

SAFEWAY STORES (IRELAND) LIMITED

ACCOUNTS TOGETHER WITH THE REPORTS

OF THE DIRECTORS AND AUDITORS

FOR THE PERIOD ENDED 28 MARCH 1998



SAFEWAY STORES (IRELAND) LIMITED

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SAFEWAY STORES (IRELAND) LIMITED

DIRECTORS AND ADMINISTRATION

Country of Registration	England
Registered Number	3321745
Registered Office	P.O.Box 8, 6 Millington Road, Hayes, Middlesex, UB3 4AY.
Directors	S.T. Laffin G. Wotherspoon A.R. Morris K.C. McGoran P.J. Dowling L.J.P. O'Hagan
Company Secretary	J.P. Kinch, FCIS
Solicitors	Clifford Chance
Auditors	Arthur Andersen

SAFEWAY STORES (IRELAND) LIMITED

REPORT OF THE DIRECTORS

The directors present their annual report on the affairs of the company together with the audited accounts for the thirteen months period ended 28 March 1998.

DATE OF INCORPORATION

The company was incorporated on 20 February 1997 under the name Ferrispoint Limited.

CHANGE OF NAME

On 17 June 1997 the company changed its name to Safeway Stores (Ireland) Limited.

PRINCIPAL ACTIVITY AND BUSINESS REVIEW

The principal activity of the company is grocery retailing in Northern Ireland. By an agreement dated 19 June 1997, the Company contracted to acquire, on a phased basis, certain stores and development sites from F.A. Wellworth and Company Limited, a subsidiary company of Fitzwilton Public Limited Company. It is the Board's policy to investigate all opportunities to increase the base of the company's operations.

SHARE CAPITAL

On 10 July 1997, the authorised share capital of the company was increased and redesignated from 100 ordinary shares of £1 each to 60,000,000 'A' shares of £1 each and 60,000,000 'B' shares of £1 each.

Details of share capital issued in the period are shown in Note 11 on page 15.

RESULTS AND DIVIDENDS

The sales and loss on ordinary activities before taxation for the period amounted to £63,839,000 and £9,670,000 respectively.

The loss attributable to ordinary shareholders for the period amounted to £9,670,000.

The directors do not recommend the payment of a final dividend in respect of the period ended 28 March 1998.

DIRECTORS

The directors of the company during the period were:-

M.E.Richards	- Appointed 20 February 1997; Resigned 17 June 1997
P.J.Charlton	- Appointed 20 February 1997; Resigned 17 June 1997
R.S.Fisher	- Appointed 17 June 1997; Resigned 10 July 1997
G.Ellis	- Appointed 17 June 1997; Resigned 10 July 1997
J.P.Kinch	- Appointed 17 June 1997; Resigned 10 July 1997
R.G.B.Charters	- Appointed 10 July 1997; Resigned 27 March 1998
S.T.Laffin	- Appointed 10 July 1997
G.Wotherspoon	- Appointed 10 July 1997
K.C.McGoran	- Appointed 10 July 1997
P.J.Dowling	- Appointed 10 July 1997
L.J.P.O'Hagan	- Appointed 10 July 1997
A.R. Morris	- Appointed 2 July 1998

DIRECTORS' INTERESTS

The company is a subsidiary of Safeway plc and consequently none of the directors have any interests in the shares of the company.

The following directors who were not also directors of the company's ultimate holding company at 28 March 1998 were interested in the ordinary 25p shares of Safeway plc at the end of the period as indicated below:-

	<u>28 March 1998</u>		<u>20 February 1997</u>	
	<u>Shares</u>	<u>Share options</u>	<u>Shares</u>	<u>Share options</u>
K.C.McGoran	-	-	- *	- *
P.J.Dowling	-	-	- *	- *
L.J.P.O'Hagan	-	-	- *	- *

* At date of appointment

Mr.S.T.Laffin and Mr.G.Wotherspoon are directors of Safeway plc and their interests in the shares of Safeway plc are disclosed in the accounts of that company.

The share options referred to above relate to options granted under the Safeway Executive Share Option scheme and/or The Safeway Sharesave Scheme and enable the option holder to subscribe for ordinary 25p shares of Safeway plc. Details of options currently outstanding are:-

<u>Date of Grant</u>	<u>Subscription price</u>	<u>Exercise Period</u>		
15 December 1988	157.72p	15 December 1991	to	14 December 1998
18 December 1989	196.66p	18 December 1992	to	17 December 1999
29 November 1990	234.63p	29 November 1993	to	28 November 2000
23 December 1991	272.00p	23 December 1994	to	22 December 2001
18 June 1992	279.00p	1 September 1997	to	31 August 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
29 July 1996	271.00p	1 September 2001	to	28 February 2002
9 December 1996	375.50p	9 December 1999	to	8 December 2006
26 June 1997	286.00p	1 September 2002	to	28 February 2003
21 November 1997	318.75p	21 November 2000	to	20 November 2007

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

CASH FLOW STATEMENT AND RELATED PARTY TRANSACTIONS

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.

Under the provisions of Financial Reporting Standard No.8, the company has not disclosed details of inter-group transactions because its ultimate holding company has prepared consolidated accounts which include the company and are available to the public.

EMPLOYMENT POLICIES

It is the company'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 company's employees, customers and members of the general public who may be affected by the company's activities is a matter of primary concern. Accordingly, it is the company'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 geographic distribution of the company's operating locations make it difficult but essential to communicate effectively with employees. Communications and consultation within the company's

retail activities are principally through the operational structure of store and regional management, with particular use being made of company magazines.

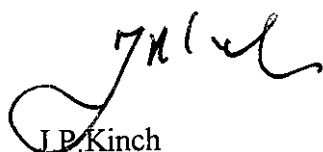
CLOSE COMPANY STATUS

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 were appointed as auditors to the company during the period. 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
2 July 1998

SAFEWAY STORES (IRELAND) LIMITED

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 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 company 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 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 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 has 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 (IRELAND) LIMITED

REPORT OF THE AUDITORS

TO THE SHAREHOLDERS OF SAFEWAY STORES (IRELAND) LIMITED:

We have audited the accounts on pages 8 to 17 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, 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 at 28 March 1998 and of the loss for the period then ended and have been properly prepared in accordance with the Companies Act 1985.



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

2 July 1998

SAFEWAY STORES (IRELAND) LIMITED

STATEMENT OF ACCOUNTING POLICIES

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.

TANGIBLE FIXED ASSETS

Tangible fixed assets are stated at cost less accumulated depreciation. Plant, equipment and vehicles which are leased but provide the company 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.

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 in excess of the normal annual charge over the remaining estimated life to write them down to net realisable value.

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 period at the rate current during the period. 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 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 company.

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.

SAFEWAY STORES (IRELAND) LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE PERIOD ENDED 28 MARCH 1998

	<u>Notes</u>	<u>1998</u> <u>£'000</u>
SALES	1	63,839
Value added tax		<u>(4,277)</u>
TURNOVER, excluding value added tax		59,562
Cost of sales		<u>(49,417)</u>
GROSS PROFIT		10,145
Distribution costs		<u>(15,019)</u>
Administrative expenses		<u>(4,070)</u>
OPERATING LOSS		(8,944)
Net interest payable		<u>(726)</u>
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	2	(9,670)
Tax on loss on ordinary activities	4	<u>-</u>
LOSS FOR THE FINANCIAL PERIOD		(9,670)
Dividends	5	<u>-</u>
RETAINED LOSS FOR THE PERIOD		(9,670)
RETAINED PROFIT, beginning of period		<u>-</u>
RETAINED LOSS, end of period		<u><u>(9,670)</u></u>

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 (IRELAND) LIMITED

BALANCE SHEET AT 28 MARCH 1998

	<u>Notes</u>	<u>1998</u> <u>£'000</u>
FIXED ASSETS		
Tangible fixed assets	6	<u>69,666</u>
CURRENT ASSETS		
Stocks	7	6,750
Debtors and prepayments	8	<u>2,954</u>
		9,704
CREDITORS, due within one year	9	<u>(22,040)</u>
NET CURRENT LIABILITIES		<u>(12,336)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		57,330
CREDITORS, due after one year	10	<u>(47,000)</u>
NET ASSETS		<u>10,330</u>
CAPITAL AND RESERVES		
Called-up share capital	11	13,333
Share premium account	12	6,667
Profit and loss account		<u>(9,670)</u>
TOTAL CAPITAL EMPLOYED		<u>10,330</u>

Approved by the Board of Directors on 2 July 1998.

S.T. LAFFIN) DIRECTORS
P.J. DOWLING)

The accompanying notes and statement of accounting policies form part of this balance sheet.

SAFEWAY STORES (IRELAND) LIMITED

NOTES TO THE ACCOUNTS

1. TRADING INFORMATION

All contributions to sales and loss on ordinary activities before taxation arose as a result of grocery retailing in Northern Ireland.

2. LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

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

	<u>1998</u> £'000
Depreciation of tangible fixed assets	1,778
Loss on disposal of tangible fixed assets	464
Property rentals under operating leases	
- Payable to third parties	1,449
- Payable to group companies	-
Auditors' remuneration	19
Staff costs (Note 3 below)	<u>6,888</u>

3. STAFF COSTS AND DIRECTORS' EMOLUMENTS

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

	<u>1998</u> Number
Total employed	1,855
Full-time equivalent	<u>1,209</u>

At 28 March 1998, the total number of employees was 2,193 and the full-time equivalent number was 1,427.

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

	<u>1998</u> £'000
Wages and salaries	6,163
Social security costs	614
Other pension costs	<u>111</u>
	<u>6,888</u>

- (c) There were no emoluments received or receivable by any of the directors in respect of their services to the company during the period.

4. TAX ON LOSS ON ORDINARY ACTIVITIES

The company commenced trading during the period. As a result no tax credit is available on the loss for the period. This will be carried forward to future years (Note 13 below).

5. DIVIDENDS

1998
£'000

Proposed final dividend

-

6. TANGIBLE FIXED ASSETS

	Land and buildings			Plant, equipment and vehicles	Total
	Freehold £'000	Long leasehold £'000	Short leasehold £'000	£'000	£'000
Cost:-					
Beginning of period	-	-	-	-	-
Additions	55,127	7,178	303	12,681	75,289
Disposals	-	-	-	(1,404)	(1,404)
End of period	55,127	7,178	303	11,277	73,885
Depreciation:-					
Beginning of period	-	-	-	-	-
Acquired with store transfers	-	-	-	3,381	3,381
Charged during the period	313	62	3	1,400	1,778
Disposals	-	-	-	(940)	(940)
End of period	313	62	3	3,841	4,219
Net book value:-					
Beginning of period	-	-	-	-	-
End of period	54,814	7,116	300	7,436	69,666
Assets in course of construction included in cost above:-					
Beginning of period	-	-	-	-	-
End of period	11,164	-	-	-	11,164

Interest capitalised on freehold and long leasehold developments included in additions during the period amounted to £700,000.

7. STOCKS

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

8. **DEBTORS AND PREPAYMENTS**

	<u>1998</u> £'000
Trade debtors	12
Other debtors	<u>2,942</u>
	<u>2,954</u>

9. **CREDITORS, due within one year**

	<u>1998</u> £'000
Bank overdraft	2,266
Trade creditors	795
Due to parent company	12,634
Capital expenditure	1,000
VAT	1,596
Accruals and deferred income	1,609
Other creditors	<u>2,140</u>
	<u>22,040</u>

The amount due to parent company is non interest bearing.

10. **CREDITORS, due after one year**

	Interest <u>rate</u> %	<u>1998</u> £'000
Bank loan	Variable	<u>47,000</u>

During the period, the company arranged a £200 million revolving credit facility expiring in September 2002. The floating interest rate is variable based on the London Interbank Offered Rate. The rates are fixed in advance normally for periods ranging from one month to six months.

11. CALLED-UP SHARE CAPITAL

	<u>1998</u> £'000
Authorised:-	
60,000,000 'A' shares of £1 each	60,000
60,000,000 'B' shares of £1 each	<u>60,000</u>
	<u>120,000</u>
Allotted, called-up and fully paid:-	
3,333,334 'A' shares of £1 each	3,333
10,000,003 'B' shares of £1 each	<u>10,000</u>
	<u>13,333</u>

The company was incorporated on 20 February 1997 with an issued share capital of 2 ordinary shares of £1 each. On 10 July 1997, the company issued a further 2 ordinary shares of £1 each and redesignated the total issued share capital at that date as 1 'A' share of £1 each and 3 'B' shares of £1 each.

On 10 July 1997, the company's authorised share capital was increased to 60,000,000 'A' shares of £1 each and 60,000,000 'B' shares of £1 each.

On 5 August 1997, the company issued 3,066,667 'A' shares at a value of £3 per share and 9,200,001 'B' shares at a value of £1 per share.

On 28 August 1997, the company issued 266,666 'A' shares at a value of £3 per share and 799,999 'B' shares at a value of £1 per share.

All 'A' shares are held by Safeway Stores plc and all 'B' shares are held by Fitzwilton Public Limited Company.

12. SHARE PREMIUM ACCOUNT

	<u>1998</u> £'000
Issue of 'A' shares during the period	<u>6,667</u>

13. DEFERRED TAXATION

The total potential asset for deferred taxation calculated at 31% comprises:-

	<u>1998</u> £'000
Tax losses carried forward	2,587
Tax allowances in excess of recorded depreciation	<u>294</u>
	<u>2,881</u>

14. COMMITMENTS AND CONTINGENCIES

- (a) Capital commitments authorised and contracted for at the end of the period totalled £21,650,000.
- (b) Lease commitments

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

	PROPERTY	PLANT AND EQUIPMENT
	<u>1998</u>	<u>1998</u>
	£'000	£'000
Operating leases which expire:-		
Within one year	-	-
Within two to five years	2,775	-
After five years	-	-
	<u>2,775</u>	<u>-</u>

- (c) Pension schemes

The Safeway 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 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 £449,500,000 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 period amounted to £111,000.

15. **ULTIMATE HOLDING COMPANY**

The company's ultimate holding company is Safeway plc, which heads the largest group in which the accounts are consolidated. The smallest group in which the accounts are consolidated is headed by Safeway Stores plc. Both of these consolidated sets of accounts are available to the public and may be obtained from their registered office at 6 Millington Road, Hayes, Middlesex, UB3 4AY.