Report of the directors

The directors present their Annual Report on the affairs of the group together with the accounts and auditors' report for the year ended 31 March 2001.

Principal Activities and Business Review

The principal activity of the group continues to be 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 34 to 39 describe fully the activities and future developments of the group and the trading results for the year.

Results and Dividends

The profit of the group before taxation and net property losses amounted to £320.3 million. After deducting net property losses of £5.8 million and taxation of £96.1 million and adding back a minority interest credit of £5.9 million, the profit for the financial year amounted to £224.3 million. The directors propose the payment of dividends totalling £92.1 million.

The final dividend recommended by the directors is 6.3p per ordinary share which, together with the interim dividend already paid of 2.77p per ordinary share, makes a total dividend for the year of 9.07p.

Directors

The directors of the Company at the date of this Annual Report are shown on pages 32 and 33.

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

There have been no new appointments to the Board during 2000/01.

Messrs. D G C Webster and L R Christensen have service agreements which may be terminated by the Company on giving two years' notice.

Mr. G Wotherspoon resigned as a director of the Company on 8 May 2000.

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

Acquisition of the Company's Shares

At last year's Annual General Meeting, shareholders renewed their consent to the Company purchasing up to 10% of the Company's issued share capital.

Share Capital

Details of share capital issued during the year are set out in Note 18.2 on page 49.

Charitable and Political Contributions

During the year, the group donated £84,101 to charities (2000 – £88,000). No political contributions were made during the year (2000 – £Nil).

Suppliers' Payment Policy

A strategic objective of the group is to have mutually beneficial long-term relationships with our suppliers and we seek to settle, in advance, the terms of payment with suppliers and abide by those terms. The average number of days credit taken by the group for trade purchases at 31 March 2001 was 36 days (2000 – 44 days), whereas the average during the year was 34 days (2000 – 38 days).

Employment Policies

We are committed to promoting policies to ensure that employees and those who seek to work for us are treated equally regardless of sex, marital status, age, creed, colour, race, nationality or any other irrelevant 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 Meeting for Everyone and Company magazines. Copies of the Company's Annual Report are made available at the group's principal office and operating locations.

Substantial Interests

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

Shareholder	Ordinary shares	% holding
FMR Corp and Fidelity International Ltd. (USA)	85,264,847	8.11

John Kinch joined the group in 1972 and has been Group Company Secretary since 1985.

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

Pension Fund
Full details of the group's pension schemes are set out in Note 23.3 on page 50. Pension scheme funds are administered by Trustees and are independent of group finances. There is no investment in the shares of the Company nor do the pension schemes own any property occupied by the group.

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

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

Combined Code on Corporate Governance
The Financial Services Authority require listed companies to disclose how they comply with the Code Provisions set out in Section 1 of the Combined Code on Corporate Governance. The Company considers that it has complied, in the main, throughout the year with the Code Provisions. Specific matters to note regarding the Company's compliance with the Code are as follows:

(i) With the exception of existing directors who already have Service Agreements subject to two years' notice, the Agreements with newly engaged directors will, after the first year of service as a director, be subject to one year's notice.
(ii) Following the resignation of Mr. G Wotherspoon during the year, no director accrues a pension based on their annual incentive.
(iii) As explained below, the Board feels that it is unnecessary to appoint a senior independent non-executive director.

Arthur Andersen have reviewed the Company's statements as to compliance with the Combined Code to the extent required by the Listing Rules of the Financial Services Authority as stated in their Audit Report on page 58.

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

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

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

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

All executive directors, except Mr. C Criado-Perez, 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. Mr. C Criado-Perez has a service agreement which may be terminated by the Company 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 after the director's first full year of employment.

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

1 Audit Committee. Consists wholly of non-executive directors and is chaired by Mr. H R Collum. It meets at least three times a year and assists the Board in meeting its responsibilities for ensuring that accounting, financial reporting, internal financial controls and compliance procedures are in place.

2 Remuneration Committee. Consists wholly of non-executive directors and 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' remuneration are contained on page 56.

3 Nomination Committee. Comprising the four non-executive directors together with Mr. D G C Webster who chairs the Committee. It reviews and makes proposals to the Board on each occasion when consideration is given to the appointment of a replacement or additional director.

The members of each Committee are listed below. Their biographies are shown on pages 32 and 33.

1 Audit Committee –	H R Collum (Chairman) M J Allen L M Gernon
2 Remuneration Committee –	M J Allen (Chairman) H R Collum P Foy
3 Nomination Committee –	D G C Webster (Chairman) M J Allen H R Collum P Foy L M Gernon

Investor Relations and Annual General Meeting

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

The separate notice convening the Annual General Meeting to be held at The Dorchester Hotel, Park Lane, London, W1A 2HJ on Tuesday 10 July 2001 at 11 a.m. is sent to shareholders with this Annual Report and includes an explanation of the items of Special Business.

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 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, recognise that they have overall responsibility for ensuring that the group maintains a system of internal control to provide them with reasonable assurance regarding effective and efficient operations, internal control and compliance with laws and regulations. It recognises that such a system can provide only reasonable and not absolute assurance against material misstatement or loss.

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, weekly and every four weeks in sufficient detail to allow the directors and senior management to monitor the financial and non-financial key performance indicators, business activities, risks and progress towards objectives.

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

3 **Business Risks.** The 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 is responsible for ensuring that effective control systems have been designed and are implemented throughout the business that balance the need for control with efficiency.

5 **Audit Committee.** Reviews the operation and effectiveness of the overall control framework. It receives regular reports from both 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.

We will be holding our Annual General Meeting at The Dorchester Hotel, Park Lane, London on Tuesday 10 July 2001 starting at 11.00 am. We hope as many shareholders as possible will attend.

Going Concern

The directors have reviewed the group's plans for 2001/2002 and for the following two years. After taking into account the cash flow implications of the plans and after comparing these with the group's borrowing facilities and reviewing projected gearing ratios, the directors are satisfied that it is appropriate to produce the accounts on a going concern basis.

Remuneration

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

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

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

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

(b) to act as an independent Committee ensuring that due regard, in respect of remuneration matters, is given to the interests of the Company's shareholders and to the financial and commercial health of the Company. Remuneration of executive directors is, by design, a mixture of salary, incentives and benefits which together form an appropriate total package. As such it comprises (i) basic salary, (ii) an annual incentive award based on the performance of the group and on the attainment of pre-set key objectives, (iii) participation in the Company's Executive Share Option Scheme and (iv) participation in a long-term incentive plan as described more fully below.

Basic salary and taxable benefits

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

Annual incentive awards

The Company operates an annual incentive award scheme in which all executive directors (except the Chairman) and senior executives of the group participate. The scheme provides for payments based on the achievement of pre-set targets. The maximum bonus opportunity for executive directors, for significant outperformance of the pre-set objectives in 2000/2001, is 75% of basic salary paid as up to $^{2}/_{3}$ in cash and $^{1}/_{3}$ in Safeway plc shares. An incentive award is proposed to be paid at the rate of 52.5% in respect of the year ended 31 March 2001 and is fully disclosed on page 56.

Share option schemes

Executive directors are eligible for grants of options to acquire shares under both the Safeway 1993 Executive Share Option Scheme ("Executive Scheme") and the Safeway Sharesave Scheme ("Sharesave"). Approximately 240 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 June 2000 and January 2001, options totalling 5,840,000 shares were granted, of which, executive directors were granted 585,900 options over new issue shares and 94,100 options over market purchased shares.

Grants under the Executive Scheme for executive directors are phased and all grants are controlled by the Remuneration Committee. Executive Scheme options granted on and since 19 December 1995 will become exercisable normally only when the earnings per share growth of the Company, over a three year period, has exceeded the increase in the Retail Prices Index over that same three year period by an average of at least 2% per annum. Executive Scheme options granted prior to 19 December 1995 are all available for exercise as all relevant performance criteria have been met. Executive Scheme options granted in December 1995 and 1996, November 1997 and December 1998 will not normally be exercisable on their third (or subsequent) anniversary in November 2001 as the performance criterion has not been achieved.

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

Long-term incentive plan

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

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

Shares for use in the plan are ordinary shares in the Company which are transferred out of the Safeway plc Employee Share Ownership Plan ("ESOP"), a discretionary trust, set up to administer the plan (Note 12.2 on page 46). In order to hedge the Company's liability to payments under the plan, the Company funds the anticipated payout over each three year cycle by ensuring that the Trustee has sufficient funds to purchase the Company's ordinary shares through the ESOP.

Cycles:
1998, 1999, 2000 and 2001 cycles – In July 1996, the Company obtained the approval of shareholders to its long-term incentive plan as explained more fully above. The Remuneration Committee initiated a 1998, a 1999, a 2000 and a 2001 cycle which cover the financial years ending in 2001, 2002, 2003 and 2004 respectively. Awards will be determined by reference to the Company's performance in respect of:

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

Both measures are determined independently and each may provide up to 50% of an individual's personal maximum award. The performance objectives under the 1998 cycle, which covered the three financial years ended 31 March 2001, were not achieved and accordingly, no awards will vest.

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

Maximum possible share award

	1998 Cycle Maximum	1998 Cycle Actual	1999 Cycle	2000 Cycle	**2001 Cycle**
D G C Webster	138,000	Nil	210,000	350,000	**210,000**
C Criado-Perez	–	–	137,000	280,000	**125,000**
L R Christensen	41,500	Nil	62,000	135,000	**62,000**
S T Laffin	58,000	Nil	87,000	145,000	**66,000**
R G Williams	40,500	Nil	62,000	135,000	**62,000**
G Wotherspoon	63,000*	Nil	94,000*	–	–
	341,000	Nil	652,000	1,045,000	**525,000**

* Following the resignation of Mr. G Wotherspoon as a director of the Company on 8 May 2000 he ceased to be a participant in the plan and none of the shares will vest.

The actual vested award in respect of the 1999 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.

Pensions

All executive directors are members of the Safeway Pension Scheme which is a funded, Inland Revenue approved, final salary, occupational pension scheme (Note 23.3 on page 50).

The Finance Act 1989 introduced a restriction ("Cap") for employees joining the Company after 31 May 1989, on earnings that could be pensioned through an Inland Revenue approved pension scheme. The limit is based on a maximum annual pensionable salary (currently £95,400). Accordingly, the Company has established a Funded Unapproved Retirement Benefits Plan ("FURB") for executive directors (currently three) subject to the Cap and pays a defined annual contribution to this Plan which is based on a percentage of their basic salary over the Cap. The Company also makes a discretionary annual pension related payment to executive directors subject to the Cap. This payment is sufficient to meet the income tax liability that executive directors suffer on the Company's contributions to the FURB, and is fixed such that the combination of the FURB contributions and this payment is 25% of pensionable salary over the Cap.

Executive directors, who joined the Company before 31 May 1989, conditional upon commencement date and length of service, are entitled to a maximum pension from the Safeway Pension Scheme of up to two thirds of pensionable salary on retirement at normal retirement age (age 60). An actuarially reduced pension is payable on early retirement after age 50. Executive directors' spouses are eligible for a pension of two-thirds of the directors pension on death before or after retirement. The pensions of executive directors and their spouses are eligible for regular increases each year after retirement in line either with inflation or 8.5% per annum, whichever is the lower. Additional increases may be payable at the discretion of the Pension Scheme Trustees subject to the approval of the Company.

Following the resignation of Mr. G Wotherspoon, no director accrued a pension based on their annual incentive award.

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

			Safeway Pension Scheme			FURB
	Age at year end	Years of service	Directors' contributions in the year (Note 1) £'000	Increase in accrued pension during the year (Note 2) £'000	Accumulated total pension at year end (Note 3) £'000	Company contribution including related payment £'000
D G C Webster	56	24	33	26	348	–
C Criado-Perez	49	2	5	3	5	110
L R Christensen	57	27	13	9	129	–
S T Laffin	41	11	5	2	23	47
R G Williams	44	10	5	2	24	42
G Wotherspoon (Note 6)	53	30	1	1	155	–

Notes:

1 These are the contributions paid in the year by the directors under the terms of the Safeway Pension Scheme.
2 The increase in accrued pension during the year excludes any increase for inflation.
3 The pension entitlement shown is that which would be paid annually on retirement at age 60, based on service at the year end.
4 The method of calculating transfer values from the Safeway Pension Scheme includes allowance for discretionary pension increases after retirement. Total pension increases after retirement are assumed to be at the full rate of inflation.
5 Directors have the option to pay Additional Voluntary Contributions to the Safeway Pension Scheme. Neither the contributions nor the resulting benefits are included in the above table.
6 Mr. G Wotherspoon ceased to be a director on 8 May 2000, but left employment on 28 April 2000. The Company consented to a payment of an immediate early retirement pension from the Safeway Pension Scheme of £154,823 per annum. The figures shown in the above table relate to the part of the year during which he was a member of the Safeway Pension Scheme.

External appointments policy

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

Non-executive directors

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

Directors' emoluments

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

	Basic Salary/ Fees £'000	Taxable Benefits £'000	Annual Incentive Awards Performance Payment £'000	Annual Incentive Awards Value of Shares £'000	**2001 Total £'000**	2000 Total £'000	Long-Term Incentive Plan **2001 £'000**	Long-Term Incentive Plan 2000 £'000
Chairman –								
D G C Webster	667	13	–	–	**680**	599	**–**	–
Executive –								
C Criado-Perez	533	16	186	93	**828**	391+	**–**	–
L R Christensen	260	10	91	45	**406**	148+	**–**	–
S T Laffin	280	17	98	49	**444**	317	**–**	–
R G Williams	260	14	91	45	**410**	149+	**–**	–
G Wotherspoon	21+	2	–	–	**23**	281	**–**	–
Non-executive –								
M J Allen	33	–	–	–	**33**	32	**–**	–
H R Collum	33	–	–	–	**33**	32	**–**	–
L M Gernon	26	–	–	–	**26**	17+	**–**	–
P Foy	26	–	–	–	**26**	17+	**–**	–

+ Part year.

Pension contributions paid by the Company in respect of the Chairman amounted to £58,051 (2000 – £50,906). Mr. G Wotherspoon received a total of £625,000 during the year ended 31 March 2001 as compensation on the termination of his employment. 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 £46,054 (2000 – £1,786).

Directors' interests

The interests of the directors, including family interests (all beneficial) but excluding the annual incentive award of shares, in the share capital of the Company are set out below:

	31 March 2001 Ordinary shares	1 April 2000 Ordinary shares
D G C Webster	**561,938**	559,211
C Criado-Perez	**4,343**	2,957
L R Christensen	**12,588**	11,001
S T Laffin	**77,653**	76,221
R G Williams	**9,178**	6,318
G Wotherspoon	**–**	103,464
M J Allen	**20,690**	20,690
H R Collum	**5,000**	5,000
P Foy	**20,450**	20,450
L M Gernon	**800**	–

Executive directors of the Company, as possible beneficiaries, are additionally deemed to be interested in the Company's ESOP. At 31 March 2001, the Trustee of the ESOP held 3,570,504 (2000 – 2,292,704) ordinary shares of the Company.

The directors have no other interest in group securities. Since 31 March 2001, Mr. S T Laffin's interests in the Company's ordinary share capital has increased by 23 shares as a result of a Personal Equity Plan re-investment.

At no time during the year or subsequently has any director had a material interest in any contract or arrangement with the Company or any of its subsidiaries which was significant in relation to the group's business.

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

	At 1 April 2000	Granted during the year	Exercised during the year	**At 31 March 2001**	Exercise price
	Number of options				
D G C Webster					
29.11.1990	50,000	–	(50,000)	**–**	234.63p
23.12.1991	100,000	–	–	**100,000**	272.00p
26.11.1992	100,000	–	–	**100,000**	363.00p
06.12.1993	100,000	–	–	**100,000**	255.00p
13.12.1994	100,000	–	–	**100,000**	237.00p
19.12.1995	100,000	–	–	**100,000**	308.00p
29.07.1996	1,273	–	–	**1,273**	271.00p
09.12.1996	100,000	–	–	**100,000**	375.50p
26.06.1997	2,727	–	(2,727)	**–**	286.00p
21.11.1997	75,000	–	–	**75,000**	318.75p
08.12.1998	38,900	–	–	**38,900**	283.00p
29.11.1999	175,000	–	–	**175,000**	182.75p
04.01.2001	–	135,000	–	**135,000**	296.00p
	942,900	135,000	(52,727)	**1,025,173**	

The market price on date of exercise of the 1990 Executive Option was 326p and the gain on date of exercise was £45,685. The market price on date of exercise of the 1997 Sharesave Options was 267p and the loss on date of exercise was £518.

	At 1 April 2000	Granted during the year	Exercised during the year	**At 31 March 2001**	Exercise price
C Criado-Perez					
17.08.1999	321,200	–	–	**321,200**	233.50p
29.11.1999	200,000	–	–	**200,000**	182.75p
12.06.2000	–	100,000	–	**100,000**	246.00p
04.01.2001	–	200,000	–	**200,000**	296.00p
	521,200	300,000	–	**821,200**	

	At 1 April 2000	Granted during the year	Exercised during the year	**At 31 March 2001**	Exercise price
S T Laffin					
23.12.1991	17,000	–	–	**17,000**	272.00p
26.11.1992	12,000	–	–	**12,000**	363.00p
06.12.1993	20,000	–	–	**20,000**	255.00p
13.12.1994	50,000	–	–	**50,000**	237.00p
15.06.1995	1,326	–	(1,326)	**–**	260.00p
19.12.1995	50,000	–	–	**50,000**	308.00p
09.12.1996	75,000	–	–	**75,000**	375.50p
26.06.1997	1,206	–	–	**1,206**	286.00p
21.11.1997	56,250	–	–	**56,250**	318.75p
25.06.1998	952	–	–	**952**	307.00p
08.12.1998	27,500	–	–	**27,500**	283.00p
23.06.1999	1,424	–	–	**1,424**	204.00p
29.11.1999	150,000	–	–	**150,000**	182.75p
28.06.2000	–	1,713	–	**1,713**	197.00p
04.01.2001	–	115,000	–	**115,000**	296.00p
	462,658	116,713	(1,326)	**578,045**	

The market price on date of exercise of the 1995 Sharesave options was 267p and the net gain on date of exercise was £92.

	At 3 April 2000	Granted during the year	Exercised during the year	**At 31 March 2001**	Exercise price
	Number of options				
L R Christensen					
15.06.1995	1,326	–	(1,326)	**–**	260.00p
19.12.1995	50,000	–	–	**50,000**	308.00p
09.12.1996	50,000	–	–	**50,000**	375.50p
21.11.1997	37,500	–	–	**37,500**	318.75p
08.12.1998	50,000	–	–	**50,000**	283.00p
23.06.1999	1,899	–	–	**1,899**	204.00p
29.11.1999	150,000	–	–	**150,000**	182.75p
04.01.2001	–	115,000	–	**115,000**	296.00p
	340,725	115,000	(1,326)	**454,399**	

The market price on date of exercise of the 1995 Sharesave Options was 267p and the gain on date of exercise was £92.

	At 3 April 2000	Granted during the year	Exercised during the year	**At 31 March 2001**	Exercise price
R G Williams					
26.11.1992	15,000	–	–	**15,000**	363.00p
15.06.1995	2,653	–	(2,653)	**–**	260.00p
19.12.1995	50,000	–	–	**50,000**	308.00p
09.12.1996	50,000	–	–	**50,000**	375.50p
26.06.1997	3,618	–	–	**3,618**	286.00p
21.11.1997	37,500	–	–	**37,500**	318.75p
08.12.1998	41,100	–	–	**41,100**	283.00p
29.11.1999	150,000	–	–	**150,000**	182.75p
28.06.2000	–	1,967	–	**1,967**	197.00p
04.01.2001	–	115,000	–	**115,000**	296.00p
	349,871	116,967	(2,653)	**464,185**	

The market price on date of exercise of the 1995 Sharesave Options was 267p and the gain on date of exercise was £185.

The middle market price of the Company's ordinary shares at 31 March 2001 was 328.25p and the range during the year ended 31 March 2001 was 190.25p to 335p.

By Order of the Board

J P Kinch
Secretary
23 May 2001

Directors' responsibilities

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

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

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

The directors confirm that these accounts comply with these requirements.

Report of the auditors

To the Shareholders of Safeway plc

We have audited the accounts on pages 40 to 50 which have been prepared under the historical cost convention and the accounting policies set out on page 43. We have also examined the amounts disclosed relating to the emoluments, share options, long-term incentive scheme interests and pension benefits of the directors which form part of the Directors' report on pages 51 to 57.

Respective responsibilities of directors and auditors

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

We review whether the Corporate Governance statement on page 52 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Financial Services Authority, 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 company'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 consider whether it is consistent with the audited accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

Basis of audit opinion

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

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

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the group at 31 March 2001 and of the group's profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen
Chartered Accountants and Registered Auditors

London
23 May 2001

The principal accounting policies, as selected by the directors, are summarised on page 43, or have been incorporated within the relevant notes on pages 44 to 50. These accounting policies have all been applied consistently throughout the year and the preceding year.