

Group profit and loss account Year ended 31 March 2001

	Notes and page numbers	2001 £m	2000 £m
Group and share of joint venture sales	1 (p44)	8,937.3	8,327.8
Less: Value Added Tax		(641.1)	(591.6)
Group and share of joint venture sales, excluding Value Added Tax		8,296.2	7,736.2
Less: Share of joint venture sales excluding Value Added Tax		(144.9)	(77.0)
Turnover , excluding Value Added Tax	1 (p44)	8,151.3	7,659.2
Cost of sales		(6,463.5)	(6,045.3)
Gross profit		1,687.8	1,613.9
Net operating expenses	2 (p44)	(1,292.4)	(1,296.5)
Operating profit	1 (p44)	395.4	317.4
Share of joint venture operating profit	3 (p44)	1.6	0.1
Net property losses	4 (p44)	(5.8)	(9.0)
Net interest payable and similar charges	5 (p44)	(76.7)	(72.4)
Profit on ordinary activities before taxation	6 (p44)	314.5	236.1
Tax on profit on ordinary activities	8 (p45)	(96.1)	(76.0)
Profit on ordinary activities after taxation		218.4	160.1
Minority interest		5.9	7.1
Profit for the financial year		224.3	167.2
Dividends paid and proposed	9 (p45)	(92.1)	(82.7)
Retained profit for the year		132.2	84.5
Repurchase of share capital, including expenses		-	(161.7)
QUEST contribution to share capital		(0.2)	(2.7)
Retained profit , beginning of the year		1,083.7	1,163.6
Retained profit , end of the year		1,215.7	1,083.7
Earnings per share	10 (p45)		
Before net property losses		22.7p	17.1p
Net property losses		(0.5p)	(0.9p)
Earnings per share		22.2p	16.2p
Diluted earnings per share		22.0p	16.2p

There are no recognised gains or losses other than those shown in the profit and loss account above.

The accompanying Notes 1.0 to 24.0 and statement of general accounting policies form part of this profit and loss account.

A summary of profit before taxation is shown in Note 1.0 on page 44.

These accounts are for the 52 week period to 31 March 2001 compared with the 52 week period to 1 April 2000. All operations of the group continued throughout both periods and no operations were acquired or discontinued.

Reconciliation of movements in shareholders' funds Year ended 31 March 2001

	Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
Profit for the financial year	224.3	167.2	71.6	68.7
Dividends paid and proposed	(92.1)	(82.7)	(92.1)	(82.7)
Retained profit for the year	132.2	84.5	(20.5)	(14.0)
New share capital subscribed, including premium	6.8	8.3	6.8	8.3
Repurchase of share capital, including expenses	-	(161.7)	-	(161.7)
QUEST contribution to share capital	(0.2)	(2.7)	(0.2)	(2.7)
Net addition to/(reduction in) shareholders' funds	138.8	(71.6)	(13.9)	(170.1)
Equity shareholders' funds , beginning of year	2,051.5	2,123.1	1,730.6	1,900.7
Equity shareholders' funds , end of year	2,190.3	2,051.5	1,716.7	1,730.6

The accompanying Notes 1.0 to 24.0 and statement of general accounting policies form part of this reconciliation.

Balance sheets at 31 March 2001

	Notes and page numbers	Group		Company	
		2001 £m	2000 £m	2001 £m	2000 £m
Fixed assets					
Tangible fixed assets	11 (p46)	3,786.0	3,797.8	-	-
Investment in BP joint venture					
Share of gross assets	12 (p46)	58.8	51.0	-	-
Less: Share of gross liabilities	12 (p46)	(10.7)	(11.4)	-	-
		48.1	39.6	-	-
Other investments	12 (p46)	100.6	97.2	1,879.9	1,876.1
		3,934.7	3,934.6	1,879.9	1,876.1
Current assets					
Stocks	13 (p47)	373.4	393.7	-	-
Debtors	14 (p47)	135.8	116.0	723.6	749.9
Money market investments and deposits	15 (p47)	-	24.5	-	-
Cash at bank and in hand	15 (p47)	126.2	113.8	333.0	450.5
		635.4	648.0	1,056.6	1,200.4
Creditors (due within one year)					
Bank overdrafts	15 (p47)	(43.1)	(45.0)	(0.2)	(0.1)
Loans	15 (p47)	(238.2)	(294.0)	(219.5)	(291.9)
Other creditors	16 (p49)	(1,161.0)	(1,173.1)	(200.1)	(193.9)
		(806.9)	(864.1)	636.8	714.5
Net current (liabilities)/assets					
		(806.9)	(864.1)	636.8	714.5
Total assets less current liabilities					
		3,127.8	3,070.5	2,516.7	2,590.6
Creditors (due after one year)					
Loans	15 (p47)	(955.0)	(1,020.4)	(800.0)	(860.0)
Provisions for liabilities and charges					
Deferred taxation	17 (p49)	-	(10.2)	-	-
		2,172.8	2,039.9	1,716.7	1,730.6
Net assets					
Capital and reserves					
Called-up share capital	18 (p49)	262.7	262.1	262.7	262.1
Share premium account	19 (p50)	681.3	675.1	681.3	675.1
Capital redemption reserve	20 (p50)	30.6	30.6	30.6	30.6
Capital reserve	21 (p50)	-	-	572.5	572.5
Profit and loss account	22 (p50)	1,215.7	1,083.7	169.6	190.3
		2,190.3	2,051.5	1,716.7	1,730.6
Equity shareholders' funds					
Minority interest		(17.5)	(11.6)	-	-
		2,172.8	2,039.9	1,716.7	1,730.6
Total capital employed					
		2,172.8	2,039.9	1,716.7	1,730.6

The accompanying Notes 1.0 to 24.0 and statement of general accounting policies form part of these balance sheets.

Approved by the Board of Directors on 23 May 2001.

D G C Webster, Director

S T Laffin, Director

Consolidated cash flow statement Year ended 31 March 2001

	Notes and page numbers	2001 £m	2000 £m
Net cash inflow from operating activities	24 (p50)	533.4	546.9
Returns on investments and servicing of finance			
Interest received		7.6	3.5
Interest paid		(84.5)	(77.0)
Interest element of finance lease rental payments		(0.4)	(0.4)
Net cash outflow from returns on investment and servicing of finance		(77.3)	(73.9)
Taxation			
Tax paid		(90.4)	(136.8)
Certificates of tax deposit utilised		-	1.6
Taxation paid		(90.4)	(135.2)
Capital expenditure and financial investment			
Payments for tangible fixed assets		(189.4)	(319.3)
Proceeds received from disposal of tangible fixed assets		27.2	75.6
Increase in own shares held by the Company	12 (p46)	(3.4)	(28.5)
Net cash outflow from capital expenditure and financial investment		(165.6)	(272.2)
Acquisitions and disposals			
Investment in joint venture		(6.9)	(30.8)
Net cash outflow from acquisitions and disposals		(6.9)	(30.8)
Equity dividends paid in cash		(88.8)	(130.6)
Net cash inflow/(outflow) before management of liquid resources and financing		104.4	(95.8)
Financing and management of liquid resources			
Proceeds received from issue of share capital		6.6	5.6
Repurchase of share capital, including expenses		-	(161.7)
(Repayment)/issue of new unsecured bonds and loans		(119.1)	251.8
Capital element of finance lease rental payments		(2.1)	(3.8)
Net cash (outflow)/inflow from financing		(114.6)	91.9
Decrease in money market investments and deposits		24.5	0.4
Net cash (outflow)/inflow from financing and management of liquid resources		(90.1)	92.3
Increase/(decrease) in net cash		14.3	(3.5)

The accompanying Notes 1.0 to 24.0 and statement of general accounting policies form part of this cash flow statement. A summarised cash flow statement is also shown on page 37.

Reconciliation of net cash flow to movement in net debt Year ended 31 March 2001

	2001 £m	2000 £m
Increase/(decrease) in net cash	14.3	(3.5)
Net cash inflow from movements in money market investments and deposits	(24.5)	(0.4)
Cash outflow/(inflow) from net movement in loans	121.2	(248.0)
Movement in net debt during the year	111.0	(251.9)
Net debt at beginning of year	(1,221.1)	(969.2)
Net debt at end of year	(1,110.1)	(1,221.1)

The accompanying Notes 1.0 to 24.0 and statement of general accounting policies form part of this reconciliation.

Analysis of movement in net debt during the year Year ended 31 March 2001

	At 1 April 2000 £m	Cash Flow £m	At 31 March 2001 £m
Cash at bank and in hand	113.8	12.4	126.2
Bank overdrafts	(45.0)	1.9	(43.1)
Net cash	68.8	14.3	83.1
Money market investments and deposits	24.5	(24.5)	-
Bank and other loans:			
Due within one year	(291.9)	56.4	(235.5)
Due after one year	(1,014.6)	68.9	(945.7)
Finance leases	(7.9)	(4.1)	(12.0)
	(1,221.1)	111.0	(1,110.1)

The accompanying Notes 1.0 to 24.0 and statement of general accounting policies form part of this analysis.

General accounting policies Year ended 31 March 2001

Basis of accounting

The accounts have been prepared under the historical cost convention and in accordance with all applicable United Kingdom accounting and financial reporting standards. These accounts are for the 52 week period to 31 March 2001 compared with the 52 week period to 1 April 2000.

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.

Foreign currency

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

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

Other

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

1.0 Sales and profit

Sales represent proceeds from external customers and are inclusive of excise duty and VAT.

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

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

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

	2001 £m	2000 £m
Group and share of joint venture sales:		
Great Britain	8,580.8	8,075.1
Northern Ireland	190.1	164.4
Group sales	8,770.9	8,239.5
Share of BP joint venture sales	166.4	88.3
Total	8,937.3	8,327.8
Turnover, excluding Value Added Tax:		
Great Britain	7,974.0	7,505.6
Northern Ireland	177.3	153.6
Total	8,151.3	7,659.2
Operating profit:		
Great Britain	396.1	322.3
Northern Ireland	(0.7)	(4.9)
Total	395.4	317.4
% margin – VAT excl.	4.8%	4.1%
Share of BP joint venture operating profit	1.6	0.1
Net interest payable and similar charges	(76.7)	(72.4)
Profit after interest	320.3	245.1
Net property losses	(5.8)	(9.0)
Profit on ordinary activities before taxation	314.5	236.1

2.0 Net operating expenses

	2001 £m	2000 £m
Distribution costs	(1,160.3)	(1,149.6)
Administrative expenses	(132.1)	(146.9)
Total	(1,292.4)	(1,296.5)

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 joint venture operating profit

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 £332.8million (2000 – £176.6 million) during the year were generated from the 51 sites trading at the end of the year. The group's share of these sales was 50% i.e. £166.4 million (2000 – £88.3 million). (Note 1.0).

During the year, Safeway purchased products on behalf of the partnership totalling £69.8 million (2000 – £39.9 million) and provided distribution services for a fee of £3.9 million (2000 – £2.4 million).

4.0 Net property losses

	2001 £m	2000 £m
Profits on property disposals	4.0	17.4
Losses on property disposals	(9.8)	(8.5)
Provisions for loss on disposal of stores and development sites	–	(17.9)
Total	(5.8)	(9.0)

5.0 Net interest payable and similar charges

	2001 £m	2000 £m
Interest payable:		
Short term bank loans and overdrafts repayable		
within five years	(30.6)	(31.2)
Sterling bonds	(56.9)	(53.3)
Finance charges payable on finance leases	(0.5)	(0.5)
Total	(88.0)	(85.0)
Interest capitalised on freehold and long leasehold developments	4.0	8.3
Total	(84.0)	(76.7)
Interest receivable on money market investments and deposits and other items	2.1	3.2
Other	5.2	1.1
Total	(76.7)	(72.4)

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:

	2001 £m	2000 £m
Depreciation of tangible fixed assets	178.9	191.7
Hire charges under operating leases:		
Plant and equipment	26.0	23.7
Property	54.0	53.5
Auditors' remuneration	0.3	0.3
Staff costs, including directors' emoluments (Note 7.2 below)	893.2	823.7

Depreciation of tangible fixed assets in 2000 included £17.9 million of provisions for losses on disposal of stores and development sites.

Other fees paid to the auditors during the year, mainly comprising taxation advice fees, totalled £0.3 million (2000 – £0.3 million).

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



Net operating expenses (Note 2.0 above) have fallen since last year, which is partly a consequence of non-recurring central support redundancy costs incurred during 2000, but also as a result of finding more cost effective ways to deliver distribution and support services to the rest of the business. These cost savings have helped fund further investment in providing better service and availability for our customers.

7.0 Staff costs and directors' emoluments

7.1 Numbers employed:

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

	2001 Number	2000 Number
Total employed	87,760	80,710
Full-time equivalent	57,904	56,951

At 31 March 2001, the total number of employees was 89,110 (2000 – 84,707) and the full-time equivalent number was 56,868 (2000 – 57,004).

7.2 Staff costs:

	2001 £m	2000 £m
Wages and salaries	819.6	755.5
Social security costs	53.1	48.1
Other pension costs	20.5	20.1
	893.2	823.7

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

	2001 £'000	2000 £'000
Fees	118	131
Fixed remuneration	2,093	2,026
Annual incentive payments	698	283
Gains on exercise of share options	46	2
Pension contributions to money purchase scheme	199	114
	3,154	2,556
Compensation on termination of employment	625	1,533
	3,779	4,089

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 of the Directors on pages 51 to 57.

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.

	2001 £m	2000 £m
United Kingdom corporation tax at 30% (2000 – 30%)	102.4	81.8
Overseas taxation	1.3	2.1
Deferred tax	(10.2)	–
Prior year items	2.6	(7.9)
	96.1	76.0

No taxation relief has been assumed on the net property losses of £5.8 million (2000 – £9.0 million).

9.0 Dividends paid and proposed

	2001 £m	2000 £m
Ordinary shares:		
Interim of 2.77p paid (2000 – 2.64p)	29.1	27.7
Final of 6.3p payable (2000 – 6.0p)	66.2	62.9
Dividends waived	(3.2)	(3.2)
Reduction due to share buy-back	–	(4.7)
	92.1	82.7

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 2000 final dividend and the 2001 interim dividend was £235,879 (2000 – £289,339) and the maximum that could be waived in respect of the 2001 final dividend on shares currently held by the Trust is £224,585.

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 2000 final dividend and the 2001 interim dividend was £2,996,252 (2000 – £2,820,425) and the maximum that could be waived in respect of the 2001 final dividend on shares currently held by the Trust is £2,145,767.

The charge for the 2000 interim dividend of £23.0 million was reduced by the release of £4.7 million from the provision for the final dividend at 3 April 1999. This was due to the subsequent cancellation of shares resulting from the share repurchase programme during the period.

10.0 Earnings per share

The calculation of earnings per share is based on the net profit attributable to ordinary shareholders of £224.3 million (2000 – £167.2 million) divided by the weighted average number of ordinary shares in issue during the year, excluding those owned by the Company, totalling 1,012,233,754 (2000 – 1,029,600,738).

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

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:

	2001	2000
Weighted average exercise price of share options in the year	205.47p	197.52p
Average daily share price in the year	276.99p	221.34p
Dilution ratio applied to share options	25.82%	10.76%
Weighted average number of dilutive share options (millions)	6.6	1.4
Weighted average number of shares in issue in the year (millions)	1,012.2	1,029.6
Total number of shares for calculating diluted earnings per share (millions)	1,018.8	1,031.0



A final dividend of 6.3p has been recommended, payable on 6 August 2001 to shareholders on the register on 25 May 2001.

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.

11.1 Group

	Land and buildings			Plant, equipment and vehicles	Total
	Freehold	Long leasehold	Short leasehold		
	£m	£m	£m	£m	£m
Cost:					
Beginning of year	3,163.2	313.3	191.5	1,270.7	4,938.7
Additions	60.0	14.1	14.3	115.4	203.8
Disposals	(34.6)	(4.3)	(5.2)	(34.8)	(78.9)
End of year	3,188.6	323.1	200.6	1,351.3	5,063.6
Depreciation:					
Beginning of year	258.5	45.5	71.5	765.4	1,140.9
Charged during the year	46.4	4.8	4.4	123.3	178.9
Disposals	(7.5)	(1.2)	(4.7)	(28.8)	(42.2)
End of year	297.4	49.1	71.2	859.9	1,277.6
Net book value:					
Beginning of year	2,904.7	267.8	120.0	505.3	3,797.8
End of year	2,891.2	274.0	129.4	491.4	3,786.0
Assets in course of construction included in cost above:					
Beginning of year	122.3	-	-	1.6	123.9
End of year	122.2	0.2	-	10.6	133.0

11.1.1 Freehold land included in the total cost above amounts to £1,355.0 million (2000 – £1,364.2 million).

11.1.2 At 31 March 2001, the cost and depreciation values for plant, equipment and vehicles included £448.6 million of fully depreciated fixed assets (2000 – £360.9 million).

11.1.3 At 31 March 2001, the net book value of tangible fixed assets included £10.9 million of leased plant, equipment and vehicles (2000 – £5.6 million).

11.1.4 The depreciation charged in respect of leased plant, equipment and vehicles during the year amounted to £1.2 million (2000 – £0.8 million).

11.1.5 Interest capitalised on freehold and long leasehold developments included in additions during the year amounted to £4.0 million (2000 – £8.3 million). The cumulative amount of interest capitalised in the total cost above amounts to £139.8 million (2000 – £135.8 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 £48.1 million (2000 – £39.6 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 £8.5 million is explained by the group's share of the cost of developing and fitting out sites (£6.9 million) and its share of the profit (£1.6 million – Note 1.0).

At 31 March 2001, 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 £58.8 million (2000 – £51.0 million) and £10.7 million (2000 – £11.4 million) respectively.

12.2 Other fixed asset investments comprise:

	Group		Company	
	2001	2000	2001	2000
	£m	£m	£m	£m
Own shares held by the Company's ESOP	10.7	6.9	10.7	6.9
Own shares held by the Company's CCPSOP	89.9	90.3	89.9	90.3
Subsidiaries	-	-	111.0	111.0
Loans to subsidiaries	-	-	1,668.3	1,667.9
	100.6	97.2	1,879.9	1,876.1

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 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 grant.

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

Date of grant	Subscription price	Number of shares		Last date when options exercisable
		At 31 March 2001	At 1 April 2000	
25.11.1997	333.00p	4,400,292	5,514,634	24.5.2004
2.12.1998	296.00p	11,804,031	14,453,771	1.6.2005
16.12.1999	205.00p	15,403,415	18,683,514	15.6.2006
		31,607,738	38,651,919	

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

At 31 March 2001, the Trust held 34,113,947 (2000 – 34,271,536) ordinary shares of the Company at an aggregate cost of £89.9 million (2000 – £90.3 million). The related loan from the Company is included within Investments on the balance sheet. The market value of the shares held by the Trust at 31 March 2001 was £112.0 million (2000 – £65.2 million).

12.4 Investments in Subsidiaries

In the Company's accounts, investments in subsidiaries which include loans to subsidiaries of a long-term nature are stated at cost, less amounts written off. Only dividends received and receivable are credited to the Company's profit and loss account. 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.	50.01	N. Ireland	England	Grocery retailer

* Direct subsidiary of the Company.

In addition to the above, the Company has a number of other subsidiary companies, particulars of which will be annexed to the next annual return of the Company.

13.0 Stocks

Stocks 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.

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

14.0 Debtors

	Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
Amounts falling due within one year:				
Trading debtors	82.5	60.8	-	-
Amounts owed by group undertakings	-	-	715.3	740.8
Amounts owed by joint venture	0.1	5.6	-	-
Interest receivable	1.6	1.9	0.2	0.1
Tangible fixed asset disposals	-	1.7	-	-
Other debtors	31.3	28.4	8.1	9.0
Prepayments and accrued income	20.3	17.6	-	-
	135.8	116.0	723.6	749.9

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 15.8 below.

15.1 Financial assets:

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

	Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
Cash at bank and in hand	126.2	113.8	333.0	450.5
Investments in sterling denominated debt securities	-	24.5	-	-
	126.2	138.3	333.0	450.5

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

All investments in debt securities were in fixed rate securities. As at 1 April 2000, the average yield to maturity on the debt securities held was 6.4%, and the weighted average time for which the rate was fixed was 1.7 years.

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

15.2 Financial liabilities

The group and the Company's borrowings comprise:

	Interest rate	Group		Company	
		2001 £m	2000 £m	2001 £m	2000 £m
Unsecured bank loans and overdrafts:					
2000	Floating	-	130.6	-	85.7
2001	Floating	262.6	210.0	219.7	210.0
2002	Floating	142.0	135.0	-	-
		404.6	475.6	219.7	295.7
Debenture and other loans:					
Unsecured loan 2001	Floating	16.0	16.0	-	-
Sterling Bonds 2002	Fixed	150.0	150.0	150.0	150.0
Sterling Bonds 2004	Fixed	150.0	150.0	150.0	150.0
Sterling Bonds 2014	Fixed	150.0	150.0	150.0	150.0
Sterling Bonds 2018	Fixed	200.0	200.0	200.0	200.0
Euro Bonds 2010	Fixed	150.0	-	150.0	-
Euro Medium Term Notes	Floating	-	206.3	-	206.3
Lease loan capital	Fixed	12.1	7.9	-	-
Other loan notes	Floating	3.6	3.6	-	-
		831.7	883.8	800.0	856.3
		1,236.3	1,359.4	1,019.7	1,152.0
Less: Amount repayable within one year		(281.3)	(339.0)	(219.7)	(292.0)
		955.0	1,020.4	800.0	860.0

Although issued in a currency other than Sterling, the proceeds of the Euro Bonds (Euro 250 million) were swapped into fixed rate Sterling on receipt on 12 April 2000.

At 31 March 2001, the weighted average interest rate of fixed rate borrowings, after taking account of interest rate swaps, was 7.2% (2000 – 7.3%). The weighted average period for which these borrowings are fixed is 10.4 years (2000 – 11.8 years).

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

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 31 March 2001 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 Company had also swapped a further £50 million of fixed rate debt into floating rate debt, based on LIBOR, that matures in 2004.

In addition, the Company executed two cross currency interest rate swaps to hedge its Euro Bonds liabilities (referred to above) and to swap the fixed Euro interest rate payable on the Bonds into fixed rate Sterling.

15.3 Borrowing facilities

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

	2001 £m	2000 £m
Expiring within one year	145.0	50.0
Expiring within one to two years	58.0	50.0
Expiring after two years	-	65.0
	203.0	165.0

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	
	2001 £m	2000 £m	2001 £m	2000 £m
Due within one year:				
Bank	262.6	130.6	219.7	85.7
Lease	2.7	2.1	-	-
Euro Medium Term Notes	-	206.3	-	206.3
Other	16.0	-	-	-
Due within one to two years:				
Bank	142.0	210.0	-	210.0
Lease	1.3	2.0	-	-
Sterling bonds	150.0	-	150.0	-
Other	-	16.0	-	-
Due within two to five years:				
Bank	-	135.0	-	-
Lease	4.3	1.9	-	-
Sterling Bonds	150.0	300.0	150.0	300.0
Due after five years:				
Lease	3.8	1.9	-	-
Sterling Bonds	350.0	350.0	350.0	350.0
Euro Bonds	150.0	-	150.0	-
Other	3.6	3.6	-	-
	1,236.3	1,359.4	1,019.7	1,152.0



Stocks are held at our depots and in our stores, and comprise everything we sell from fresh produce to petrol, and from canned goods to crisps. They are stated at the lower of cost and net realisable value.

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.

	2001		2000	
	European currencies	Other currencies	European currencies	Other currencies
	£m	£m	£m	£m
Sterling	(0.6)	(0.2)	5.8	(1.0)

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 31 March 2001.

	2001		2000	
	Book value	Fair value	Book value	Fair value
	£m	£m	£m	£m
Primary financial instruments held or issued to finance the group's operations				
Loans repayable within one year	281.3	281.3	339.0	349.8
Loans repayable after one year	955.0	977.6	1,020.4	1,001.2
Money market investments and deposits	-	-	24.5	24.8
Derivative financial instruments held to manage the foreign currency and interest rate profile				
Interest rate swaps	-	(1.9)	-	(14.7)
Cross currency interest rate swaps	-	2.7	-	10.8

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.

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:

	2001			2000		
	Gains	Losses	Net	Gains	Losses	Net
	£m	£m	£m	£m	£m	£m
Unrecognised, beginning of year	10.8	(14.7)	(3.9)	-	(3.5)	(3.5)
Arising in previous years and recognised during the year	(10.8)	1.8	(9.0)	-	-	-
Arising during the year and not recognised during the year	4.3	9.4	13.7	10.8	(11.2)	(0.4)
Unrecognised, end of year	4.3	(3.5)	0.8	10.8	(14.7)	(3.9)

Of which:

Expected to be recognised within one year	0.8	(0.5)	0.3	10.8	(1.8)	9.0
Expected to be recognised after more than one year	3.5	(3.0)	0.5	-	(12.9)	(12.9)

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 combination of both internal and external reviews and audits, 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 just over £1.4 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 maturity profile of our borrowings was extended when the group issued a ten year Euro 250 million bond in April 2000, the proceeds of which were, on receipt, swapped into fixed rate Sterling. This enabled the repayment of the Euro Medium Term Notes which were in issue last year end and which matured during the year. As detailed in Note 15.4, only 23% of the group's financial liabilities will mature in the next twelve months, 36% will mature in one year but less than five years, and 41% 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 around 50%. During the year the fixed rate debt proportion ranged from 34% at its lowest, at the beginning of the year, to 51% at its highest. The proceeds from the issue of the Euro 250 million bond immediately after the start of the year, noted above, raised the 34% immediately to 45%. 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, generally up to three months ahead, by using forward contracts when the forecast exposure becomes reasonably certain. This policy was followed throughout the year.

Following the establishment of our Euro Medium Term Note Programme in July 1999, loan notes have been issued in various currencies other than Sterling. In order to avoid any exposure to subsequent fluctuations in foreign exchange rates, the proceeds of all such medium term notes are swapped into Sterling on issue using cross currency interest rate swaps.

16.0 Other creditors

	Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
Amounts falling due within one year:				
Trade creditors	684.7	700.5	–	–
Amounts due to group undertakings	–	–	110.9	110.9
Current taxation	77.0	61.1	–	–
Interest payable	24.0	21.7	22.7	19.9
Capital expenditure	77.9	67.4	–	–
Social security and PAYE	16.8	14.3	–	–
VAT	24.0	20.4	–	–
Other creditors	132.9	126.0	0.3	0.2
Accruals and deferred income	57.3	98.5	–	–
Accrued pension contributions	0.2	0.3	–	–
Proposed dividends	66.2	62.9	66.2	62.9
	1,161.0	1,173.1	200.1	193.9

17.0 Deferred taxation

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

17.1 The movement on deferred taxation during the year was:

	Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
Beginning of year	10.2	10.2	–	–
Release	(10.2)	–	–	–
End of year	–	10.2	–	–

17.2 The total potential group liability for deferred taxation calculated at 30% (2000 – 30%) and the amounts provided are as follows:

	Total		Provided	
	2001 £m	2000 £m	2001 £m	2000 £m
Tax allowances in excess of recorded depreciation	218.2	221.1	–	10.2
Other timing differences	(14.4)	(11.2)	–	–
Capital gains deferred by roll-over relief	2.0	6.2	–	–
	205.8	216.1	–	10.2

18.0 Called-up share capital

18.1 Authorised:

	2001 £m	2000 £m
1,500,000,000 ordinary shares of 25p each (2000 – 1,500,000,000)	375.0	375.0

18.2 Allotted, called-up and fully-paid:

	Ordinary shares	£m
Beginning of year	1,048,299,976	262.1
Share options exercised	2,547,737	0.6
End of year	1,050,847,713	262.7

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	At 31 March 2001	Number of shares	Last date
			At 1 April 2000	when options exercisable
Executive Scheme:				
29.11.1990	234.63p	–	91,080	28.11.2000
23.12.1991	272.00p	167,000	287,000	22.12.2001
26.11.1992	363.00p	532,800	864,800	25.11.2002
06.12.1993	255.00p	273,000	528,500	05.12.2003
13.12.1994	237.00p	504,000	1,004,000	12.12.2004
19.12.1995	308.00p	1,783,000	2,631,000	18.12.2005
09.12.1996	375.50p	2,130,000	3,080,000	08.12.2006
21.11.1997	318.75p	2,444,850	3,228,950	20.11.2007
08.12.1998	283.00p	2,599,700	3,525,800	07.12.2008
17.08.1999	233.50p	321,200	321,200	16.08.2009
29.11.1999	182.75p	5,925,250	7,134,394	28.11.2009
12.06.2000	246.00p	100,000	–	11.06.2010
04.01.2001	296.00p	5,669,900	–	03.01.2011
		22,450,700	22,696,724	
Sharesave:				
23.06.1994	194.00p	–	33,638	29.02.2000
15.06.1995	260.00p	24,433	1,605,212	28.02.2001
29.07.1996	271.00p	1,515,828	1,738,638	28.02.2002
26.06.1997	286.00p	1,612,336	3,306,950	28.02.2003
25.06.1998	307.00p	2,287,233	3,074,533	29.02.2004
23.06.1999	204.00p	6,342,085	9,312,296	28.02.2005
28.06.2000	197.00p	8,767,475	–	28.02.2006
		43,000,090	41,767,991	

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 4,840,670 ordinary shares granted under the Executive Scheme lapsed.

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

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

19.0 Share premium account

	2001 £m	2000 £m
Beginning of year	675.1	667.6
Share options exercised	6.0	4.8
QUEST contribution to share capital	0.2	2.7
End of year	681.3	675.1

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 Capital reserve

This represents the reserve in the Company's balance sheet arising on the acquisition in 1987 of Safeway Food Stores Limited, a subsidiary of Safeway Incorporated (USA). In the opinion of the directors, this reserve is not distributable and accordingly it will be carried forward as a capital reserve.

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		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
Beginning of year	1,083.7	1,163.6	190.3	368.7
Profit for the financial year	224.3	167.2	71.6	68.7
Dividends paid and proposed	(92.1)	(82.7)	(92.1)	(82.7)
Repurchase of share capital, including expenses	-	(161.7)	-	(161.7)
QUEST contribution to share capital	(0.2)	(2.7)	(0.2)	(2.7)
End of year	1,215.7	1,083.7	169.6	190.3

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 (2000 – £608.0 million).

23.0 Commitments and contingencies

23.1 Capital commitments authorised and contracted for at the year end totalled £28.6 million (2000 – £28.9 million)

23.2 Lease commitments

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

	2001		2000	
	Property £m	Plant and equipment £m	Property £m	Plant and equipment £m
Operating leases which expire:				
Within one year	0.3	5.3	0.5	8.0
Within two to five years	4.7	22.6	3.7	15.9
After five years	48.8	-	47.5	-
	53.8	27.9	51.7	23.9

23.3 Pension schemes

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

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

The latest valuation of the scheme was carried out as at 1 April 1998 using the projected unit method. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries, pensions and dividends. It was assumed that retail price inflation would be 3½% per annum, that the investment return would be 7½% per annum, that salary increases would average 5½% per annum, that pensions (in excess of the Guaranteed Minimum Pension) would increase at the rate of 3½% per annum and that dividends on United Kingdom equity investments would increase at 3½% per annum.

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

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

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

The total pension cost for the year amounted to £20.3 million (2000 – £20.4 million). This reflected a regular cost of £28.1 million (2000 – £27.8 million) and a credit of £7.8 million (2000 – £7.4 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 £229.3 million (2000 – £225.6 million).

24.0 Net cash inflow from operating activities

	2001 £m	2000 £m
Operating profit	395.4	317.4
Net property losses	(5.8)	(9.0)
Depreciation	178.9	191.7
Loss/(profit) on disposal of tangible fixed assets	11.2	(6.7)
Decrease/(increase) in stock	20.3	(66.4)
(Increase)/decrease in debtors	(21.7)	15.6
(Decrease)/increase in creditors	(44.9)	104.3
	533.4	546.9