6
QUEST contribution to share capital	**0.3**	1.1
End of year	**697.1**	690.0

20.0 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. During May and June 1999, a further 62.4 million ordinary shares with a nominal value of £15.6 million were repurchased and subsequently cancelled by the Company. In each case, 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.

21.0 Merger 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 merger reserve.

22.0 Profit and loss account

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

22.1 The movement on the profit and loss account reserves of the group and of the Company comprises:

	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
Beginning of year	**1,149.7**	999.6	**148.4**	169.6
Profit for the financial year	**168.1**	248.2	**77.0**	76.9
Dividends paid and proposed	**(98.6)**	(97.0)	**(98.6)**	(97.0)
QUEST contribution to share capital	**(0.3)**	(1.1)	**(0.3)**	(1.1)
End of year	**1,218.9**	1,149.7	**126.5**	148.4

22.2 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 (2002 – £608.0 million).

23.0 Commitments and contingencies

23.1 Capital commitments authorised and contracted for at the year end totalled £26.1 million (2002 – £27.9 million)

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

	2003 Property £m	2003 Plant and equipment £m	2002 Property £m	2002 Plant and equipment £m
Operating leases which expire:				
Within one year	**1.1**	**8.8**	0.2	12.0
Within two to five years	**5.0**	**23.2**	3.3	19.6
After five years	**50.0**	**–**	49.6	–
	56.1	**32.0**	53.1	31.6

23.3 Inducement fee
Wm Morrison Supermarkets PLC ("Morrisons") and the Company entered into a Merger Agreement on 9 January 2003 which provides, inter alia, that if an offer is made for the Company by a party other than Morrisons or an associate of Morrisons, and that offer becomes or is declared wholly unconditional within 15 months of the date of the Merger Agreement, the Company shall pay to Morrisons an inducement fee of £29.2 million.

24.0 Pensions

The group has continued to account for pensions in accordance with SSAP 24.

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 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.

24.1 SSAP24
The latest valuation of the scheme was carried out as at 1 April 2001 using the projected unit method. The assumptions which have the most significant effect on the results of the valuation are those relating to the discount rate, the rate of return on investments and the rates of increase in salaries and pensions. It was assumed that retail price inflation would be 2.3% per annum, that the discount rate would be 5.3% per annum, that the average rate of return on investments would be 6.9% per annum, that salary increases (excluding promotional increases) would average 3.8% per annum, and that pensions (in excess of the Guaranteed Minimum Pension) would increase at the rate of 2.3% per annum.

At the date of the latest actuarial valuation, the market value of the assets of the scheme (excluding members' Additional Voluntary Contributions) was £919 million and the actuarial value of the assets was sufficient to cover 110% 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 12 years, this being the approximate average remaining service life of scheme members.

The total pension cost for the year amounted to £23.4 million (2002 – £21.9 million). This reflected a regular cost of £30.9 million (2002 – £28.8 million) and a credit of £7.5 million (2002 – £6.9 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 £258.7 million (2002 – £242.9 million).

24.2 FRS 17
The following disclosures are made in accordance with FRS17, 'Retirement Benefits', a new accounting standard that is not required to be adopted in full before the year ending 1 April 2006.

The disclosures in this note are based on the calculations carried out in the most recent actuarial valuation of the scheme as at 1 April 2001, updated to 1 April 2002 and 29 March 2003 by a qualified independent actuary. The major assumptions used by the actuary for this purpose were:

	2003	2002
Price inflation	**2.6%**	2.8%
Salary increases (excluding promotional increases)	**4.1%**	4.3%
Pension increases	**2.5%**	2.8%
Discount rate for scheme liabilities	**5.6%**	5.9%

The above assumptions are the directors' best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

The value of the assets in the scheme, the long term expected rate of return on each class of asset and the value of the scheme's liabilities assessed using the assumptions described above, are shown below:

	2003		2002	
	Long-term rate of return expected	**Value £m**	Long-term rate of return expected	Value £m
Equities	**8.6%**	**521.0**	8.7%	717.0
Government Bonds	**4.6%**	**68.0**	–	–
Corporate Bonds	**5.1%**	**71.0**	5.9%	123.0
Property	**5.6%**	**10.0**	6.0%	10.0
Cash	**3.5%**	**53.0**	3.5%	45.0
Total market value of scheme assets		**723.0**		895.0
Present value of scheme liabilities		**(940.0)**		(841.0)
(Deficit)/Surplus in scheme		**(217.0)**		54.0
Related deferred tax asset/(liability)		**65.1**		(16.2)
Net pension (liability)/asset		**(151.9)**		37.8

The fair value of the scheme's assets may be subject to significant change before they are realised. The present value of the scheme's liabilities is derived from cash flow projections over long periods and is thus inherently uncertain. If the amounts had been recognised in the financial statements, the group's profit and loss account reserves would have been stated as follows:

	2003 £m	2002 £m
Profit and loss account reserves excluding pension (liability)/asset (see Note 22.1)	**1,218.9**	1,149.7
Net pension (liability)/asset	**(151.9)**	37.8
Profit and loss account reserves including pension (liability)/asset	**1,067.0**	1,187.5

The amounts that would have been recognised in the profit and loss account and the statement of total recognised gains and losses in respect of the Safeway Pension Scheme were as follows:

Analysis of amounts that would have been charged to operating profit:

	2003 £m
Current service cost	**(44.4)**
Past service cost	**–**
Total operating charge	**(44.4)**

Analysis of amounts that would have been credited to other finance income:

	2003 £m
Expected return on pension scheme assets	**72.5**
Interest on pension scheme liabilities	**(50.8)**
Net return	**21.7**

Analysis of amounts that would have been included in the statement of total recognised gains and losses:

	2003 £m
Actual return less expected return on pension scheme assets	**(258.3)**
Experience gains and losses arising on the scheme liabilities	**(0.6)**
Changes in assumptions underlying the present value of the scheme liabilities	**(13.5)**
Actuarial loss	**(272.4)**

The history of experience gains and losses is as follows:

	2003
Actual return less expected return on pension scheme assets	
– Amount (£m)	**(258.3)**
– Percentage of scheme assets	**35.7%**
Experience losses arising on the scheme liabilities	
– Amount (£m)	**(0.6)**
– Percentage of the present value of the scheme liabilities	**0.1%**
Actuarial loss to be recognised in the STRGL	
– Amount (£m)	**(272.4)**
– Percentage of the present value of the scheme liabilities	**29.0%**

A reconciliation between the surplus in the scheme at the beginning of the year and the deficit in the scheme at the end of the year is shown below:

	2003 £m
Surplus in scheme at beginning of the year	**54.0**
Current service cost	**(44.4)**
Contributions	**24.1**
Past service costs	**–**
Other finance income	**21.7**
Actuarial loss	**(272.4)**
Deficit in scheme at end of year	**(217.0)**

25.0 Net cash inflow from operating activities

	2003 £m	2002 £m
Group operating profit	**347.0**	416.5
Minority interest write-off	**23.1**	–
Non-operating exceptional item	**(17.0)**	–
Net property profits/(losses)	**2.7**	(0.4)
Depreciation	**195.7**	184.2
Loss on disposal of tangible fixed assets	**–**	13.9
Increase in stock	**(46.7)**	(6.4)
Increase in debtors	**(35.7)**	(24.9)
(Decrease)/increase in creditors	**(72.9)**	8.9
Net cash inflow from operating activities	**396.2**	591.8

The directors present their Annual Report on the affairs of the group together with the Accounts and Auditors' Report for the year ended 29 March 2003.

Principal Activities and Business Review

The principal activity of the group is grocery retailing in the United Kingdom.

The Chairman's statement and the Chief Executive's review of operations on pages 2 to 7, together with the financial review of the year on pages 12 to 15 describe fully the activities and future developments of the group and the trading results for the year.

We now have 480 Safeway stores, comprising 10.5 million square feet of sales area. An external valuation of 201 stores, principally consisting of the larger stores, together with certain smaller stores which we considered among our most valuable, was commissioned by the Board in October 2002. DTZ Tie Leung, in accordance with the RICS Appraisal and Valuation Manual, undertook, in respect of the 201 stores, existing use valuations which were assessed by reference to the trading potential of each property. The value reported amounted to £4.5 billion for the 201 stores they examined (representing a total of 5.8 million square feet sales area), which was £1.9 billion above the aggregate net book value of these properties. The valuation report from DTZ summarising these valuations (which have an effective date of 21 November 2002) is included in our announcement dated 24 January 2003. It should be noted that no conclusion can be drawn from the DTZ valuation about the value of our other 279 stores, although our policy is to value stores in the balance sheet at the lower of net book value (these other stores have a net book value of £1.0 billion) and net realisable value. Therefore the existing use valuations performed by DTZ have not been incorporated in the balance sheet.

Results and Dividends

The profit of the group before taxation and exceptional items amounted to £335.2 million. After deducting exceptional items of £64.9 million and taxation of £102.2 million, the profit for the financial year amounted to £168.1 million. The directors propose the payment of dividends totalling £98.6 million.

The final dividend recommended by the directors is 6.61p per ordinary share which, together with the interim dividend already paid of 3.05p per ordinary share, makes a total dividend for the year of 9.66p.

Directors

The directors of the Company at the date of this Report are shown on pages 10 and 11.

In accordance with Article 97 of the Company's Articles of Association, Messrs L R Christensen, R G Williams and P Foy retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

On 9 July 2002 the Board announced the appointment of Miss S Hintze and Mr P A Smith as additional non-executive directors of the Company with effect from 1 August 2002. In accordance with Article 102 of the Company's Articles of Association, Miss Hintze and Mr Smith are required to retire and seek re-election as directors at the next Annual General Meeting, and a resolution will therefore be proposed for the re-election of Miss Hintze and Mr Smith as directors of the Company.

Mr R G Williams has a service agreement which may be terminated by the Company on giving two years' notice. Mr L R Christensen has a service agreement which expires on 18 June 2003. Mr Christensen has been offered a new service agreement with effect from 19 June 2003, providing for a fixed term of twelve months.

On 31 May 2002, Ms L M Gernon resigned as a director of the Company.

Details of the directors' interests are set out on pages 37 to 39.

Acquisition of the Company's Shares

At last year's Annual General Meeting, shareholders renewed the Company's authority to purchase up to 10% of the Company's issued share capital. No shares have been purchased pursuant to this authority during the year. The directors propose to seek renewal of this authority at the Company's forthcoming Annual General Meeting which will be held on 8 July 2003.

Share Capital

Details of share capital issued during the year are set out in Note 18.2 on page 26.

Charitable and Political Contributions

During the year, the group donated £791,155 to charities (2002 - £647,923). No political contributions were made during the year (2002 – £Nil).

Suppliers' Payment Policy

A strategic objective of the group is to have mutually beneficial long-term relationships with our suppliers and we seek to agree, 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 29 March 2003 was 29 days (2002 - 33 days), whereas the average during the year was 30 days (2002 – 31 days). The Company has no trade creditors.

The Company complies with the DTI Code of Practice which came into effect in March 2002.

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, nationality or any other similar factors.

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 and area teams, with particular use being made of the Meetings for Everyone, which are held regularly, video conferencing with regional depots and Company magazines. Copies of the Company's Annual and Interim Reports are made available at the group's principal office and operating locations.

Substantial Interests

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

Shareholder	Ordinary shares	% holding
AXA S.A.	130,204,715	12.31
FMR Corp and Fidelity International Ltd. (USA)	128,603,571	12.16
Brandes Investment Partners (USA)	60,517,304	5.72
Scottish Widows Investment Partnership Limited	40,892,769	3.87
Deutsche Bank AG	38,131,001	3.61
Legal & General Investment Management Ltd.	36,424,798	3.44

Auditors

KPMG Audit Plc 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 Funds

Full details of the group's pension schemes are set out in note 24.0 on page 26 and in the Report on directors' remuneration. 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 was open to all full-time and part-time employees of wholly owned subsidiary companies of the group up to 8 May 2002. With effect from 9 May 2002 the defined benefit "final salary" scheme was closed to new entrants whilst continuing unchanged for current members. A new "career average salary" section of the defined benefit scheme has replaced the "final salary" arrangements for current and future employees who are no longer able to join the final salary scheme. The Scheme provides benefits additional to those from the State Basic Pension Scheme, whilst enabling members to be contracted-out of the State Second Pension. 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.

Combined Code on Corporate Governance

The Financial Services Authority as UK Listing Authority requires listed companies to disclose how they comply with the Code Provisions set out in Section 1 of the Combined Code on Corporate Governance. With the exception of existing directors who already have Service Agreements subject to two years' notice, the Company considers that it has complied throughout the year with the Code's provisions. Details of directors' service agreements are shown on page 33.

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. In addition, the Board comprises four other executive and five non-executive directors. Accordingly, over one third of the Board is made up of non-executive directors, all of whom are considered to be independent. All directors are subject to re-election by shareholders at the first opportunity after their appointment and to re-election by rotation at Annual 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, dividends, 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 Board 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. As a result of substantial corporate activity affecting the business, the Board and its Committees have met at numerous additional times during the financial year. The non-executive directors have met to discuss Company and Board matters without the presence of the Chairman or any other executives from the Company. The Board will give consideration, in the light of the Higgs Report, to reporting the record of attendance of non-executive directors in the future.

The Board will also give consideration to the possible appointment of an external consultant to assist the Board in evaluating its performance and effectiveness. Meanwhile, the directors regularly review their own and the Company's performance, not only against the budget and pre-set financial objectives, but also with regard to how their strategies and policies are being implemented in practice. All directors are actively encouraged to, and do, participate fully in the meetings of the Board, by way of presentation or by way of full contribution to any debates.

The Board has appointed Mr H R Collum as the senior independent non-executive director.

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, except Messrs. C Criado-Perez and J L Sinclair, 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. Messrs. C Criado-Perez and J L Sinclair have service agreements which may be terminated by the Company on giving one year's notice. It is now the policy of the Remuneration Committee that any newly engaged executive directors be granted a service agreement providing for one year's notice by either party.

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 shareholders to ensure that all directors are kept informed of their activities. The Committees are:

1 Audit Committee. Consists wholly of non-executive directors and is chaired by Mr H R Collum. It meets at least three times a year and acts in accordance with its terms of reference. The meetings of the Committee are attended by the Company's Auditors. Representatives are also present from an external firm to whom the Company's Business Controls function is outsourced. This function considers whether internal controls are designed and operating effectively in the processes and areas which it reviews and makes recommendations for improvement to management. It is also responsible for supporting the Audit Committee in assessing whether there is efficient and effective internal control within the Company and whether the major risks to the operations and the Company's reputation are receiving appropriate attention from management.

2 Remuneration Committee. Consists wholly of non-executive directors and is chaired by Mr M J Allen. 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' emoluments are contained on page 36.

3 Nomination Committee. Comprises the five non-executive directors together with Mr D G C Webster who chairs the Committee. While the Committee is chaired by an executive director, the roles of Chairman and Chief Executive in the Company are separated and the Board considers it appropriate that the Chairman continues to act as Chairman of the Nomination Committee. The Nomination Committee has considered the various directors whose re-election is proposed at the forthcoming Annual General Meeting and is of the view that, as a result of their contribution to the activities of the Board (and, where they are executive directors, to the management of the Company), the relevant director continues to contribute effectively, demonstrates commitment to the role, and is suitable for re-election. The Committee reviews and makes proposals to the Board on each occasion when consideration is given to the appointment of a replacement or additional director.

The terms of reference of the Audit Committee, Remuneration Committee and the Nomination Committee are available from the Company Secretary.

The members of each Committee are listed below. Their biographies are shown on pages 10 and 11.

1 Audit Committee –	H R Collum (Chairman)
	M J Allen
	P Foy
	P A Smith
2 Remuneration Committee –	M J Allen (Chairman)
	H R Collum
	P Foy
	S Hintze
3 Nomination Committee –	D G C Webster (Chairman)
	M J Allen
	H R Collum
	P Foy
	S Hintze
	P A Smith

Safeway Stores Board

The Board of Safeway Stores plc is responsible for the operational management of the group. In addition to the executive directors of Safeway plc, this Board comprises:

Mark Aylwin	Supply Operations Director
Fiona Bailey	Director for Culture
Karen Bray	Marketing Director
Jonathan Davies	Stores Finance Director
John Durkan	Trading Director
Ric Francis	Chief Information Officer
Fernando Garcia-Valencia	Property & Development Director
Steve Webb	Corporate Development Director
Jim White	Human Resources Director
David Wilson	Group Company Secretary & Legal Director

Non-executive directors

Non-executive directors are appointed initially for a three year term (subject to notice of three months on either side) after which their appointment may be extended upon mutual agreement. Non-executive directors' fees comprise a basic amount and additional fees for the Chairmanship 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. The terms of engagement under which the non-executive directors provide their services will be available for inspection at the Company's Annual General Meeting.

In selecting candidates for appointment as non-executive directors, the Nomination Committee recruits the services of professional external consultants who compile a list of potentially suitable candidates which is, after discussion between the members of the Committee, then reduced to a short-list of potential candidates (normally more than the number required to fill any vacancy or vacancies on the Board at that time). The candidates are interviewed, and a recommendation is made to the Board as a whole from those candidates. No candidate has been recruited to the Board who has had a personal connection with the Chairman or any other executive director prior to his or her appointment.

Before any candidate is proposed to the Board for appointment as a non-executive director, the Nomination Committee considers very carefully whether the candidate concerned will have sufficient time to meet the requirements of the appointment, taking into account their other commitments. These commitments are made known to the Board before any decision is made on the candidate's appointment.

In selecting candidates as non-executive directors, the Nomination Committee takes full account of the past business record of the candidates to determine whether their experience is such that it will complement the experience of the executive and non-executive directors in the boardroom and will enable the selected candidates to bring to bear wider perspectives on the Board's deliberations that will then be of benefit to the Company and to its shareholders. It is believed that those candidates appointed during the financial year covered by this Report admirably meet those requirements.

The Chairman and the Company Secretary annually review the time required of non-executive directors for the performance of their roles, and it is the practice of non-executive directors to give prior notice to the Chairman of new appointments.

Investor Relations and Annual General Meeting

Directors meet regularly with institutional investors and analysts. Directors receive with the papers for each meeting of the Board, an Investor Relations Report, which summarises the main activity in the Company's Share Register, the content of feedback from any meeting which management have had with the institutional shareholders, and the views of institutional shareholders as conveyed by them to the Company's brokers and other external consultants. The Board will consider the desirability or otherwise of newly appointed non-executive directors meeting major investors as part of the induction process following their appointment.

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 Board Committees will be available to answer any shareholder questions.

The separate Notice convening the Annual General Meeting to be held at The Dorchester Hotel, Park Lane, London, W1A 2HJ on Tuesday, 8 July 2003 at 11 am is sent to shareholders with this Annual Report and includes an explanation of the items of business.

The Company has put in place facilities to enable electronic communication with shareholders. To make use of these facilities shareholders may, if they wish, register their proxy appointment and instructions for this year's Annual General Meeting via the Company's website www.safeway.co.uk where full details of the procedure are given. As 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 following voting on each resolution.

Internal Control

The Company, as required by the Listing Rules of the UK Listing Authority, has complied with the Combined Code provisions on internal control having established the procedures necessary to implement the guidance on internal control issued by the Turnbull Committee and by reporting in accordance with that guidance.

In applying the principle that the Board should maintain a sound system of control to safeguard shareholders' investment and the Company's assets, the Board, through the Audit Committee, recognises that it has overall responsibility for ensuring that the group maintains a system of internal control to provide it with reasonable assurance regarding effective and efficient operations, internal control and compliance with laws and regulations. It should be recognised that such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board considers the risks associated with key parts of the business. It has established internal control systems that are designed to identify those risks that may restrict or seriously impact the ability of the Company to carry on its operations or prevent it from taking advantage of opportunities for growth, or which may lead to negative sentiment or damage to its reputation.

The key features of the internal 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 against the quarterly plan are reported daily, and reviewed weekly and four weekly, 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.

3 **Business Risks.** The Board reviews all significant business risks. They are reviewed with the Audit Committee and form a key part of both external audit and Business Controls work plans.

4 **Business Controls.** This function supports Safeway management as it establishes and maintains effective risk management and internal controls.

5 **Due Diligence Committees.** In its review of risk, the Board is assisted by due diligence committees comprising executive and operations directors and other senior executives. These Committees keep under constant review and give direction with regard to the management of all aspects of due diligence as they affect the retail operations (such as food safety, pricing and back of store management) and health and safety.

6 **Audit Committee.** This Committee reviews the operation and effectiveness of the overall control framework. It receives regular reports from both Business Controls and the external auditors.

The directors confirm that reviews of the effectiveness of the system of internal control were carried out during the year and for the purpose of this Annual Report.

Going Concern

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the accounts.

External appointments policy

The Company recognises the value of the appointment of executive directors to the Board 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. None of the executive directors currently hold an appointment on the Board of any other major company, save the Chairman who has recently joined the Board of InterContinental Hotels Group PLC as a non-executive director.

By Order of the Board

David Wilson
Secretary
21 May 2003

Introduction

This report has been prepared by the Remuneration Committee ("the Committee") in accordance with the Directors' Remuneration Report Regulations 2002 (which amend the Companies Act 1985) and has been approved by the Board of Directors.

A resolution to approve the Report on directors' remuneration will be included as an item of special business at the Company's forthcoming Annual General Meeting which will be held on 8 July 2003. The Board will recommend that shareholders approve the Report on directors' remuneration.

Membership of the Committee

The Committee is wholly comprised of non-executive directors and is chaired by Mr M J Allen. It meets at least three times in each year. The membership of the Committee during the year comprised:

M J Allen (Chairman)
H R Collum
P Foy
Miss S Hintze (appointed 1 August 2002)
Miss L M Gernon (resigned 31 May 2002)

Duties and Responsibilities of the Committee

The Committee reviews and recommends overall policy and determines all aspects of remuneration and the 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 consideration of their own fees and from voting as appropriate.

The Committee's terms of reference include the review and agreement of remuneration policy for executive directors and the most senior executives in the business below the main Board, the terms of service agreements for executive directors and their pay and bonus arrangements, determination of participation in the Company's long-term incentive plan (the "LTIP") and grants of options to executive directors and other employees under the Safeway 1993 Executive Share Option Scheme (the "Executive Scheme").

During the year, the Committee has received advice from Towers Perrin, an independent firm of professional advisors appointed by the Committee. It has also received professional advice on remuneration matters, procured on its behalf by the Company Secretary, from New Bridge Street Consultants Limited and Clifford Chance LLP. Clifford Chance LLP, the Company's solicitors, have also provided legal services to the Company during the year.

Remuneration Policy

The key policy objectives of the 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, incentives and benefits which, in the view of the Committee, together form an appropriate total package. As such its key components are:

(i) basic salary
(ii) an annual incentive award based on the performance of Safeway and on the attainment of pre-set key objectives
(iii) participation in the Executive Scheme and
(iv) participation in the LTIP.

The policy of the Company on directors' remuneration for the financial year ended 2003 is as set out in this Report, and it is the current intention of the Committee that the policy shall apply for subsequent financial years, subject to the changes for 2003 noted below. The Committee has the responsibility for agreeing remuneration packages for the executive directors that provide an appropriate mix of basic salary and incentive awards to encourage stretching performance in shareholders' interests whilst also having regard to the necessity to attract and/or retain the services of the directors in the highly competitive market for their services in the retailing industry. The Committee reviews and agrees on behalf of the Board the performance conditions that should apply for the Executive Scheme and the LTIP. Details of the performance conditions that currently apply are set out on pages 33 and 34.

The Committee has decided that a proportion of the executive directors' remuneration will be related to performance. In particular, the annual incentive arrangements are a potentially significant part of the executive directors' remuneration and could, depending on the achievement of exceptional performance, contribute up to 100% of directors' basic salary in any one year. Awards under the Executive Scheme and the LTIP are also linked to performance, as set out below.

In November 2002, options over a total of 8,852,600 shares were granted to 306 senior executives. However, no awards were made to executive directors because, at that time, the Company was in a prohibited period under the Company's share dealing code. The Committee does not intend to initiate a 2003 cycle of the LTIP.

The policy with regard to non-executive directors (whose fees are set by the Board without involvement of the non-executive directors) is to pay fees that reflect market practice and the need to secure the services of individuals of the appropriate calibre and experience to join the Board and contribute to the Company's progress. Non-executive directors do not participate in the Annual Incentive Scheme, Executive Scheme or the LTIP.

The Committee keeps its remuneration policies under review in the light of Company and market developments. As stated within the Report, it is not anticipated that the Company will initiate a 2003 cycle under the LTIP or make a 2003 invitation to employees under the Company's Sharesave Scheme. In addition, the Executive Scheme is due to expire on 19 July 2003 following which no further options will be granted under the Executive Scheme. The Committee will consider introducing a new executive scheme if it is considered appropriate to do so in the future.

Service Agreements

With the exception of existing directors who already have service agreements subject to two years' notice, the service agreements with newly engaged directors will be subject to one year's notice. The table below summarises the service agreements or terms of engagement, as relevant, of the executive and non-executive directors.

Name	Date of agreement	Unexpired term	Notice period for company	Notice period for director	Compensation on early termination	Change of control provision
Executive chairman – D G C Webster	18 July 1994	expires 11 February 2005	24 months	12 months	Yes[2]	n/a
Executive directors – C Criado-Perez	26 July 1999	rolling 12 months	12 months	12 months	Yes[3]	Yes[4]
L R Christensen[1]	18 November 1996	expires 18 June 2003	24 months	12 months	Yes[2]	n/a
S T Laffin	18 November 1996	rolling 24 months	24 months	12 months	n/a	n/a
R G Williams	28 April 1994	rolling 24 months	24 months	12 months	n/a	n/a
J L Sinclair	31 May 2002	rolling 12 months	12 months	12 months	n/a	n/a

Name	Date of engagement letter	Notice periods	Unexpired term at March 2003
Non-executive directors – M J Allen[5]	26 January 2001	3 months	4 months
H R Collum[5]	21 September 2000	3 months	4 months
P Foy	7 July 1999	3 months	28 months
P A Smith	22 July 2002	3 months	28 months
Miss S Hintze	22 July 2002	3 months	28 months

1 Mr L R Christensen's service agreement expires on 18 June 2003, his 60th birthday. Mr Christensen has been offered a new service agreement with effect from 19 June 2003, providing for a fixed term of 12 months.
2 Liquidated damages clause equal to a sum 1.5 times the value of remuneration and other benefits as stated in their service agreements.
3 Sum equal to basic salary for the remaining notice period.
4 Sum equal to 24 months basic salary in the event of termination of employment following a change of control of the Company.
5 Since the year end, the terms of engagement of Messrs M J Allen and H R Collum have been extended by the Board to 3 April 2004.

Basic salary and benefits

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

Annual incentive awards

The Company operates a non-pensionable 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 objectives. The maximum bonus for executive directors, for out performance of the pre-set objectives in 2002/2003, is 100% of basic salary, which is normally paid in an equal amount of cash and Safeway plc shares. An incentive award is proposed to be paid wholly in cash at the rate of 20% in respect of the year ended 29 March 2003 and is fully disclosed on page 36.

Termination payments

The Remuneration Committee will assess compensation in the event of early termination on a case by case basis having regard to any contractual provisions.

Executive Scheme

It is the Company's policy to use share options to retain and motivate key employees. Under the terms of the Executive Scheme, executive directors are eligible for grants of options to acquire ordinary shares in the Company. The exercise price for such options is not set at a discount to the market value of shares at the time of grant. The Executive Scheme will expire on 19 July 2003, following which no further options will be granted under the Executive Scheme.

Options have been granted under the Executive Scheme on an annual basis and such options normally only become exercisable on the third anniversary of grants. No performance condition was imposed for options granted prior to 1995 as was in line with market practice at that time. However, reflecting changes in corporate governance and market practice, since 19 December 1995, all grants of options under the Executive Scheme normally only become exercisable if 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 period by an average of at least 2% per annum. The Committee considers that this condition is an appropriate measure to take account of the Company's performance.

Approximately 335 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 November 2002, options over a total of 8,852,600 shares were granted to 306 senior executives. However, no awards were made to executive directors because, at that time, the Company was in a prohibited period under the Company's share dealing code.

Grants under the Executive Scheme for executive directors are phased and all grants are approved by the Committee (details of outstanding grants of options are shown on page 26). Executive Scheme options granted prior to 29 November 1999 are all available for exercise as all relevant performance criteria have been met. Executive Scheme options granted since 29 November 1999 will normally be exercisable on or after their third anniversary of grant provided the performance condition has been achieved, or such later date as the performance condition has been met. The number of options held by executive directors in the Company is set out on pages 37 to 39.

LTIP

The LTIP is designed to align the interests of the executive directors and other key executives with the Company's objective of creating shareholder value. Executives are selected to participate on the basis that they are in a position to influence the performance of the Company.

The LTIP is a performance share plan. Under the terms of the LTIP, executives receive a conditional award of shares at the beginning of a three year cycle. The actual number of shares over which executives obtain vested rights depends on the Company's performance over that same period and is subject to the discretion of the Trustee of the Company's Employee Share Ownership Plan (the "ESOP"). 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 unless the ESOP Trustee otherwise decides.

Cycles

In July 1996, the Company obtained the approval of shareholders for the LTIP. The 1999 cycle covered the three financial years ending on 30 March 2002 and the awards that were made during 2002 are shown on page 37. The 2000 cycle covered the three financial years ending on 29 March 2003 and details of the awards that may be made are shown on page 37. The Committee initiated a 2001 and 2002 cycle which cover the three financial years ending in 2004 and 2005 respectively. Awards under the Plan are determined by reference to the Company's performance in respect of:

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

Each of these measures operates and is calculated independently of each other and each may provide up to 50% of an individual's maximum award. Further details in respect of these measures are shown below. The performance conditions were selected on professional advice and, in the view of the Committee, reflected market practice at the date of selection.

The Committee considers that the methods of measuring the performance for TSR and EPS are the appropriate measures and ensures that executives are rewarded based on the Company's performance and against that of the comparator basket.

TSR

The Committee measures the performance of the Company during the LTIP performance period by reference to the Company's TSR compared with that of an unweighted comparator index. The index is composed of a comparator basket of companies as set out in the table below.

Comparator Basket

Company
Boots Group PLC
GUS plc
The Big Food Group plc
Kingfisher plc
Marks and Spencer plc
Wm Morrison Supermarkets PLC
NEXT plc
J Sainsbury plc
Somerfield plc
Tesco plc
WH Smith PLC

The index is calculated by assuming a notional investment in each of the comparator companies, at the beginning of the cycle. TSR for the comparator companies is calculated by determining the capital appreciation in the share prices over the LTIP performance period and assuming any dividends paid are reinvested in the relevant company shares at the time they are paid. At the end of the LTIP performance period, the TSR is expressed as a compound annual growth rate to give a return of the comparator index. The same process is followed to calculate the TSR for the Company. A notional investment in Company shares is assumed and dividends are treated as reinvested over the LTIP performance period. The result is also expressed as a compound annual growth rate to give the return of the Company. The maximum award may be made if the return of the Company is 8% or more above the return of the comparator index. No award will be made if the return is more than 2% below the return of the comparator index. Awards within this range will be pro rated between 12.5% and 50% of an individual's maximum award.

EPS

The growth in the Company's EPS is calculated on an adjusted FRS 3 basis, although the Committee has discretion to exclude from the calculation any exceptional items that do not reflect the underlying profit performance of the Company. The Committee has determined an annual growth in EPS target performance range of 5%-15% over the LTIP performance period. At the top end of this range and above, the maximum award for this measure will be granted. Below this range, no award will be granted for this measure. Awards within the range will be pro rated between 12.5% and 50% of an individual's maximum award.

1999 and 2000 Cycle Performance

The performance of the 1999 cycle covered the three financial years ended 30 March 2002. Over the three year period from April 1999 to March 2002, the Company's compound annual growth in EPS did not trigger an award. However, the Company's TSR increased on average by 9.5% per annum compared to the basket of comparator companies which increased by 8.3% per annum. Accordingly, the Company outperformed the index of comparator companies by 1.2% per annum resulting in a vesting of 24.5% of an individual's maximum award, which resulted in an award of shares being made on 10 July 2002 to the executive directors as shown on page 37.

The performance of the 2000 cycle covered the three financial years ended 29 March 2003. Over the three year period from April 2000 to March 2003, the Company's compound EPS performance was 21.2% per annum which may potentially result in a maximum award. The Company's TSR increased on average by 18.5% per annum compared to the basket of competitor companies which increased on average by 3.0% per annum. Accordingly, the Company outperformed the index of comparator companies by 15.5% per annum which may potentially result in a maximum award. Together the EPS and TSR performance may potentially result in an award of 100% under the 2000 cycle. It is expected that the award to some senior executives will be made after the publication of the Company's 2003 Annual Report. However, on the recommendation of the Board (having received advice from its professional advisers) a recommendation to the ESOP Trustee concerning a potential award to the executive directors, and the most senior executives in the Safeway group below executive director level, has been deferred because of the corporate activity affecting the Company.

The Committee does not intend to initiate a 2003 cycle of the LTIP.

ESOP

Shares for use in the LTIP are transferred out of the ESOP. Historically, in order to hedge the Company's liability to make payments under the LTIP, the Company has funded anticipated payouts by ensuring that the ESOP has sufficient funds to buy ordinary shares in the Company. The ESOP Trustee has also agreed to satisfy certain options granted under the Executive Scheme and provide certain other share benefits.

The Company's ability to hedge its potential liability under the LTIP and the Executive Scheme has been affected by share dealing restrictions because of the corporate activity affecting the Company. The ESOP currently holds 3,194,677 ordinary shares and the total maximum liability under the ESOP for awards under the LTIP, the Executive Scheme and other benefits for directors and executives is 7,459,190 ordinary shares.

Safeway Sharesave Scheme

All eligible employees of the Company, including executive directors, are eligible for grants of options to acquire shares in the Company under the Safeway Sharesave Scheme. The exercise price is set at a discount of up to 20% of the market value of a share at the time of invitation. An individual can save between £5 and £250 per month over a three or five year period. The maximum amount that an individual can save under all savings contracts is £250 per month. At the end of the savings period, the individual can withdraw the cash or choose to exercise the option to buy Safeway shares at the pre-determined option price. Details of the directors' Sharesave Scheme options are shown on pages 37 to 39.

The Board has decided that it will not make an invitation in 2003 to directors and employees under the Sharesave Scheme because of the corporate activity affecting the Company.

Special incentive plan

A special incentive plan was agreed by the Committee for the Chief Executive, Carlos Criado-Perez, on 25 February 2002. Two equal tranches each of £2m in May 2004 and May 2005 become available following the announcement of the Company's results for the prior financial year (the vesting dates). Each tranche is conditional on the Chief Executive remaining in Safeway's employment on the relevant vesting date, and on the achievement of EPS growth targets over the three financial years commencing 1 April 2001 (the 2004 tranche), and the four financial years commencing 1 April 2001 (the 2005 tranche).

No amount will be released if the Company's average EPS growth over the three or four years, as appropriate, before vesting, is less than the growth in the Index of Retail Prices (RPI) plus 4%.

In May 2004, a payment will be made as follows:

£1.0m for average EPS growth of RPI plus 4% per annum over three years;
£1.5m for average EPS growth of RPI plus 6% per annum over three years;
£2.0m for average EPS growth of RPI plus 8% or more per annum over three years.

In May 2005, a payment will be made as follows:

£1.0m for average EPS growth of RPI plus 4% per annum over four years;
£1.5m for average EPS growth of RPI plus 6% per annum over four years;
£2.0m for average EPS growth of RPI plus 8% or more per annum over four years.

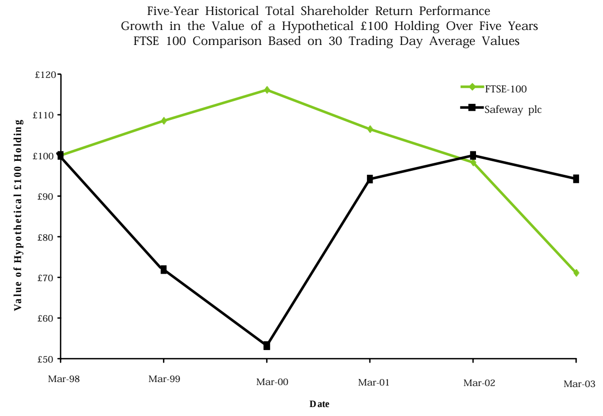
The Plan, which is non-pensionable, contains provisions to deal with the calculation of any payment or any appropriate adjustments necessary to reflect a reconstruction, merger or amalgamation of the Company with any other company or business or a change of control of the Company. In the event of a loss of employment as a result of a change in control before May 2004, the May 2004 element, measured by real average EPS growth at the time and pro-rated to reflect the time elapsed between the commencement of the base period and the date of the change of control, will be released. In the event of a loss of employment as a result of a change in control between May 2004 and May 2005, the May 2005 element, similarly calculated, will be released.

The Plan was designed specifically to facilitate the retention and incentivisation of Mr Criado-Perez and was introduced following discussions with several leading shareholders. His retention was considered essential to the successful future of the business.

No material changes to the terms of the Plan will be made without seeking the approval of shareholders.

Company Performance Graph

The Company has selected the FTSE 100 Index as the benchmark for comparison as Safeway plc has been in the FTSE 100 for most of the five year period.



Pensions

All executive directors are members of the Safeway Pension Scheme which is a funded, Inland Revenue approved, defined benefit, occupational pension scheme (Note 24.0 on page 26).

The Company has established a Funded Unapproved Retirement Benefits Plan ("FURB") for certain executive directors (currently four) and pays a defined annual contribution to this Plan for each such director. The Company also makes a discretionary annual pension related payment to these executive directors. The payment is sufficient to meet the income tax liability that executive directors suffer on the Company's contributions to the FURB.

For directors who held office during the year, further details are provided in the table on page 36.

Third Parties

The Board does not consider that there are any disclosures to be made with regard to third parties, save in respect of the fees payable for the services of Peter Foy, which are paid to Peter Foy Services Limited.

The auditors are required to report on the information contained in this section of the Report.

Directors' emoluments

The emoluments of individual directors are shown below:

Year ended 29 March 2003

	Basic salary/ fees £'000	Taxable benefits £'000	Annual Incentive Award Performance payment £'000	Annual Incentive Award Value of shares £'000	**2003 Total £'000**	2002 Total £'000
Executive chairman –						
D G C Webster	779	31	–	–	**810**	759
Executive directors –						
C Criado-Perez	654	16	132	–	**802**	848
L R Christensen	301	18	61	–	**380**	398
S T Laffin	343	24	69	–	**436**	454
R G Williams	301	17	61	–	**379**	401
J L Sinclair	291	13	70	–	**374**†	–
Non-executive directors –						
M J Allen	36	–	–	–	**36**	33
H R Collum	36	–	–	–	**36**	33
P Foy	29	–	–	–	**29**	26
P A Smith	19	–	–	–	**19**#	–
Miss S Hintze	19	–	–	–	**19**#	–
L M Gernon	5	–	–	–	**5**#	26

† From date of appointment as a director on 31 May 2002.

Part year.

Pension contributions paid by the Company in respect of the Chairman amounted to £69,745 (2002 - £64,086). Mr P Foy's fees are paid to Peter Foy Services Limited. The aggregate profit made by directors on their exercise of share options during the year was £3,424 (2002 - £113,620). No directors received any award for compensation for loss of office during the year.

Year ended 30 March 2002

	Basic salary/ fees £'000	Taxable benefits £'000	Annual Incentive Award Performance payment £'000	Annual Incentive Award Value of shares £'000	2002 Total £'000
Executive chairman –					
D G C Webster	736	23	–	–	759
Executive directors –					
C Criado-Perez	613	15	110	110	848
L R Christensen	285	11	51	51	398
S T Laffin	321	17	58	58	454
R G Williams	285	14	51	51	401
Non-executive directors –					
M J Allen	33	–	–	–	33
H R Collum	33	–	–	–	33
P Foy	26	–	–	–	26
L M Gernon	26	–	–	–	26

For the directors who held office during the year ended 29 March 2003, the pension benefits earned in the Safeway Pension Scheme and the Company's contributions to the FURB (and related payments) were as follows:

	Safeway Pension Scheme							FURB
	Increase in accrued pension during the year(1) £000	Accumulated total pension at year end(2) £000	Transfer value of accrued pension at year end(3) £000	Transfer value of accrued pension at previous year end(3) £000	Increase in transfer value over the year less directors contributions(4) £000	Net increase in accrued pension in the year(5) £000	Transfer value of pension increase less directors' contributions(3) £000	Company contribution including related payment £000
D G C Webster	56	452	7,633	6,219	1,375	49	794	–
C Criado-Perez	4	12	138	95	39	3	34	139
L R Christensen	29	187	3,629	2,746	867	26	497	–
S T Laffin	2	21	173	158	10	2	9	61
R G Williams	3	30	270	240	25	3	18	51
J L Sinclair(6)	2	26	189	172	13	2	11	59

Notes:

1 The increase in accrued pension during the year represents the additional accrued pension entitlement at the year-end compared to the previous year-end.
2 The pension entitlement shown is that which would be paid annually on retirement at age 60, based on service at the year end.
3 All transfer values have been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11.
4 The increase in transfer value over the year is after deduction of contributions made by the director during the year.
5 The net increase in accrued pension during the year excludes any increase for inflation.
6 Mr J L Sinclair was appointed to the Board on 31 May 2002. The figures shown above relate to benefits accrued from his whole period of service.

Directors' interests in shares

The interests of the directors, including family interests and connected persons, in the share capital of the Company are set out below:

	29 March 2003	30 March 2002
D G C Webster[(1)]	**594,040**	563,211
C Criado-Perez[(2)]	**65,745**	19,339
L R Christensen[(3)]	**44,321**	20,512
S T Laffin[(4)]	**115,376**	86,570
R G Williams	**42,161**	16,800
J L Sinclair	**37,798**	–
M J Allen	**20,690**	20,690
H R Collum	**5,000**	5,000
P Foy	**20,450**	20,450
Miss S Hintze	**–**	–
P A Smith	**–**	–

1 Mr D G C Webster has a non-beneficial interest in 19,901 of these shares and a further 82,580 of these shares are held by his immediate family.
2 Of these shares, 4,344 are held by or for the benefit of his spouse.
3 Of these shares, 555 are held by his spouse and 2,861 are held in a non-discretionary PEP for the benefit of Mr L R Christensen.
4 Of these shares, 11,357 are held in non-discretionary PEPs for the benefit of Mr S T Laffin and his spouse.

Executive directors of the Company, as members of the class of beneficiaries of the Company's ESOP, are additionally deemed to be interested in the shares in the Company held in the Company's ESOP. At 29 March 2003, the Trustee of the ESOP held 3,244,677 (2002 - 3,958,405) ordinary shares of the Company.

The directors have no other interest in group securities. Since 29 March 2003, Mr L R Christensen's and Mr S T Laffin's interests in the Company's ordinary share capital have increased by 27 and 34 shares respectively as a result of Personal Equity Plan re-investments.

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.

LTIP – 1999, 2000, 2001 and 2002 Cycles

	Maximum award as at 31 March 2002 (shares)	Maximum award granted during the year (shares)	Actual award vested during the year (shares)	Maximum award as at 29 March 2003 (shares)	Date of award	Market Price at date of award (p)	Market Price of awards vested on 10.07.02 (p)	Value of award vested during year £'000
D G C Webster								
1999 cycle	210,000	–	51,450	–	08.04.99	246.00	260.81	134
2000 cycle	350,000	–	–	350,000	11.05.00	242.50		
2001 cycle	210,000	–	–	210,000	05.04.01	310.00		
2002 cycle	–	240,385	–	240,385	09.05.02	313.25		
C Criado-Perez								
1999 cycle	137,000	–	33,565	–	08.04.99	246.00	260.81	88
2000 cycle	280,000	–	–	280,000	11.05.00	242.50		
2001 cycle	125,000	–	–	125,000	05.04.01	310.00		
2002 cycle	–	151,442	–	151,442	09.05.02	313.25		
L R Christensen								
1999 cycle	62,000	–	15,190	–	08.04.99	246.00	260.81	40
2000 cycle	135,000	–	–	135,000	11.05.00	242.50		
2001 cycle	62,000	–	–	62,000	05.04.01	310.00		
2002 cycle	–	69,712	–	69,712	09.05.02	313.25		
S T Laffin								
1999 cycle	87,000	–	21,315	–	08.04.99	246.00	260.81	56
2000 cycle	145,000	–	–	145,000	11.05.00	242.50		
2001 cycle	66,000	–	–	66,000	05.04.01	310.00		
2002 cycle	–	79,327	–	79,327	09.05.02	313.25		
R G Williams								
1999 cycle	62,000	–	15,190	–	08.04.99	246.00	260.81	40
2000 cycle	135,000	–	–	135,000	11.05.00	242.50		
2001 cycle	62,000	–	–	62,000	05.04.01	310.00		
2002 cycle	–	69,712	–	69,712	09.05.02	313.25		
J L Sinclair								
1999 cycle	25,000	–	6,125	–	08.04.99	246.00	260.81	16
2000 cycle	55,000	–	–	55,000	11.05.00	242.50		
2001 cycle	51,000	–	–	51,000	05.04.01	310.00		
2002 cycle	–	67,308	–	67,308	09.05.02	313.25		

The award of shares under the LTIP is conditional and the actual vested award in respect of the 2000 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. The Committee does not intend to initiate a 2003 cycle of the LTIP. The conditions attaching to LTIP awards and the performance periods are shown on page 34.

Number of options

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 below. Share options granted under the Executive Scheme normally expire ten years after date of grant and those issued under the Sharesave Scheme normally expire six months after the end of the relevant savings period. All options listed below are granted over ordinary shares in the Company under the Executive Scheme with the exception of those marked * which are Sharesave Scheme options. No consideration is payable for the grant of options under the Executive Scheme or Sharesave Scheme. No Executive Scheme options were granted to executive directors in November 2002.

	At 30 March 2002	Granted during the year	Exercised during the year	Lapsed unexercised during the year	At 29 March 2003	Normal date of first exercise	Normal date of expiry	Exercise price
D G C Webster								
26.11.1992	100,000	–	–	(100,000)	**–**	–	–	363.00p
06.12.1993	100,000	–	–	–	**100,000**	06.12.96	05.12.03	255.00p
13.12.1994	100,000	–	–	–	**100,000**	13.12.97	12.12.04	237.00p
19.12.1995	100,000	–	–	–	**100,000**	19.12.98	18.12.05	308.00p
09.12.1996	100,000	–	–	–	**100,000**	09.12.99	08.12.06	375.50p
21.11.1997	75,000	–	–	–	**75,000**	21.11.00	20.11.07	318.75p
08.12.1998	38,900	–	–	–	**38,900**	08.12.01	07.12.08	283.00p
29.11.1999	175,000	–	–	–	**175,000**	29.11.02	28.11.09	182.75p
04.01.2001	135,000	–	–	–	**135,000**	04.01.04	03.01.11	296.00p
27.06.2001	3,272*	–	–	–	**3,272***	01.09.04	28.02.05	296.00p
22.11.2001	185,000	–	–	–	**185,000**	22.11.04	21.11.11	328.50p
	1,112,172	–	–	(100,000)	**1,012,172**			

C Criado-Perez	At 30 March 2002	Granted during the year	Exercised during the year	Lapsed unexercised during the year	**At 29 March 2003**	Normal date of first exercise	Normal date of expiry	Exercise price
17.08.1999	321,200	–	–	–	**321,200**	17.08.02	16.08.09	233.50p
29.11.1999	200,000	–	–	–	**200,000**	29.11.02	28.11.09	182.75p
12.06.2000	100,000	–	–	–	**100,000**	12.06.03	11.06.10	246.00p
04.01.2001	200,000	–	–	–	**200,000**	04.01.04	03.01.11	296.00p
22.11.2001	200,000	–	–	–	**200,000**	22.11.04	21.11.11	328.50p
	1,021,200	–	–	–	**1,021,200**			

S T Laffin	At 30 March 2002	Granted during the year	Exercised during the year	Lapsed unexercised during the year	**At 29 March 2003**	Normal date of first exercise	Normal date of expiry	Exercise price
26.11.1992	12,000	–	–	(12,000)	**–**	–	–	363.00p
06.12.1993	20,000	–	–	–	**20,000**	06.12.96	05.12.03	255.00p
13.12.1994	50,000	–	–	–	**50,000**	13.12.97	12.12.04	237.00p
19.12.1995	50,000	–	–	–	**50,000**	19.12.98	18.12.05	308.00p
09.12.1996	75,000	–	–	–	**75,000**	09.12.99	08.12.06	375.50p
26.06.1997	1,206*	–	(1,206)*	–	**–**	–	–	286.00p
21.11.1997	56,250	–	–	–	**56,250**	21.11.00	20.11.07	318.75p
08.12.1998	27,500	–	–	–	**27,500**	08.12.01	07.12.08	283.00p
23.06.1999	1,424*	–	(1,424)*	–	**–**	–	–	204.00p
29.11.1999	150,000	–	–	–	**150,000**	29.11.02	28.11.09	182.75p
28.06.2000	1,713*	–	–	–	**1,713***	01.09.05	28.02.06	197.00p
04.01.2001	115,000	–	–	–	**115,000**	04.01.04	03.01.11	296.00p
27.06.2001	981*	–	–	–	**981***	01.09.04	28.02.05	296.00p
22.11.2001	97,000	–	–	–	**97,000**	22.11.04	21.11.11	328.50p
26.06.2002	–	2,139*	–	–	**2,139***	01.09.05	28.02.06	222.00p
	658,074	2,139	(2,630)	(12,000)	**645,583**			

The market price on date of exercise of the 1997 Sharesave options was 320p and the net gain on the date of exercise was £410. The market price on the date of exercise of the 1999 Sharesave options was 324p and the net gain on the date of exercise was £1,708.

L R Christensen	At 30 March 2002	Granted during the year	Exercised during the year	Lapsed unexercised during the year	**At 29 March 2003**	Normal date of first exercise	Normal date of expiry	Exercise price
19.12.1995	50,000	–	–	–	**50,000**	19.12.98	18.12.05	308.00p
09.12.1996	50,000	–	–	–	**50,000**	09.12.99	08.12.06	375.50p
21.11.1997	37,500	–	–	–	**37,500**	21.11.00	20.11.07	318.75p
08.12.1998	50,000	–	–	–	**50,000**	08.12.01	07.12.08	283.00p
23.06.1999	1,899*	–	(1,899)*	–	**–**	–	–	204.00p
29.11.1999	150,000	–	–	–	**150,000**	29.11.02	28.11.09	182.75p
04.01.2001	115,000	–	–	–	**115,000**	04.01.04	03.01.11	296.00p
27.06.2001	1,963*	–	–	–	**1,963***	01.09.04	28.02.05	296.00p
22.11.2001	85,000	–	–	–	**85,000**	22.11.04	21.11.11	328.50p
	541,362	–	(1,899)	–	**539,463**			

The market price on the date of exercise of the 1999 Sharesave options was 207p and the net gain on the date of exercise was £57.

R G Williams	At 30 March 2002	Granted during the year	Exercised during the year	Lapsed unexercised during the year	**At 29 March 2003**	Normal date of first exercise	Normal date of expiry	Exercise price
26.11.1992	15,000	–	–	(15,000)	**–**	–	–	363.00p
19.12.1995	50,000	–	–	–	**50,000**	19.12.98	18.12.05	308.00p
09.12.1996	50,000	–	–	–	**50,000**	09.12.99	08.12.06	375.50p
26.06.1997	3,618*	–	(3,618)*	–	**–**	–	–	286.00p
21.11.1997	37,500	–	–	–	**37,500**	21.11.00	20.11.07	318.75p
08.12.1998	41,100	–	–	–	**41,100**	08.12.01	07.12.08	283.00p
29.11.1999	150,000	–	–	–	**150,000**	29.11.02	28.11.09	182.75p
28.06.2000	1,967*	–	–	–	**1,967***	01.09.03	28.02.04	197.00p
04.01.2001	115,000	–	–	–	**115,000**	04.01.04	03.01.11	296.00p
22.11.2001	85,000	–	–	–	**85,000**	22.11.04	21.11.11	328.50p
26.06.2002	–	2,567*	–	–	**2,567***	01.09.05	28.02.06	222.00p
	549,185	2,567	(3,618)	(15,000)	**533,134**			

The market price on the date of exercise of the 1997 Sharesave options was 320p and the net gain on the date of exercise was £1,230.

	At 30 March 2002	Granted during the year	Exercised during the year	Lapsed unexercised during the year	**At 29 March 2003**	Normal date of first exercise	Normal date of expiry	Exercise price
J L Sinclair								
26.11.1992	10,000	–	–	(10,000)	**–**	–	–	363.00p
13.12.1994	15,000	–	–	–	**15,000**	13.12.97	12.12.04	237.00p
19.12.1995	15,000	–	–	–	**15,000**	19.12.98	18.12.05	308.00p
09.12.1996	25,000	–	–	–	**25,000**	09.12.99	08.12.06	375.50p
21.11.1997	25,000	–	–	–	**25,000**	21.11.00	20.11.07	318.75p
08.12.1998	30,000	–	–	–	**30,000**	08.12.01	07.12.08	283.00p
23.06.1999	949*	–	(949)*	–	**–**	–	–	204.00p
29.11.1999	75,000	–	–	–	**75,000**	29.11.02	28.11.09	182.75p
28.06.2000	983*	–	–	–	**983***	01.09.03	28.02.04	197.00p
04.01.2001	95,000	–	–	–	**95,000**	04.01.04	03.01.11	296.00p
27.06.2001	654*	–	–	–	**654***	01.09.04	28.02.05	296.00p
22.11.2001	82,000	–	–	–	**82,000**	22.11.04	21.11.11	328.50p
	374,586	–	(949)	(10,000)	**363,637**			

The market price on the date of exercise of the 1999 Sharesave option was 206p and the net gain on the date of exercise was £19.

The middle market price of the Company's ordinary shares at the close of business on 28 March 2003, being the last dealing date prior to the year end on 29 March 2003, was 258.00p and the range during the year ended 29 March 2003 was 183.75p to 326.00p.

David Wilson
Secretary
For and on behalf of the Board of Safeway plc
21 May 2003

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 have general responsibility for safeguarding the assets of the Company and the group and to prevent and detect fraud and other irregularities.

Independent auditors' report to the members of Safeway plc

We have audited the financial statements on pages 16 to 27. We have also audited the information in the directors' remuneration report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report and the directors' remuneration report. As described above, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, 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 regarding directors' remuneration and transactions with the group is not disclosed.

We review whether the statement on page 29 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

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

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 financial statements and the part of the directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, 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 financial statements and the part of the directors' remuneration report to be audited 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 financial statements and the part of the directors' remuneration report to be audited.

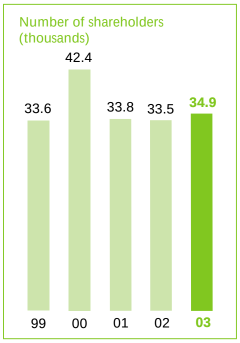
Opinion

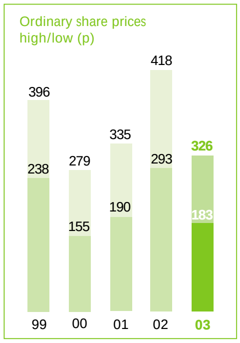
In our opinion:

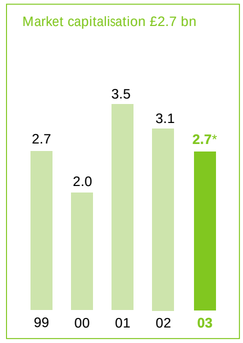
– the financial statements give a true and fair view of the state of affairs of the Company and of the group as at 29 March 2003 and of the profit of the group for the year then ended; and
– the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
Chartered Accountants
Registered Auditor

London
21 May 2003







*Based on a closing share price of 258.00p.

Analysis of ordinary shares at 29 March 2003

	Shareholders		Shares held (millions)		% of Total	
	2003	2002	**2003**	2002	**2003**	2002
By Category:						
Individuals	**29,879**	27,496	**49.8**	50.0	**4.7**	4.7
Banks and Nominee Accounts	**4,460**	5,396	**977.4**	969.1	**92.4**	92.0
Insurance Companies	**57**	68	**10.2**	7.8	**1.0**	0.2
Investment Companies	**55**	53	**0.8**	0.6	**0.1**	0.1
Other Companies	**447**	483	**17.2**	23.8	**1.6**	0.7
Pension Funds	**20**	15	**2.2**	2.5	**0.2**	2.3
	34,918	33,511	**1,057.6**	1,053.8	**100.0**	100.0
By Size of Holding:						
1 – 1,000	**20,704**	18,769	**9.0**	8.3	**0.8**	0.8
1,001 – 5,000	**11,328**	11,662	**24.4**	24.8	**2.3**	2.4
5,001 – 10,000	**1,160**	1,203	**8.3**	8.5	**0.8**	0.8
10,001 – 100,000	**1,044**	1,191	**33.9**	38.5	**3.2**	3.7
100,001 – 500,000	**420**	414	**103.6**	99.4	**9.8**	9.4
500,001 – 1,000,000	**95**	107	**68.7**	79.1	**6.5**	7.5
1,000,001 and over	**167**	165	**809.7**	795.2	**76.6**	75.4
	34,918	33,511	**1,057.6**	1,053.8	**100.0**	100.0

Financial calendar 2003/04

8 July 2003	Annual General Meeting at The Dorchester Hotel, Park Lane, London W1A 2HJ
4 August 2003	Payment of final dividend for the year ended 29 March 2003 to shareholders on the register on 23 May 2003
November 2003	Interim announcement of results for the 28 week period ending 11 October 2003
January 2004	Trading statement in respect of Christmas and the New Year
February 2004	Anticipated payment of interim dividend for the 53 weeks ending 3 April 2004
3 April 2004	Financial year end
May 2004	Preliminary announcement of results for the 53 weeks ending 3 April 2004
June 2004	Circulation of Annual Report

Scrip dividend option

Safeway has previously offered shareholders the option to receive ordinary shares instead of cash dividends. However, since August 1999, the scrip dividend scheme has been suspended.

Registrars

Administrative enquiries concerning the holding of Safeway shares (including the payment of dividends and the scrip dividend option) should be directed in the first instance to the Registrars at: Computershare Investor Services PLC, PO Box 435, Owen House, 8 Bankhead Crossway North, Edinburgh, EH11 4BR. Telephone 0870 702 0123.

Computershare Investor Services PLC has introduced a facility whereby shareholders are able to access details of their shareholding in the Company over the internet, subject to complying with an identity check. This service can be accessed on their website at www.computershare.com.

Dividend reinvestment plan

The Company provides 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 can be obtained from the Registrars. If you have previously completed a mandate form to join the DRIP you need take no further action.

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.

Amalgamation of shareholding accounts

Shareholders who receive duplicate sets of mailings from Safeway, owing to their having multiple shareholding accounts, should write to the Registrars in the first instance in order to have their accounts amalgamated if they so wish.

Gifting shares to charity

If you have a small holding of shares whose value makes them uneconomic to sell, you can donate them to charity under the Sharegift scheme administered by the Orr Mackintosh Foundation. Information can be obtained from their website: www.sharegift.org.

Shareholder information

Safeway website – http://www.safeway.co.uk
The Safeway website, **www.safeway.co.uk**, provides Company and investor information for Shareholders, including the up-to-date share price, the Annual Report and the Preliminary Results Statement. Additionally Shareholders can register their proxy appointment and instructions for this year's Annual General Meeting by visiting the website, where full details of the procedure will be given.

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.

Personal equity plans (PEP)
Safeway continues to operate both a General PEP and a Single Company PEP. These plans were closed to new investors with effect from 6 April 1999. However, if you wish to receive information regarding these plans, please contact the Plan Manager, Halifax plc, Trinity Road, Halifax, West Yorkshire, HX1 2RG. Telephone 0870 606 6418.

Individual savings account (ISA) – cash
Safeway operates a cash mini ISA with our financial services partner Abbey National. This permits an individual to invest without paying tax. Details are available from Abbey National. Telephone 0800 995 995.

Individual savings account (ISA) – shares
The Company operates a Shares ISA administered by the Plan Manager, Halifax Share Dealing Limited. The Account enables shareholders to receive dividends on the shares held free of income tax or to reinvest dividends to increase their shareholding and to dispose of shares held without incurring any capital gains tax liability. Full details can be obtained from the Plan Manager on 0870 600 9966.

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 0906 843 1643.

Investor enquiries
Please contact: Investor Relations Department, Safeway plc, Safeway House, 6 Millington Road, Hayes, Middlesex, UB3 4AY. Telephone 020 8848 8744. Facsimile 020 8970 3986. E-mail investor_relations@safeway.co.uk.

Five year retail statistic summary

	Year ended 3 April 1999	Year ended 1 April 2000	Year ended 31 March 2001	Year ended 30 March 2002	**Year ended 29 March 2003**
Store numbers					
Safeway – 20,000 sq. ft. sales area and over	256	260	261	263	**266**
– 10,000 – 19,999 sq. ft. sales area	139	142	138	138	**138**
– under 10,000 sq. ft. sales area	68	68	66	64	**65**
	463	470	465	465	**469**
Safeway (Ireland)	13	12	12	12	**12**
	476	482	477	477	**481**
Sales area ('000 sq. ft.)					
Safeway	9,775	9,928	9,890	9,991	**10,201**
Net % increase/(decrease) on previous year	2.3%	1.6%	(0.4%)	1.0%	**2.1%**
Safeway (Ireland)	340	305	305	305	**305**
	10,115	10,233	10,195	10,296	**10,506**
New store openings					
Safeway	14	12	–	2	**6**
Safeway (Ireland)	3	–	–	–	**–**
New sales area ('000 sq. ft.) (excluding extensions)					
Safeway	300	269	–	55	**104**
Safeway (Ireland)	83	–	–	–	**–**
Average store sales area ('000 sq. ft.)					
Safeway	21.1	21.1	21.3	21.5	**21.8**
Safeway (Ireland)	26.2	25.4	25.4	25.4	**25.4**
Sales per sq.ft. per week (£)					
Safeway	15.18	15.66	16.52	17.30	**17.20**

The year ended 3 April 1999 comprised 53 weeks.
Sales per square foot per week are based on weighted average sales area and sales including VAT (including petrol). The statistics for the years to 1 April 2000 and 29 March 2003 are affected by there being no Easter during the year compared with two Easters in the years ended 3 April 1999 and 30 March 2002.

Five year financial summary

	Year ended 3 April 1999 £m	Year ended 1 April 2000 £m	Year ended 31 March 2001 £m	Year ended 30 March 2002 £m	**Year ended 29 March 2003 £m**
Sales	8,098.9	8,327.8	8,937.3	9,395.6	**9,516.6**
Group operating profit (before operating exceptional items)	421.8	317.4	395.4	416.5	**397.6**
Operating exceptional items	–	–	–	–	**(50.6)**
Group operating profit	421.8	317.4	395.4	416.5	**347.0**
Share of joint venture operating profit	0.2	0.1	1.6	3.9	**5.4**
Non-operating exceptional items	(16.5)	(9.0)	(5.8)	(0.4)	**(14.3)**
Net interest payable and similar charges	(64.9)	(72.4)	(76.7)	(65.2)	**(67.8)**
Profit before taxation	340.6	236.1	314.5	354.8	**270.3**
Tax on profit on ordinary activities	(115.1)	(85.2)	(103.4)	(110.1)	**(102.2)**
Minority interest	11.0	7.9	6.1	3.5	**–**
Profit for the financial year	236.5	158.8	217.2	248.2	**168.1**
Earnings per share					
Before exceptional items	23.2p	16.3p	22.0p	24.5p	**22.6p**
After exceptional items	21.7p	15.4p	21.4p	24.4p	**16.5p**
Dividends per share (net)	14.40p	8.64p	9.07p	9.52p	**9.66p**
Net tangible assets					
Fixed assets	3,847.8	3,934.6	3,934.7	4,140.0	**4,218.9**
Net current liabilities	(901.8)	(864.1)	(806.9)	(802.8)	**(561.7)**
Creditors (due after one year)	(817.2)	(1,020.4)	(955.0)	(996.8)	**(1,201.9)**
Deferred taxation	(211.9)	(221.1)	(218.2)	(229.8)	**(244.3)**
Total capital employed	1,916.9	1,829.0	1,954.6	2,110.6	**2,211.0**
Net debt	(969.2)	(1,221.1)	(1,110.1)	(1,132.8)	**(1,320.6)**
Net gearing	50.6%	66.8%	56.8%	53.7%	**59.7%**
Return on capital employed (after taxation)	12.7%	8.5%	11.5%	12.2%	**7.8%**
Net tangible assets per ordinary share	173.0p	174.5p	186.0p	200.3p	**209.1p**
Capital expenditure					
Booked in the year	492.3	286.7	203.8	412.3	**309.8**
Payments made in the year (FRS 1 basis)	459.8	319.3	182.9	359.8	**339.0**

Notes:

1 The year ended 3 April 1999 comprised 53 weeks.

2 Sales represent group sales including our share of BP joint venture.

3 Non-operating exceptional items include net property profits and losses.

Safeway stores at the end of May 2003

England
Abbeydale
Acocks Green
Acomb
Aldridge
Alnwick
Andover
Armthorpe
Aylesbury
Barnard Castle
Basingstoke
Bath
Bearwood
Beccles
Bedlington
Belper
Berwick
Beverley (2)
Bideford
Bingley
Birtley
Bitterne
Blandford
Blyth
Bodmin
Bognor Regis
Bolton
Borrowash
Bracknell
Bredbury
Bridgwater
Bridlington (2)
Bridport
Brighton
Bristol
Bromsgrove
Brough
Bude
Burntwood
Burton upon Trent
Buxton
Cannock
Canterbury (2)
Canvey Island
Carnforth
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
Devizes
Dewsbury
Dinnington
Diss
Droitwich
Durham
Eastbourne
East Grinstead
Eastleigh
Eastwood (Essex)
Eastwood (Notts.)
Ellesmere Port
Evesham
Fakenham
Farnham
Felixstowe
Ferryhill
Filey
Fleet
Folkestone
Formby
Frome
Gamston
Garforth
Garstang
Glastonbury
Gosport
Grantham
Gravesend
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 Bond Street
Leeds Chapel Allerton
Leeds Headingley
Leeds Oakwood
Leeds Swinnow Road
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
Meltham
Melton Mowbray
Midsomer Norton
Millom
Milton Keynes
Morpeth
Nantwich
Newark
Newcastle-under-Lyme
Newcastle Byker
Newcastle Eldon Square
New Milton
Newport (Isle of Wight)
Newport (Shropshire)
Newquay
Newton-le-Willows
Northallerton
Northampton (2)
Norton
Ormskirk
Otley
Oxted
Paignton
Parkstone
Pendeford
Penrith
Penzance
Peterborough
Peterlee
Pickering
Plymouth
Plymstock
Pocklington
Ponteland
Portsmouth Anchorage Park
Portsmouth North End
Reading
Redcar
Reddish
Redditch
Redruth
Reigate
Ringwood
Ripon
Ross-on-Wye
Rubery
Rugeley
Rushden
Ryton
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
Stone
Stourbridge
Stratford-upon-Avon
Strood
Sunderland
Swaffham
Swindon
Swinton
Tadcaster
Taunton
Tavistock
Team Valley
Tewkesbury
Thornbury
Thornton Cleveleys
Tiverton
Todmorden
Totnes
Totton
Towcester
Tunbridge Wells
Up Hatherley
Verwood
Walderslade
Walsall
Warminster
Welshpool
Welwyn
West Bromwich
West Kirby
Weston-Super-Mare
Weymouth
Whickham
Whitby
Whitehaven
Whitehouse Farm
Whitley Bay
Willerby
Wilmslow
Wimborne
Wincanton
Witham
Woking
Wokingham
Wolverhampton
Workington
Worthing
Yarm
Yate
Yeovil

London (within M25)
Acton
Balham
Barbican
Becontree Heath
Biggin Hill
Blackfen
Blackheath
Bloomsbury
Bow
Camberwell Green
Camden
Caterham
Chelsea
Croydon
Dartford
Ealing
East Sheen
Edgware Road
Fulham
Hammersmith
Hatch End
Hersham
Holloway
Hounslow
Kensington
Kilburn
Loughton
Morden
New Malden
North Harrow
Palmers Green
Peckham
Petts Wood
Queensbury
St. Katharine Docks
Shepherds Bush
Sidcup
South Norwood
Southwark
Stamford Hill (2)
Stratford
Streatham
Sutton
Sydenham
Thamesmead
Upper Norwood
Walton on Thames
West Wickham
Wimbledon
Wood Green

Scotland
Aberdeen Cornhill
Aberdeen King Street
Aberdeen Union Street
Aberdeen Westhill
Airdrie
Alexandria
Alloa
Alness
Annan
Arbroath
Ayr
Banchory
Bathgate
Bellshill
Brechin
Bridge of Weir
Broughty Ferry
Buckie
Carluke
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
Rothesay
St. Andrews
St. Leonards
Saltcoats
Selkirk
Stevenston
Stewartfield
Stewarton
Stirling
Stornaway
Stranraer
Thurso
Troon
Turriff
Uddingston
Ullapool
Whitburn
Wick
Wishaw

Edinburgh
Comely Bank
Davidsons Main
East Craigs
Ferry Road
Gyle
Hunters Tryst
Moredun
Morningside
Portobello Road
Shandwick Place

Glasgow
Anniesland
Baillieston
Bishopbriggs
Burnside
Byres Road
Ca'D'ora
Cambuslang
Crossmyloof
Giffnock
Greenock
Knightswood
Muirend
Newlands
Paisley Road West
Partick
Rutherglen
Springburn

Wales
Abergavenny
Aberystwyth
Bangor
Barry
Brecon
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

Safeway/BP
Bagshot
Basildon (2)
Bedford
Bilston
Birmingham
Blackpool
Bolton
Bournemouth
Bristol
Bromley (2)
Cardiff
Chippenham
Coventry
Eastleigh
Exmouth
Fareham
Folkestone
Gloucester
Greenock
Guildford
Harlow
Hillingdon
Hitchin
Hounslow
Hove
Ilford
Glasgow (3)
King's Lynn
London (4)
Margate
Middlesbrough (2)
Newcastle
Northolt
Norwich
Nottingham
Plymouth
Romford
Sale
Solihull
South Croydon
Southampton
Southend-on-Sea
St. Helens
Warrington
Warwick
Wednesbury
West Bromwich
Whyteleafe
Wolverhampton
Worthing

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