746956

SAFEWAY STORES plc

REPORT AND ACCOUNTS 1996

SAFEWAY STORES plc

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SAFEWAY STORES plc

DIRECTORS AND ADMINISTRATION

Country of Registration	England
Registered Number	746956
Registered Office	6 Millington Road, Hayes, Middlesex, UB3 4AY.
Directors	C.D. Smith - Chairman R.G.B. Charters L.R. Christensen I.E. Fraser T. Gartland D.J.H. Huber J.P. Kinch S.T. Laffin A.R. Morris R.E. Partington R.G. Williams M.J. Winch G. Wotherspoon
Company Secretary	J.P. Kinch, FCIS
Solicitors	Clifford Chance
Auditors	Arthur Andersen

SAFEWAY STORES plc

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 30 March 1996.

PRINCIPAL ACTIVITY AND BUSINESS REVIEW

The principal activity of the group continues to be grocery retailing in the United Kingdom. The company is the principal operating subsidiary of Argyll Group PLC. During the year, the group extended its grocery retail interests through its Safeway and Presto new store opening programmes and this is planned to continue in the current year. However, certain Safeway stores not able to deliver the enhanced customer offer were closed and a number of small Presto stores were either closed or disposed of during the year.

The company acquired all the business and assets of its fellow subsidiary company Presto Stores Limited with effect from the close of business on 1 April 1995 and for a total consideration of £73.9 million, being the net asset value at 1 April 1995.

The company acquired all the business and assets of its fellow subsidiary company SK Assets Limited with effect from the start of business on 31 March 1996 and for a total consideration of £10.9 million, being the net asset value at 31 March 1996.

RESULTS AND DIVIDENDS

The group's profit on ordinary activities before taxation amounted to £391.2 million (1995 - £161.4 million). Sales for the year were £6,500.0 million (1995 - £5,325.5 million).

The profit attributable to ordinary shareholders for the year amounted to £272.1 million (1995 - £88.6 million).

A first interim dividend of 20.04036p per ordinary share totalling £46.0 million was paid on 18 March 1996 (1995 - £38.0 million) and a second interim dividend of 40.95204p per ordinary share totalling £94.0 million (1995 - £82.0 million) was paid on 28 March 1996. The directors do not recommend the payment of a final dividend in respect of the year ended 30 March 1996 (1995 - £Nil).

DIRECTORS

The directors of the company during the year were:-

C.D. Smith		S.T. Laffin	
P.O. Kieran	- Retired 31 December 1995	A.R. Morris	
R.G.B. Charters	- Appointed 13 June 1995	R.E. Partington	
L.R. Christensen		M.L. Taylor	- Resigned 14 June 1995
I.E. Fraser	- Appointed 29 February 1996	R.G. Williams	
T. Gartland		M.J. Winch	
D.J.H. Huber		G. Wotherspoon	
J.P. Kinch			

DIRECTORS' INTERESTS

The company is a wholly-owned subsidiary of Argyll Group PLC and consequently none of the directors have any interest in the shares of the company.

The following directors who were not also directors of the company's ultimate holding company at 30 March 1996 were interested in the ordinary 25p shares of Argyll Group PLC at the end of the year as indicated below:-

	30 March 1996		1 April 1995	
	Shares	Share options	Shares	Share options
L.R. Christensen	3,567	186,702	3,330	190,834
I.E. Fraser	-	121,668	- *	121,668 *
T. Gartland	7,285	162,876	22,285	162,876
D.J.H. Huber	300	174,330	20,815	174,351
J.P. Kinch	51,076	149,202	38,788	168,739
S.T. Laffin	8,562	156,297	1,502	124,418
A.R. Morris	5,631	197,748	5,631	158,768
R.E. Partington	-	106,634	-	50,000
R.G. Williams	-	177,609	-	124,956
M.J. Winch	4,391	176,702	4,332	176,726

* At date of appointment

Share options granted to and exercised by directors during the year or since appointment are set out below:-

	Granted	Exercised		Granted	Exercised
L.R. Christensen	51,326	55,458	S.T. Laffin	51,326	19,447
I.E. Fraser	- *	- *	A.R. Morris	38,980	-
T. Gartland	-	-	R.E. Partington	56,634	-
D.J.H. Huber	53,317	53,338	R.G. Williams	52,653	-
J.P. Kinch	51,326	70,863	M.J. Winch	51,326	51,350

* Since date of appointment

Mr.C.D.Smith, Mr.R.G.B.Charters and Mr.G.Wotherspoon are directors of Argyll Group PLC and their interests in the shares of Argyll Group PLC are disclosed in the accounts of that company. Mr.S.T.Laffin was appointed a director of Argyll Group PLC on 9 May 1996.

The share options referred to above relate to options granted under The Argyll Group Executive Share Option Scheme and/or The Argyll Savings Related Share Option Scheme and enable the option holder to subscribe for ordinary 25p shares of Argyll Group PLC. Details of options currently outstanding are:-

Date of Grant	Subscription price	Exercise Period		
7 December 1987	166.48p	7 December 1990	to	6 December 1997
15 December 1988	157.72p	15 December 1991	to	14 December 1998
18 December 1989	196.66p	18 December 1992	to	17 December 1999
14 June 1990	181.08p	1 September 1995	to	31 August 1996
29 November 1990	234.63p	29 November 1993	to	28 November 2000
21 June 1991	227.00p	1 September 1996	to	28 February 1997
23 December 1991	272.00p	23 December 1994	to	22 December 2001
18 June 1992	279.00p	1 September 1997	to	28 February 1998
26 November 1992	363.00p	26 November 1995	to	25 November 2002
15 July 1993	264.00p	1 September 1998	to	28 February 1999
6 December 1993	255.00p	6 December 1996	to	5 December 2003
23 June 1994	194.00p	1 September 1999	to	29 February 2000
13 December 1994	237.00p	13 December 1997	to	12 December 2004
15 June 1995	260.00p	1 September 2000	to	28 February 2001
19 December 1995	308.00p	19 December 1998	to	18 December 2005

Executive scheme options granted in and since December 1993 (and prior to December 1995) will become exercisable normally only when the earnings per share growth of the ultimate holding 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 a least 1% per annum. For options granted in December 1995, the required level of earnings per share growth by the ultimate holding company has been increased to an average of at least 2% per annum in excess of the Retail Prices Index.

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

CASH FLOW STATEMENT

Under the provisions of Financial Reporting Standard No.1, the company has not presented a cash flow statement because its ultimate holding company has prepared consolidated accounts which include the company and which contain a cash flow statement.

TANGIBLE FIXED ASSETS

Capital expenditure during the year related principally to the group's programme for the development and refurbishment of retail stores and the expansion of its physical distribution facilities.

The movement in tangible fixed assets during the year is set out in Note 10 on page 17.

SUPPLIERS' PAYMENT POLICY

Our strategy is to have mutually beneficial long term relationships with our suppliers. The company's policy is to settle the terms of payment with suppliers in advance and abide by those terms.

EMPLOYMENT POLICIES

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

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

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

The number and wide geographic distribution of the group's operating locations make it difficult but essential to communicate effectively with employees. Communications and consultation within the group's retail activities are principally through the operational structure of store, area and regional management, and particular use is made of company magazines.

PRODUCT RESEARCH AND DEVELOPMENT

We are committed to the continuing development of our product range and own brand products in particular. We work in close co-operation with our suppliers on the provision of a comprehensive range of good value products whilst emphasising quality and innovation. During the year, the company invested around £5 million (1995 - around £5 million) on these activities to support our already high standards of customer service, hygiene and general safety levels.

CLOSE COMPANY STATUS

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.

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.

BY ORDER OF THE BOARD

J.P.Kinch
Secretary
20 June 1996

SAFEWAY STORES plc

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:

* to select suitable accounting policies and then apply them consistently;

* to make judgements and estimates that are reasonable and prudent;

* to state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and

* 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.

AUDITORS' RESPONSIBILITIES

Company law requires the auditors to form an independent opinion on the accounts presented by the directors based on their audit and to report their opinion to the shareholders. The Companies Act 1985 also requires auditors to report to the shareholders if the following requirements are not met:

* that the company and the group have maintained proper accounting records and that proper returns adequate for the audit have been received from branches not visited by them;

* that the accounts are in agreement with the accounting records and returns;

* that directors' emoluments and other transactions with directors are properly disclosed in the accounts; and

* that the auditors have obtained all the information and explanations which, to the best of their knowledge and belief, are necessary for the purposes of their audit.

Additionally, the Companies Act 1985 requires the auditors to report to the shareholders if the matters contained in the report of the directors are inconsistent with the accounts.

SAFEWAY STORES plc

REPORT OF THE AUDITORS

TO THE SHAREHOLDERS OF SAFEWAY STORES plc:

We have audited the accounts on pages 8 to 24 which have been prepared under the historical cost convention and the accounting policies set out on pages 8 and 9.

Respective responsibilities of directors and auditors

As described on page 6, the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of 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 accuracy 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 30 March 1996 and of the group's profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen Arthur Andersen
Chartered Accountants and Registered Auditors,
1 Surrey Street,
London, WC2R 2PS

20 June 1996

SAFEWAY STORES plc

STATEMENT OF ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The accounts have been prepared on the historical cost basis and in accordance with applicable accounting standards, using the following accounting policies:-

PRINCIPLES OF CONSOLIDATION

The group accounts comprise the accounts of the company and its subsidiary undertakings, all of which are wholly-owned subsidiaries. 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 has been written off against reserves.

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

INVESTMENTS IN SUBSIDIARIES

In the company's accounts, investments in subsidiaries are stated at cost, less amounts written off. Only dividends received and receivable are credited to the company's profit and loss account.

TANGIBLE FIXED ASSETS

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

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.

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.

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

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

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

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

The group's policy is to maintain its properties to a high standard through a continual programme of refurbishment and maintenance.

STOCKS

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

TAXATION

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

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.

PENSION SCHEME CONTRIBUTIONS

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.

SALES

Sales represent proceeds from external customers and are inclusive of excise duty and value added tax.

COST OF SALES AND DISTRIBUTION COSTS

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

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

PRODUCT RESEARCH AND DEVELOPMENT

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

SAFEWAY STORES plc

GROUP PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 30 MARCH 1996

	Notes	1996 £m	1995 £m	Exceptional items £m	Before Exceptional items £m
SALES	1	6,500.0	5,325.5	-	5,325.5
Value added tax		(430.6)	(344.9)	-	(344.9)
TURNOVER, excluding value added tax		6,069.4	4,980.6	-	4,980.6
Cost of sales		(4,725.8)	(3,841.4)	(19.2)	(3,822.2)
GROSS PROFIT		1,343.6	1,139.2	(19.2)	1,158.4
Net operating expenses	2	(926.5)	(925.4)	(116.9)	(808.5)
OPERATING PROFIT		417.1	213.8	(136.1)	349.9
Net property losses	3	(9.5)	(47.1)	(42.3)	(4.8)
Profit on disposal of investments	4	2.9	-	-	-
Net interest payable	5	(19.3)	(5.3)	-	(5.3)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	6	391.2	161.4	(178.4)	339.8
Tax on profit on ordinary activities	8	(119.1)	(72.8)	29.0	(101.8)
PROFIT FOR THE FINANCIAL YEAR		272.1	88.6	(149.4)	238.0
Dividends paid and proposed	9	(140.0)	(120.0)		
RETAINED PROFIT/(LOSS) FOR THE YEAR		132.1	(31.4)		
RETAINED PROFIT, beginning of year		573.6	605.0		
RETAINED PROFIT, end of year		705.7	573.6		

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

The accompanying notes and statement of accounting policies form part of this profit and loss account.

SAFEWAY STORES plc

BALANCE SHEETS AT 30 MARCH 1996

		GROUP		COMPANY	
	Notes	1996 £m	1995 £m	1996 £m	1995 £m
FIXED ASSETS					
Tangible fixed assets	10	2,980.3	2,707.0	2,926.7	2,651.8
Investments	11	0.4	0.4	250.8	250.8
		2,980.7	2,707.4	3,177.5	2,902.6
CURRENT ASSETS					
Stocks	12	268.7	257.8	266.8	256.1
Debtors	13	103.3	97.9	167.8	165.7
Cash at bank and in hand		47.3	2.2	17.2	1.1
		419.3	357.9	451.8	422.9
CREDITORS, due within one year					
Bank overdrafts		(77.0)	(28.3)	(77.0)	(53.4)
Loans	15	(13.2)	(13.4)	(13.2)	(13.4)
Other creditors	14	(1,431.1)	(1,279.8)	(1,676.5)	(1,524.9)
NET CURRENT LIABILITIES		(1,102.0)	(963.6)	(1,314.9)	(1,168.8)
TOTAL ASSETS LESS CURRENT LIABILITIES		1,878.7	1,743.8	1,862.6	1,733.8
CREDITORS, due after one year					
Loans	15	(933.3)	(930.5)	(933.3)	(930.5)
PROVISIONS FOR LIABILITIES AND CHARGES					
Deferred taxation	16	(10.2)	(10.2)	(10.2)	(10.2)
NET ASSETS		935.2	803.1	919.1	793.1
CAPITAL AND RESERVES					
Called-up share capital	17	229.5	229.5	229.5	229.5
Profit and loss account		705.7	573.6	689.6	563.6
TOTAL CAPITAL EMPLOYED	18	935.2	803.1	919.1	793.1

Approved by the Board of Directors on 20 June 1996

C.D. SMITH) DIRECTORS
S.T. LAFFIN)

The accompanying notes and statement of accounting policies form part of these balance sheets.

SAFEWAY STORES plc

NOTES TO THE ACCOUNTS

1. TRADING INFORMATION

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

The company acquired all the business and assets of its fellow subsidiary company Presto Stores Limited with effect from the close of business on 1 April 1995 and for a total consideration of £73.9 million, being the net asset value at 1 April 1995.

The exceptional items charge in the year ended 1 April 1995 related to the group's strategic "Safeway 2000" programme. It comprised all the fixed asset write downs against the net book values of stores not able to deliver the enhanced customer offer arising from this programme, including provisions for the expected losses on future property disposals arising from specific store closures, together with costs and provisions relating to redundancy, training, logistics, property, consultancy, market research and other costs associated with the strategic review.

The company acquired all the business and assets of its fellow subsidiary company SK Assets Limited with effect from the start of business on 31 March 1996 and for a total consideration of £10.9 million, being the net asset value at 31 March 1996.

2. NET OPERATING EXPENSES

	1996 £m	1995 £m	Exceptional Items £m	Before Exceptional Items £m
Distribution costs	(830.9)	(797.7)	(82.4)	(715.3)
Administrative expenses	(95.6)	(127.7)	(34.5)	(93.2)
	(926.5)	(925.4)	(116.9)	(808.5)

Distribution costs and administrative expenses charged in the year ended 1 April 1995 are net of allocations of costs incurred by the company and recharged to Presto Stores Limited, a fellow subsidiary company.

Included in administrative expenses is a management fee of £4.5 million (1995 - £7.6 million) payable to the ultimate holding company for services provided.

3. NET PROPERTY LOSSES

	1996 £m	1995 £m	Exceptional Items £m	Before Exceptional Items £m
Profits on property disposals	4.1	4.4	-	4.4
Losses on property disposals	(10.5)	(6.6)	-	(6.6)
Provisions for disposal of stores not able to deliver the enhanced customer offer	(3.1)	(44.9)	(42.3)	(2.6)
	(9.5)	(47.1)	(42.3)	(4.8)

4. PROFIT ON DISPOSAL OF INVESTMENTS

During the year, certain investments were transferred to the company from a fellow subsidiary company at an estimated market value of £34.1 million. These investments were sold subsequently to a third party for £37.0 million.

5. NET INTEREST PAYABLE

	1996 £m	1995 £m
Interest payable:		
Loans from ultimate holding company	(21.8)	(20.4)
Loans repayable by instalments within five years	(2.6)	(2.7)
Bank overdrafts and loans repayable other than by instalments within five years	(5.8)	(0.2)
Loans not wholly repayable within five years	(1.5)	(2.0)
	(31.7)	(25.3)
Interest capitalised on freehold and long leasehold developments	11.2	15.9
	(20.5)	(9.4)
Interest receivable	1.2	4.1
	(19.3)	(5.3)

The interest element of charges payable under finance leases amounted to £3.5 million (1995 - £4.7 million).

6. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

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

	1996 £m	1995 £m
Depreciation of tangible fixed assets	137.1	122.2
Exceptional write downs against tangible fixed assets	-	72.2
Hire charges under operating leases - Plant and equipment	18.2	14.2
- Property	57.8	54.4
Other hire charges	1.8	1.3
Auditors' remuneration - audit	0.2	0.3
- other	3.7	1.1
Staff costs (Note 7 below)	597.7	528.6

Other fees paid to the auditors and associated firms during the year totalled £3.7 million (1995 - £1.1 million) and mainly comprised consultancy fees relating to the Safeway 2000 programme of which £3.2 million (1995 - £0.8 million) was paid to Andersen Consulting.

7. STAFF COSTS AND DIRECTORS' EMOLUMENTS

(a) The average weekly number of persons employed by the group was as follows:-

	1996 Number	1995 Number
Total employed	66,681	56,125
Full time equivalent	47,592	41,154

At 30 March 1996, the total number of employees was 68,040 (1995 - 66,153) and the full time equivalent number was 47,982 (1995 - 47,293).

(b) Staff costs during the year amounted to:-

	1996 £m	1995 £m
Wages and salaries	546.0	480.5
Social security costs	37.9	35.3
Other pension costs	13.8	12.8
	597.7	528.6

(c) Long term incentive plan

The ultimate holding company has operated a long term incentive plan for directors and senior executives of the company and executive directors of the ultimate holding company since 1988.

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 period. The actual number of shares to which executives obtain vested rights depends on the ultimate holding 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 employ prior to payment.

The total value of awards made during the year to participants employed by the company under the 1990 cycle, which was based upon performance in the financial years 1991 to 1993 and based on the share price at the various dates of issue to participants, amounted to £Nil (1995 - £188,466).

No awards have been or will be made under the 1992 cycle, which was based upon performance in the financial years 1993 to 1995, as the appropriate targets were not achieved.

Awards due under the 1994 cycle, covering the financial years 1995 to 1997, will be determined by performance measured according to the ultimate holding company's total shareholder return, (defined as the net increase in share price plus reinvested dividends and any other capital changes over the respective plan periods), compared with an index consisting of a pre-determined list of comparator companies in the food retail sector weighted by market capitalisation. Actual awards to be made under the 1994 cycle (if any) will vest in the two financial years immediately following the end of the performance period, ie. in the 1998 and 1999 financial years.

(d) Directors' emoluments:-

The staff costs above include the following emoluments in respect of all directors of the company:-

	1996	1995
	£'000	£'000
Fees	-	-
Other emoluments, including pension contributions	1,505	1,397

The directors emoluments shown above, excluding pension contributions, included:-

	1996	1995
	£'000	£'000
Chairman	-	-
Highest paid director	192	197

The emoluments, excluding pension contributions, of the directors of the company including the Chairman and the highest paid director fall within the following bands:-

	1996 Number	1995 Number
£ Nil - £ 5,000	6	5
£ 10,001 - £ 15,000	1	-
£ 70,001 - £ 75,000	-	2
£ 85,001 - £ 90,000	-	1
£ 105,001 - £ 110,000	-	1
£ 125,001 - £ 130,000	-	1
£ 140,001 - £ 145,000	-	1
£ 150,001 - £ 155,000	1	-
£ 160,001 - £ 165,000	1	-
£ 165,001 - £ 170,000	2	1
£ 170,001 - £ 175,000	1	-
£ 175,001 - £ 180,000	2	1
£ 185,001 - £ 190,000	-	1
£ 190,001 - £ 195,000	1	-
£ 195,001 - £ 200,000	-	1

Certain of the directors are remunerated by and as directors or officers of the ultimate holding company.

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

The tax charge is based on the profit for the year and comprises:-

	1996 £m	1995 £m	Exceptional Items £m	Before Exceptional Items £m
United Kingdom corporation tax at 33% (1995 - 33%)	124.2	77.5	(29.0)	106.5
Overseas taxation	1.5	1.8	-	1.8
Prior year items	(6.6)	(6.5)	-	(6.5)
	119.1	72.8	(29.0)	101.8

The principal reasons for the lower than standard tax charge are tax relief for capital allowances on fixed assets exceeding related depreciation by £10.1 million (1995 - £4.5 million) and tax relief for interest capitalised on freehold and long leasehold developments of £3.7 million (1995 - £5.3 million).

Taxation relief at 33% has been assumed on the proportion of the exceptional items charged in the year ended 1 April 1995 allowable for taxation purposes.

9. DIVIDENDS PAID AND PROPOSED

	1996 £m	1995 £m
Interim dividends paid	140.0	120.0
Final dividend proposed	-	-
	140.0	120.0

10. TANGIBLE FIXED ASSETS

GROUP

	Land and buildings			Plant, equipment and vehicles	
	Freehold £m	Long leasehold £m	Short leasehold £m	£m	Total £m
Cost:-					
Beginning of year	2,042.4	273.7	183.2	817.5	3,316.8
Additions	300.0	5.3	5.5	110.6	421.4
Disposals	(6.6)	(1.3)	(9.0)	(48.2)	(65.1)
End of year	2,335.8	277.7	179.7	879.9	3,673.1
Depreciation:-					
Beginning of year	72.4	24.0	81.2	432.2	609.8
Charged during the year	39.0	5.3	4.3	88.5	137.1
Disposals	(1.4)	(0.7)	(5.4)	(46.6)	(54.1)
End of year	110.0	28.6	80.1	474.1	692.8
Net book value:-					
Beginning of year	1,970.0	249.7	102.0	385.3	2,707.0
End of year	2,225.8	249.1	99.6	405.8	2,980.3

Assets in course of construction included in cost above:-

	Freehold £m	Long leasehold £m	Short leasehold £m	Plant, equipment and vehicles £m	Total £m
Beginning of year	213.3	-	-	1.8	215.1
End of year	221.8	-	1.1	0.7	223.6

At 30 March 1996, the net book value of tangible fixed assets included £31.3 million of leased plant, equipment and vehicles (1995 - £42.2 million). The depreciation charged in respect of leased plant, equipment and vehicles during the year amounted to £10.7 million (1995 - £16.6 million).

Interest capitalised on freehold and long leasehold developments included in additions during the year amounted to £11.2 million (1995 - £15.9 million). The cumulative amount of interest capitalised in the total cost above amounts to £109.5 million (1995 - £98.6 million).

Freehold land included in the total cost above amounts to £1,020.3 million (1995 - £883.3 million).

10. **TANGIBLE FIXED ASSETS (Continued)**
COMPANY

	Land and buildings			Plant, equipment and vehicles	
	Freehold	Long leasehold	Short leasehold		Total
	£m	£m	£m	£m	£m
Cost:-					
Beginning of year	2,022.8	243.8	182.0	806.4	3,255.0
Additions	299.7	5.1	5.5	110.3	420.6
Disposals	(6.6)	(1.3)	(9.0)	(47.3)	(64.2)
End of year	2,315.9	247.6	178.5	869.4	3,611.4
Depreciation:-					
Beginning of year	71.9	23.2	80.1	428.0	603.2
Charged during the year	38.9	4.7	4.2	87.2	135.0
Disposals	(1.4)	(0.7)	(5.4)	(46.0)	(53.5)
End of year	109.4	27.2	78.9	469.2	684.7
Net book value:-					
Beginning of year	1,950.9	220.6	101.9	378.4	2,651.8
End of year	2,206.5	220.4	99.6	400.2	2,926.7

Assets in course of construction included in cost above:-

Beginning of year	213.3	-	-	1.8	215.1
End of year	221.8	-	1.1	0.7	223.6

At 30 March 1996, the net book value of tangible fixed assets included £31.3 million of leased plant, equipment and vehicles (1995 - £42.2 million). The depreciation charged in respect of leased plant, equipment and vehicles during the year amounted to £10.7 million (1995 - £16.6 million).

Freehold land included in the total cost above amounts to £1,007.7 million (1995 - £871.0 million).

11. INVESTMENTS

(a) Fixed asset investments comprise:-

	GROUP		COMPANY	
	1996 £m	1995 £m	1996 £m	1995 £m
Subsidiaries	-	-	250.4	250.4
Other - Unlisted	0.4	0.4	0.4	0.4
	0.4	0.4	250.8	250.8

Unlisted investments comprise the company's shareholding (33.33%) in European Retail Alliance, a Belgian company, which provides a forum for the review and implementation of future co-operation in areas such as marketing, distribution, production and information technology.

(b) Investments in Subsidiaries

The company's principal trading subsidiary is Safeway (Overseas) Limited, a company registered in England, with operations in the Channel Islands, Gibraltar and the Isle of Man. Safeway (Overseas) Limited is a wholly-owned subsidiary operating as a grocery retailer.

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.

12. STOCKS

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

13. DEBTORS

	GROUP		COMPANY	
	1996	1995	1996	1995
	£m	£m	£m	£m
Amounts falling due within one year:-				
Trade debtors	2.3	2.3	2.3	2.3
Due from subsidiaries	-	-	64.5	67.8
Due from other group companies	-	0.1	-	0.1
Prepayments and accrued income	21.5	23.2	21.5	23.2
Other debtors	76.5	69.3	76.5	69.3
Certificates of tax deposit	3.0	3.0	3.0	3.0
	103.3	97.9	167.8	165.7

The amounts due from other group companies are non interest bearing.

14. OTHER CREDITORS

	GROUP		COMPANY	
	1996	1995	1996	1995
	£m	£m	£m	£m
Amounts falling due within one year:-				
Trade creditors	563.9	515.2	563.9	515.2
Due to ultimate holding company	307.9	228.1	307.9	228.1
Due to subsidiaries	-	-	250.0	250.0
Due to other group companies	101.4	106.4	101.4	106.4
Corporation tax payable	135.6	106.4	131.7	102.1
Capital expenditure	144.3	89.9	144.3	89.9
Social Security and PAYE	12.2	13.0	12.2	13.0
VAT	3.3	4.8	3.3	4.8
Accruals and deferred income	67.3	60.0	66.6	59.4
Other creditors	69.4	62.3	69.4	62.3
Exceptional provisions	25.8	93.7	25.8	93.7
	1,431.1	1,279.8	1,676.5	1,524.9

The amount due to the ultimate holding company includes £264.3 million (1995 - £280.9 million) bearing interest at current market rates which may be repayable on demand. The balancing items due to the ultimate holding company are non interest bearing.

15. LOANS

	Interest rate %	GROUP AND COMPANY 1996 £m	1995 £m
Due to ultimate holding company	Interest free	900.0	900.0
Lease loan capital	Various	30.5	43.9
Unsecured loan 2001	Variable	16.0	-
		946.5	943.9
Less: Amount repayable within one year		(13.2)	(13.4)
		933.3	930.5

Lease loan capital is repayable as follows:-

	GROUP AND COMPANY 1996 £m	1995 £m
Due within one year	13.2	13.4
Due within one to two years	8.6	13.2
Due within two to five years	7.1	14.1
Due after five years	1.6	3.2
	30.5	43.9

The amount due to the ultimate holding company has no fixed repayment date.

The unsecured loan 2001 is repayable in September 2001.

16. DEFERRED TAXATION

(a) Deferred taxation in the balance sheets comprises:-

	GROUP AND COMPANY 1996 £m	1995 £m
Tax allowances in excess of recorded depreciation	10.2	10.2

(b) The movement on deferred taxation during the year was:-

	GROUP AND COMPANY	
	1996	1995
	£m	£m
Beginning of year	10.2	10.2
Tax on profit on ordinary activities	-	-
End of year	10.2	10.2

(c) The total potential liability for deferred taxation calculated at 33% (1995 - 33%) comprises:-

	GROUP		COMPANY	
	1996	1995	1996	1995
	£m	£m	£m	£m
Tax allowances in excess of recorded depreciation	146.6	132.1	145.9	131.6
Other timing differences	(0.2)	(0.4)	(0.2)	(0.4)
Capital gains deferred by roll-over relief	15.4	12.3	15.4	12.3
	161.8	144.0	161.1	143.5

17. CALLED-UP SHARE CAPITAL

	1996	1995
	£m	£m
Authorised:-		
250,000,000 Ordinary shares of £1 each	250.0	250.0
Allotted, called-up and fully paid:-		
229,536,776 Ordinary shares of £1 each	229.5	229.5

18. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	GROUP		COMPANY	
	1996	1995	1996	1995
	£m	£m	£m	£m
Profit for the financial year	272.1	88.6	266.0	80.2
Dividends paid and proposed	(140.0)	(120.0)	(140.0)	(120.0)
Net addition to/ (reduction in) shareholders' funds	132.1	(31.4)	126.0	(39.8)
Shareholders' funds, beginning of year	803.1	834.5	793.1	832.9
Shareholders' funds, end of year	935.2	803.1	919.1	793.1

The cumulative amount of goodwill resulting from acquisitions in earlier financial years which has been written off against the group's reserves is £581.3 million (1995 - £581.3 million).

19. COMMITMENTS AND CONTINGENCIES

(a) Capital commitments at the year end are:-

	GROUP		COMPANY	
	1996	1995	1996	1995
	£m	£m	£m	£m
Contracted for	91.0	135.4	91.0	135.4
Authorised but not contracted for	154.5	37.1	154.5	37.1
	245.5	172.5	245.5	172.5

(b) Lease commitments

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

	PROPERTY		PLANT AND EQUIPMENT	
	1996	1995	1996	1995
	£m	£m	£m	£m
Operating leases which expire:-				
Within one year	0.3	0.2	5.4	5.7
Within two to five years	1.0	1.3	12.6	10.7
After five years	57.2	59.2	-	-
	58.5	60.7	18.0	16.4

(c) Guarantees

At 30 March 1996, the company together with other group companies, has jointly and severally guaranteed certain of the group's bank overdraft and loan facilities.

(d) Pension schemes

The Argyll 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 this 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 1995 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 the investment return would be 9% per annum, that salary increases would average 7% per annum, that pensions (in excess of the Guaranteed Minimum Pension) would increase at the rate of 5% per annum and that dividends on United Kingdom equity investments would increase at 4½% per annum.

The actuarial value of the assets was assessed by assuming that their market value was invested in the Financial Times Actuaries All Share Index at the valuation date and discounting the anticipated future dividend income at the valuation rate of return.

At the date of the latest actuarial valuation, the market value of the assets of the scheme was £449.5 million and the actuarial value of the assets was sufficient to cover 115% 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, being the approximate average remaining service lives of scheme members.

The total pension cost for the year amounted to £13.8 million (1995 - £12.8 million). This reflected a regular cost of £19.0 million (1995 - £19.4 million) and a credit of £5.2 million (1995 - £6.6 million) in respect of the amortisation of the excess of assets over liabilities in the principal scheme, as described above.

20. ULTIMATE HOLDING COMPANY

The company's ultimate holding company is Argyll Group PLC, which is registered in England and heads the smallest and largest group in which the accounts are consolidated. These consolidated accounts are available to the public and may be obtained from their registered office at 6 Millington Road, Hayes, Middlesex, UB3 4AY.